

PATAGONIA

*First ascents: finding the way
toward quality of life and work*

1. *The lie of the land*

a. *Corporate overview*

Patagonia's brand awareness and reputation are distinctly out of proportion to its size. Nestled in a quiet street just yards from the ocean in Ventura, California, Patagonia has for over two and a half decades been renowned for supplying high-quality outdoor clothing and equipment to discriminating enthusiasts.

A stepchild of Chouinard Equipment, the leading US supplier of speciality climbing equipment in the early 1970s, Patagonia remains privately held. It is a subsidiary of Lost Arrow Corporation, established in 1984 as the holding company for Patagonia, Patagonia Mail Order, Chouinard Equipment (now Black Diamond) and Great Pacific Iron Works. Patagonia sales in 1998 were US\$165 million, achieved with 900 employees.

Patagonia manages the research and development, design, manufacturing, merchandising and sales (retail, catalogue and web-based) of adult and children's outdoor clothing, hardgoods such as packs and travel bags, and, more recently (following founder Yvon Chouinard's long-standing philosophy that, if you can't find a good one, make it) surf boards!

The heart of Patagonia's success lies in relentless technical innovation that produces a continuous stream of products good enough to meet the tough and

continually rising expectations of the most avid experts in a multitude of high-intensity sports: mountaineering, rock and ice climbing, surfing, skiing, snowboarding, kayaking, biking, sailing and fishing.

The soul of Patagonia's success lies in a deep, abiding commitment, at both an organisational and personal level, to preserving the diversity, ecological integrity and beauty of the natural environment that is Patagonia's ultimate source of wealth and *raison d'être*.

b. Preview

The first clue that Patagonia might not be a typical corporation is found on the message board as you walk into corporate headquarters in Ventura, California. Just below the visitor welcome message is a permanent space for the daily 'Surf Report', which, on the first day I visited, registered 'Pumping Swell 6'-10'; High Tide: 9:39 am'. Promoting surfing by providing flexitime to allow employees to take advantage of when the surf is up is just the tip of the iceberg (or the crest of the wave, as it may be!) at Patagonia.

Besides creating a culture that encourages employees to pursue the sports about which they are passionate, Patagonia is quietly creating a revolutionary model for business in the next millennium. With its statement of purpose, with breakthroughs in converting recycled soda bottles into plush fleece fabric, with a commitment to using only organic cotton, with a new children's clothing line carved out of scraps, and with its struggles with a new strategic direction, Patagonia is a pioneer on the journey toward more environmentally and socially sustainable industrial practices.

Patagonia is literally and figuratively integrating environmental and social responsibility into the fabric of its business. Several of its key actions and accomplishments are summarised in Box 1.

What really makes Patagonia stand out? The accomplishments listed in Box 1 are impressive, and the stories behind how they evolved are captivating and informative to other companies proceeding along this path. Yet many companies today can list a number environmental and social achievements (although decidedly less radical and encompassing). Impressive as they are, these milestones represent only the top notes of Patagonia's score. It would be a grave mistake to view Patagonia's story only from a cognitive, rational perspective—and to fail to hear the theme underlying these notes. What is truly remarkable about Patagonia, and much more difficult to define in words, is the heart and soul that has been the essence of the company since its inception, and is now broadly embraced by management, employees, suppliers, retail distributors and, increasingly, customers.

The sections below strive to convey both these elements of Patagonia's journey, process and destination, describing their philosophy and strategic actions in the following areas:

