

DAVID BLOOD & AL GORE / GLOBAL SUSTAINABILITY
Programme : GLOBAL BUSINESS
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Date : 17/03/06
Time : 19:05

ANNOUNCER:

And now its time for *Global Business*, and this week continuing our mini series on sustainability Peter Day has a rare interview with the former US vice-president Al Gore, along with his business partner David Blood about how the private sector can influence what can be done to improve the earth's environment.

PETER DAY: Presenter

Hello, welcome to *Global Business*. As regular listeners may have noticed, this programme has suddenly become a sort of mini series about global sustainability, about global warming, the scarcity of natural resources, social responsibilities hitherto shrugged off by business for many decades. This set of programmes is not so much planned as emerging onto the airwaves because so many people I've recently met have wanted to talk about it and, in particular, to talk about the way international businesses are beginning to reshape themselves around some of the ideas of reducing man's footprint on the planet in the widest sense of the word footprint.

This week, a striking example, a new partnership between a very experienced politician and a very experienced banker. The politician, the statesman, is the American former vice-president Al Gore, the man defeated by a Supreme Court judgment in the 2000 presidential election which was then won by George Bush. The banker is the former head of the powerful Goldman Sachs Asset Management in London, another American, David Blood. At the end of 2004 both men came together to form Generation Investment Management, a firm based in London and Washington DC, it concentrates on taking a long view of the investment horizon, it researches likely investments for their sustainability potential taking into account not just the prospective company's environmental impact but also social and geopolitical factors as well. As I said before in this mini series, it's fascinating when businesses begin to see their future in terms of our global future. It's particularly interesting when sustainability becomes one of the criteria by which hard-nosed investment decisions are made with clients' money. If the access to money is influenced by sustainable issues, then those issues jump up the list of priorities of ordinary companies who need to borrow that money. Recently I got together Al Gore, the chairman, and David Blood, the managing partner of Generation Investment Management to find out exactly what they're doing. Many listeners and observers of this will be very sceptical.

Al Gore, former American vice-president, is this really business doing good?

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AL GORE: Chairman, Generation Investment Management

Well, the global context for business is changing rather significantly and challenges like climate change, poverty, HIV Aids, the potential for other pandemics, governance of corporations and ethics, all of these have reached a point where the imperative of sustainability is driving civil society to demand a response from both government and business and increasingly business is seeing its long term interests aligned with an approach that integrates all of these contextual sustainability factors into their planning and into their business practices.

PETER DAY:

Now, people are a bit cynical about statements like that because they say this is just public relations, this is something that businesses have to say but they go on doing all the bad things they've been doing for a long time.

AL GORE:

Well, there are some that justify that cynicism but increasingly there are others who are genuinely committed to a new approach, and if you look at the example of General Electric in the United States, one of our largest and most successful companies over a long period of time, when they announced a rather dramatic change in focus to incorporate sustainability in all of their corporate goals and planning they gave their reasons very clearly and said, this is good for our profitability. And I think what's new and different about what's going on now is that for at least a number of companies who are leaders in this new approach it is really not just public relations, it has that aspect, of course, but now you're seeing companies truly identify their long term financial interests and those of their shareholders with a much more complete integration of environment and ethics and stakeholder analysis and all of the other sustainability factors into their corporate behaviour.

PETER DAY:

This is business, David Blood, as an agent of change and the capital markets becoming agents of change then, active agents of change.

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DAVID BLOOD: Managing Partner, Generation Investment Management

Yes, absolutely yes. And in many ways that's why we wanted to launch this business, we felt that the capital markets would be the best place to influence business and to promote sustainability and what's interesting to us about this is as we've done more and more work, in seeing companies react to our work as well as their own, thinking the ... the confidence that we have in the statement that business doing good is also good for shareholders has gone up dramatically. We are certain the more you think about business context in businesses, broadly speaking, that issues like the environment, issues like how you attract and retain your employees, issues like how you operate in your community actually affect your ability to generate revenue and manage risk and ultimately your licence to operate in your competitive position.

PETER DAY:

This is such a long way from the world I started reporting business in 30, 20, 15 years ago when every business would say to you, we obey the law and we satisfy our shareholders, don't ask us to do anything else, don't ask us to take notice of any other considerations. This is a radically different change, isn't it?

DAVID BLOOD:

It is evolving into a very significant change, yes. And not everybody, by the way, has embraced what we're talking about but the leaders that we think are showing the most foresight and who clearly have embraced these issues into their business plans are the ones that are talking about it and actually in many cases are the dominant leaders in business today.

PETER DAY:

Mr Gore, did you have a personal moment of discovery of this, was it global warming or resources or just a sort of general wellwishingness to the world, was there a moment when you said, things are changing, I have to get on ... onto this?

