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TXU takeover – how capitalism is really turning green

By Phil Rudolph

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I awoke the other morning to find two unconnected but serendipitously timed stories staring up at me from my morning newspaper.

One was largely non-substantive and almost purely symbolic. The other was most assuredly neither. And yet to my mind the stories were linked in a profound way, and the events underlying these stories are evidence of a seismic shift in the evolution of corporate responsibility.

First the symbolic. Al Gore won an Oscar for his global warming documentary “An Inconvenient Truth” – though sticklers will point out that Gore didn’t actually win the Oscar, the film did. People on both sides of the global warming debate will almost certainly derive their own contradictory conclusions from this “event”.

Critics (and I don’t mean film critics) have already started to howl that the whole thing simply underscores what everyone has known for a long, long time – that Hollywood is nothing but a haven for lefties and pinkos who use motion pictures to advance liberal agendas. So be it.

\$45 billion of good news

Elsewhere in my newspaper, I read with both rapt interest and growing excitement about the \$45 billion proposed bid by the Texas Pacific Group and Kohlberg Kravis Roberts & Company (KKR) to acquire TXU Corporation.

So, why is this such an exciting story? If you are reading this, you probably already know without my telling you. But let me try to summarise.

TXU, a profitable but highly controversial utility company, has haemorrhaged market value in the past several months – its stock has lost as much as 20% of its value, according to Fortune Magazine writer Marc Gunther – in the wake of its announced plans to build 11 new coal fired electricity plants.

This, in turn, has made TXU a tasty takeover target for the likes of KKR – the famed “barbarians at the gate” from the RJR Nabisco takeover in 1988 (now *that* would make a good movie). So KKR and Texas Pacific, another private equity firm, working with mega investment bank Goldman Sachs, have put together a bid to buy what they see as an undervalued company.

No big deal, right? Happens all the time. Actually, even without what I’m about to add, this is a big deal – indeed, it is the largest deal of its kind. But the story gets way better.

Not ducking the issues

TXU has been under repeated and aggressive legal and reputational attack by myriad environmental groups, including Environmental Defense and the Natural Resources Defense Council. Learning from the unhappy experiences of earlier buyers of controversial companies – consider, for example, Dow Chemical’s acquisition of Union Carbide’s troubled legacy – KKR effectively made the environmental critics part of the deal.

And this is a deal that includes a commitment to torpedo eight of the 11 planned coal facilities; TXU support of federal regulation of carbon emissions; the formation of a sustainable energy advisory board; and, governance programmes that tie executive compensation to environmental stewardship (among other goals). They are also promising rate reductions for consumers.

What does all this mean? Well, let me quote my colleague Steve Priest, who has been in the corporate integrity field for longer than most current practitioners:

“The most capitalist of Wall Street firms (Goldman) aligns with the most capitalist of corporation types (the private equity firm) to do what? Work hand in hand with two environmental NGOs to take over a publicly traded utility that was about to do a very bad thing environmentally – and make them less environmentally damaging. Capitalism meets corporate responsibility on Wall Street.”

A revolution

This is profound indeed. I’ve long believed that corporate dealmakers would increasingly and inevitably need to engage in non-traditional “social and environmental diligence” as part of business transactions. We have seen a gradual evolution in this direction, again due in part to the unhappy experiences of companies like Dow Chemical.

But the TXU offer is not evolutionary – it is revolutionary. And, whether or not the KKR deal succeeds, it will likely change forever the role of non-traditional “stakeholders” in corporate transactions of this sort. Once the door is opened, it will be difficult to persuade that horse to return to the barn.

And what of Al Gore’s Oscar? Well, the motion picture community’s recognition of Gore’s movie certainly is not proof that humans are contributing to global climate change. Nor need it be – the scientific community “scooped” the Oscars on this very point a few weeks ago when it released the fourth assessment report, *Climate Change 2007: The Physical Science Basis*, of the United Nations [Intergovernmental Panel on Climate Change](#).

Are the policy-makers listening? Do global warming deniers care? Perhaps in light of the TXU story it matters somewhat less today than yesterday.

Wall Street now appears to be listening. Dealmakers appear to care. And, for better or worse, progress tends to follow the money. Al Gore's critics are vocal indeed, but have always been far more effective in attacking the messenger than at challenging the message. The message itself seems to be getting through.

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