- ▷ Over 25 years of dedicated, hands-on and financial support to grass-roots environmental causes. The company operates a self-imposed 'Earth tax', which provides either 1% of sales revenue or 10% of pre-tax profits (whichever is greater) to environmental activism. Over \$10 million has been donated since 1973.
- ▷ The first outdoor clothing designer and distributor to base a product line on fleece made out of recycled soda bottles (registered and branded as PCR [post-consumer recycled] 'Synchilla'), diverting plastic bottles from landfills and saving oil and toxic air emissions (1993)
- ▷ One of the first companies in the country to offer on-site corporate childcare; recognition in a *Forbes* article as one of the top 25 companies to work for; and over ten years of honours as one of the 100 best companies to work for by *Working Mother* magazine (see e.g. *Working Mother* 1999). It also appears in *Fortune* magazine's '100 Best Companies to Work For' (*Fortune* 1999).
- ▷ A revolutionary internship programme that pays employees to work up to two months for the non-profit environmental group of their choice
- ▷ Environmental considerations are built into the Reno Customer Service Center and into the renovation of the 'Firehouse' building at the headquarters site (e.g. recycled steel and concrete, reclaimed materials, mirrors capturing and redirecting sunlight).
- ▷ A corporate decision in 1994 to convert to entirely organic cotton in all product lines by the spring 1996 season
- ▷ A landmark supplier conference to ensure the entire supply chain was aligned in its efforts to mitigate environmental impacts (modelled after a supplier quality conference Patagonia held several years earlier, this time introducing environment as part of quality)
- ▷ 'Q=E' (i.e. quality and environmental protection should be one and the same): manifested in a customer education campaign, internal dialogue, and a design challenge
- ▷ Start-up of a new business, 'Beneficial Ts', producing blank organic cotton t-shirts (1997)
- ▷ Creation of the 'Seedling' infant clothing line, which patches together scraps from adult clothing fabrics—what Patagonia calls 'pre-cycling' material—which used to end up on the cutting-room floor.
- ▷ The first Californian company to commit to using 100% wind energy for in-state facilities
- ▷ Eliminating PVCs from travel bags in the spring 2000 line

Box 1: Patagonia's integration of environmental and social responsibility with business

- a. Recipe for transformation: personal, heroic, magical
- b. The bare essentials: ultimate purpose and core values
- c. Strategic rationale: 'It's the right thing to do.'
- d. Then again, we might be onto something here
- e. Weaving a sustainable tapestry

Before considering the details of Patagonia's story, it is useful to examine the general business context and the market drivers toward environmentalism in the industry.

c. Business context

The market for quality outdoor clothing and equipment is heavily saturated and highly competitive. Key competitors make very-high-quality products, so it is increasingly hard to differentiate based on technical performance. Many of Patagonia's publicly owned competitors, under pressure to meet 20%–25%-per-year growth targets in an industry with overcapacity, are moving to alternative distribution channels such as large department stores. This represents a significant threat to the speciality retailers that have been the mainstay of Patagonia's business model. Although competitors claim to offer only lower-quality products (in terms of technical grade) via these channels, there is evidence that outdoor equipment retailers may be going the way of the independent booksellers. For example, in France, a major market for outdoor clothing and equipment, two major chains have bought out almost all independent stores—leaving only about 20 independent stores in the country! Furthermore, the entire retail industry is being reshaped, as are many industries, with the consumer gaining the capability of going directly to the manufacturer through the Internet. Although Patagonia has remained committed to the dealers with whom it has had long-term relationships, both Patagonia and the retailers are feeling increasing pressure.

d. What are the drivers for environmental sustainability?

Customers choose Patagonia products because of their technical excellence, performance and quality. Environmental sensitivity as a customer requirement comes in well behind these foundational expectations. In fact, for many customers, environment may not even make the list. Market research at Patagonia reveals that, today, only about 20% of customers report caring about the environmental impact of what they purchase.

So what is the incentive for going so far beyond simply complying with regulatory requirements? Where does the motivation come from? At Patagonia, concern about the environmental impact of products and processes is largely internally driven. Its has well-established roots:



“We believe quality is not something you can do piecemeal. Either you believe in quality, or you don't. Either it surfaces everywhere and you commit to it everywhere, or you don't. There is no gray area here. I don't think it's possible to make a great quality product without having a great quality work environment.

It's all linked: Quality product, quality customer service, quality workplace, quality of life for your employees, even quality of life for all living things on this planet. If you miss any one piece, there is a good chance you'll miss it all.”