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AL GORE:

[*laughing*] Well, there was the moment when the Supreme Court decided that I was not going to be in politics any more. But starting at that point, I went into the private sector, but that was now 5 years ago, and when I did that I went into investment management and very quickly began to notice some rather odd developments that seemed to me out of touch with reality. For example, the average holding period for stocks has now been reduced to an absurdly short term, the average mutual fund now turns over its entire portfolio every 11 months and since Corporate Finance 101 says investors should really look at the value of a company being built up over a business cycle and a half, or thereabouts, if you're turning over your stocks in a period of months you're not really investing, you're speculating. And then, secondly, it seemed that closely connected to that rather odd development was the fact that so many very significant factors that affect shareholders, that affect the health of the company were being sort of systematically ignored, and not only the environment but also corporate ethics and stakeholder analysis, how are the communities where a company is located being dealt with. These things have an effect on the price of the shares and on the health of the company and though they might be ignored if you're looking only at the short term, if you are looking at the health of a company over a period of several years they cannot be ignored.

PETER DAY:

Turn that attitude then, David Blood, into an investment strategy which you are now pursuing, are you looking for small, hi-tech companies that are going to be in the vanguard of change or are you looking for good, great big companies that are a bit better than their peers, their rivals?

DAVID BLOOD:

What we're looking for are outstanding businesses and very strong management teams who recognise that in a long term context they need to consider as broad a range of issues as they can do in their business strategy, issues, of course, like how you ... you manage your workforce, issues like your market share, how you compete, those are sort of traditional issues, but then also the broader sustainability issues like if you're an energy company, how do you think about alternative energy sources; if you're an automobile company, how do you think about your carbon footprint, as General Motors and Ford is finding out to their chagrin; if you're a financial service

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company, how do you attract and retain your employees. Those are the factors that we integrate into our investment process, that gets you that answer.

PETER DAY:

Because they are leading to companies being 'sustainable', in quotes, meaning surviving over the longer term?

DAVID BLOOD:

Not only surviving but prospering and actually leading their businesses in their industries.

PETER DAY:

And there actually are companies like this, there actually are enough good companies to invest in?

DAVID BLOOD:

There are ... thankfully, there are a number of outstanding companies around the world. Now, *[word unclear]* ... suddenly which it's important to say is we think about investing, of course, is price matters in the securities, so it's not just ... just choosing the very best companies without regard to price.

PETER DAY:

Mm, is this different from ethical investing?

AL GORE:

Yes, it is, these terms are themselves invested with a lot of meaning that's built up over time. The so-called ethical investing companies or socially responsible investing companies have an excellent mission, we don't criticise them at all, I admire them. They came into being, first of all, probably in the 1970s, late '60s, there was a movement, for example, to pressure the apartheid government of South Africa and disinvest in those companies. That really began the so-called ethical investing movement and it evolved into a group of companies that went to investors and

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said, look, let us manage your money and we will do the very best we can but we will not put any of it in – your write the list yourself – tobacco, armaments, gambling, the list is often different for each investor. And that’s a fine way to invest but the fiduciary community, which controls 90% and more of all investments, decided that this was inconsistent with getting the best returns, which they’re obligated to do usually, because if you take whole sectors of the economy out of consideration and you’re spreading your risk more narrowly over a smaller base then the natural distribution of both of the risks and the opportunities will incur a penalty mathematically over time or, at least, that is the conclusion reached by the fiduciary community. Some people quarrel with that but they generally lose that argument, so the ethical investing companies or socially responsible investing companies became a niche in about 1% of the market. And what we’re trying to do is to affect the behaviour of the entire market or, at least, model a way in which the full integration of sustainability values can be accomplished in a way that does not incur any penalty, indeed we believe we can show over time it will produce an advantage.

PETER DAY:

But the bulk of companies in the stock markets of the world, David Blood, you can’t touch with a barge pole, can you, you simply can’t invest in them, they’re not anywhere near sustainable, they’re not going in that direction yet?

DAVID BLOOD:

I don’t know if I would agree with that, Peter, there are a number of companies around the world in multiple industries that are trying to be part of the solution and that to us is an important component. British Petroleum, you could argue, well, is that a company that is sustainable, but, of course, they’re in oil and gas, but they’re clearly ... Lord Browne is clearly trying to be part of the solution and that’s an important component to us. So do we consider that to be a sustainable company? Yes, we do, absolutely yes, we do.

PETER DAY:

This is *Global Business* from the BBC World Service in London. I’m Peter Day, this week hearing about sustainable investment from two new participants, the co-founders of Generation Investment Management, the former American vice-president Al Gore and the veteran financier David Blood.

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I'm slightly puzzled, Mr Gore, by the way this thing has suddenly exploded into so many considerations, sustainability is an umbrella under which march all sorts of considerations, it's not just, for example, about climate change, global warming, is it?