Yvon Chouinard, Patagonia Founder

Box 2: Patagonia's world-class approach to quality

- ▷ Founder Yvon Chouinard's leadership in developing innovative gear for 'clean climbing' that didn't deface the mountain—dramatically shifting the market toward removable chocks away from pitons (despite the fact that his company led the worldwide market for pitons in the early 1970s)
- ▷ A long-established corporate philosophy to 'do no harm'
- ▷ Managers and employees alike being passionate about nature and spending a great deal of time outdoors. 'What you love, you protect', one manager commented.
- ▷ A history of supporting grass-roots environmental causes, together with a formal system for engaging employees in activism

Patagonia is clearly leading the market. Although there is a growing confidence in the strategic rationale for sustainability, both environmental and social initiatives in Patagonia stem largely from a strong internal conviction about 'doing the right thing'.

2. Trailblazing

a. Recipe for transformation: personal, heroic, magical

What is the recipe for transforming an organisation? Based on years 'in the trenches' working for social and political change, Kevin Sweeney, Patagonia's Director of Communications, advocates that, to transform an organisation, you must: (1) make it personal; (2) take heroic action; and (3) sprinkle in a little magic.

Kevin and other leaders at Patagonia are working to integrate all three of these apparent intangibles both internally and externally. Together, as implemented in Patagonia, these ingredients are creating a powerful formula for change.

Make it personal

In most industries, the daily grind of strategic planning, technology development, product design, marketing, manufacturing excellence, and sales and service allow managers and employees to remain far removed from the environmental and social impacts caused by their products. Exacerbating this, most environmental interventions to date have focused primarily on 'end-of-pipe' actions to ameliorate the negative effects of production processes. Only in the past decade has consciousness been raised to understand that a business must be concerned with, and assume responsibility for, the entire life-cycle of the products or services it is providing, from raw materials extraction to end-of-life disposal. Patagonia is a leading example of a company that has examined the life-cycle impacts of key products and used this analysis to prioritise aggressive action. That is the rational part. Added to this are several factors that have elevated environment to a personal level, and turned this technically sophisticated life-cycle impact analysis into a powerful lever for transformation. Patagonia's conversion to organic cotton illustrates this well.

In 1990, Patagonia managers' thinking underwent a significant shift. They began to look at the environmental impacts of the primary materials that composed their products. Up until this point, like many organisations, they thought of environmental performance primarily in terms of regulatory compliance and internal office paper recycling. More proactive than most, Patagonia also had a long-standing programme to support grass-roots environmental groups, and had led the market in producing products for 'clean climbing' to minimise environmental degradation of climbing routes. With the latter, they contributed substantially to the transformation of climbing culture and practice worldwide.

In the early 1990s, with an increasing realisation that its business was contributing to environmental problems, Patagonia embarked on an effort to understand the life-cycle impacts of the four major fibres used in its products: polyester, nylon, cotton and wool. What it found was surprising, and led to a decision that would take the company's production co-ordinators, employees, customers and suppliers in a dramatically different direction.

Although they anticipated issues with synthetic fibres, surely, they thought, cotton is pure and natural? Not so, as it is currently treated. Contrary to expectations that natural fibres would prove to be the most environmentally benign, the life-cycle analysis revealed that conventionally grown cotton had negative impacts through every stage of life-cycle from the fields to the washing machine. On getting these results, Patagonia immediately embarked on an effort to better inform itself, its employees, and even its customers, about its unintended but undeniable collusion in environmental degradation. (Synthetic fibres and wool, as expected,

had negative impacts as well, but cotton was chosen as the area in which Patagonia could make the most substantial reduction in the environmental impact of its products.)

Patagonia's next actions provide a vivid example of 'making it personal'. Typically, manufacturers in the apparel industry are several steps removed from the production of raw material from which their suppliers make fabric and accessories. Patagonia broke ranks with this tradition in 1992, taking a group of representatives on a tour of cotton farms in the San Joaquin Valley with farmer and organic agriculture activist Will Allen. What they saw was a dramatic contrast between the conventionally grown and organically grown cotton fields.