AL GORE:

No, it's not. Sustainability involves looking outside the narrow confines of the quarterly report or the other financial reports and looking at the other factors which have great meaning. If I could tell you a personal story to illustrate this, we often use an analogy, if you look at the spectrum of light and the rest of the electromagnetic spectrum, the portion that's visible to our eyes is a very tiny percentage of the whole and yet if you look at infra red and ultra violet, there is a lot of meaning that can be discerned there. I had the personal experience of going to work every morning in the White House for 8 years and starting my day with an hour-long briefing by the intelligence community which always included infra red photos and ultra violet and signals intelligence, as they call it, exploiting the meanings that come from all parts of that spectrum, and the full and complete picture presented by looking outside the boundaries of visible light was important. And in the same way, if one just gets caught up in the quarterly earnings report, then you can miss longer-term trends. For example, Ford and General Motors are now in a state of crisis in the United States because they have missed the long-term shift in consumer preferences and societal preferences towards more efficient automobiles with much less pollution, and the quarterly reports might look good for a little while and then they fall off a cliff.

The great psychologist Abraham Mazlow once said, if the only tool you have is the hammer, you tend to see every problem as a nail. And in the same way, if the only tool used by a financial analyst or an investor is the information found in the company's financial reports and those reports required by regulators, then all of those sources of meanings that are found elsewhere can seem as if they have no meaning, and if the rest of the investment community focuses on the same narrow band of ... of data, then a lot of analysts can be taken by surprise when important knowledge that is not included in those reports all of a sudden knocks at the door. And we see a kind of market fundamentalism now that tries to pretend that everything that is currently measured by the market makes up the sum total of what is really meaningful and true and that is a kind of fanaticism that ignores reality and the more successful business leaders are those who are looking outside the boundaries of narrow simplistic formulas and realising that, for example, how they treat their employees will affect their turnover and that will affect their training costs and also their productivity per employee; how a company treats the communities in which it does business will

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affect their licence to do business and their ability to enhance the value of their brand; how a company deals with natural resources will affect their vulnerability to regulation and also their brand value. So these are values that should be included and now are being included by some of these leading companies, including the ones that we invest in, but are ignored to the peril of both corporate managers and their shareholders.

PETER DAY:

Mr Gore, aren't we rearranging the deck chairs on the *Titanic* in the West while the action and the threat to the world is coming by the huge expansion of business and industry in China and India and Brazil and Russia?

AL GORE:

No, I think it's undeniably true that China, India and others like Brazil and Russia are going to play, already are playing, an increasingly important role in all of these questions. But if you look at the reality of where the global warming pollution is coming from, more comes from the United States than all of Asia plus the Middle East plus South America plus Africa all combined, and next on the list is ... is the European Union. So we are by all odds the two largest contributors to the problem. Now, it is true that if we did everything that we should do over time these growing economies with China in the lead role would recreate the problem and so it is obvious that they must be a part of the solution and fortunately we are now seeing some environmental standards imposed in China that are tougher than those in the United States, on automobiles, for example. Their afforestation, or tree planting programme, is vastly superior to anything that we see in the West. There are other areas where their standards are greatly wanting but they are aware that they face tremendous risks that match the risks in the rest of the world and there's a growing awareness that they must be a part of the solution. All of the agreements that have been reached globally since the end of World War II have followed a similar architecture starting with the ... the general agreement on trade and tariffs, and that is that the wealthier countries have endeavoured to shoulder the burdens first, pioneered the way forward, and then the poorer countries are asked to join in. That's the formula that was used, that was the model for Kyoto. Now, China is now reaching the point where it still is a poor country if you look at the per capita numbers, but its overall size is such that it's a special case and so getting them to join sooner rather than later is an important challenge.

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PETER DAY:

We're here to mark quite a big change in the way business works, aren't we?

DAVID BLOOD:

I think business is actually recognising that they are part of the outside world, business and civil society, the environment, all are one, you can't really separate it. The notion that business is separate from the issue of climate change or poverty is just fundamentally flawed and that's what really the *[word unclear]* ... and *['Mazzetta crossroads' sounds like]* means is that the business leaders who have the greatest foresight now recognise that, in fact, it's not in isolation, they must embrace all of these issues because to operate their businesses, to drive the profitability of their companies and to, in fact, drive their competitive position they must, in fact, embrace and internalise these broader issues, and civil society will require it.

PETER DAY:

And as a business outsider, Mr Gore, you feel this is an idea whose time has come?

AL GORE:

I truly believe that, I believe that business leaders are recognising that there has been something artificial about the prior practice of excluding consideration of all of these factors that we label sustainability factors, and they're seeing that it's not only good for the broader interests of society but, more importantly, in their business considerations it's good for their shareholders. And underlying all of this is reality and the reality is that the unsustainable practices result over time in great hardship for the companies that engage in unsustainable behaviour. It may take longer than a single year but as the collision between industrial civilisation and the earth's ecological systems begins to reach a critical stage the day of reckoning comes sooner rather than later, and that's an underlying factor that's causing a big shift in behaviour on a lot of corporate officials.

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PETER DAY:

Many thanks to Al Gore and David Blood, the former vice-president and the veteran financier, gathered together to pursue the art of sustainable investment at Generation Investment Management. More sustainability in *Global Business* next week.

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