Conventional practices for growing and harvesting cotton—undertaken in the vast majority of the valley's one million-plus cotton acres—farm cotton as a monocrop supported by an onslaught of chemicals that toxify the soil, air and groundwater—making cotton one of the most damaging fibres Patagonia uses to make clothing. The soil, chemically sterilised, becomes merely structural support for holding the cotton plant upright. Seeds are fumigated to prevent fungi. Synthetic nutrients, herbicides and pesticides are applied to feed the plants, kill competitive weeds and exterminate insects. Chemicals are used to regulate the rate of growth, maximise the number of bolls, and ensure uniform opening. Prior to picking, defoliant is applied to kill the plants and remove the leaves, in order to facilitate harvesting. The chemicals also reach unintended targets: drifting from cropdusting planes onto nearby water supplies and farmhouses; seeping from discarded concentrate cans into stream beds; washing with flood irrigation into drinking-water sources; spreading as run-off into irrigation ditches; and exposing workers in gins and spinning mills, resulting in extensive and pervasive health problems. Additionally, resistant strains of insects thrive and reproduce despite the chemicals, spurring research to find ever-stronger chemicals, while beneficial insects are wiped out along with the harmful. Ecosystem damage from monoculture farming and chemicals impact plant, bird and wildlife populations. Equally threatening is the fact that cottonseed (containing herbicides, pesticides, synthetic fertilisers and defoliants), treated as a by-product, ends up pressed into oil for use in snack foods and transported for use as animal feed. Furthermore, conventional cotton farming is part of the larger agri-business industry, which has been linked to 20,000 deaths annually from unintentional chemical poisoning, reports of concentrated incidence of cancer clustered around agricultural communities, diminished biodiversity, and topsoil loss at a rate of 8.1 tonnes per acre per year (see e.g. Briggs and Carson Council 1992; Tyler Miller 1996; Jeyaratnam 1990).

Organic cotton production involves very different practices. As Patagonia puts it, 'Life, and cotton growing, is possible without synthetic chemicals.' In stark contrast to the bare-dirt ditch-banks of the conventionally farmed fields, organic irrigation ditches are green and alive. Building on both traditional and newly developed knowledge about sustainable farming and land stewardship, organic

farmers condition the soil with compost, organic matter, crop rotation and natural fertilisers; they discourage weeds by using cover crops; and they deal with pests by developing healthy plants, encouraging beneficial insects, planting trap crops, and occasionally using natural pesticides. Artificial growth regulators are not used. There are no defoliants to strip and kill the plants; instead, picking is undertaken by hand, or by machine-picking with the leaves on, and the process is supported by withholding water or by capitalising on frost. Organic farming requires more labour and increased knowledge and skills. The rewards are a healthy ecosystem, reduced topsoil erosion, and withdrawal from the chemical dependence that is responsible for such far-reaching negative side-effects.

This review of cotton farming was a seminal event in the history and evolution of Patagonia. It set in motion intense internal debate about the pace with which Patagonia could and should convert to organic cotton. Will Allen brought a slide show and vivid descriptions of the tour to the spring 1994 sales meeting. The audience and other managers, shocked at the effects of conventional cotton farming, developed a conviction that knowing without acting would contradict every value the company had come to stand for. The ultimate board of directors' decision in summer of 1994 was to take the assessed risk, absorb some of the additional costs, and switch Patagonia's entire product line to organic cotton.

Over one-third of Patagonia employees have retraced that first tour of the cotton fields. They come back different people, passionate about Patagonia's potential contribution to creating a sustainable industrial system, but also about changing their personal buying practices. Sweeney comments: 'This is not a strategic decision . . . We took 350 people on tours and they come home and buy organic . . . we have changed people's lives.' What could be more personal?

Patagonia has extended the effort to 'make it personal' well beyond its employees. The story comparing conventional and organic cotton has been told in catalogues, brochures, web pages and meetings to customers, shareholders and the general public. The most powerful impact, though, has been effected through a corporate and personal appeal, bolstered by a riveting video, with others in their value stream.

In 1996, Patagonia held a three-day supplier conference that still holds an emotional charge three years later for those who were there. The conference included everyone who had anything to do with the creation and sale of Patagonia products. Four months before the conference, participants had been asked to send in a photograph of their children. The introductory message from Patagonia was clear: 'It is not Exxon—it is us. The problem is ours. It is not OK to assign blame for environmental degradation elsewhere—the production, distribution, and use of Patagonia products is causing damage.' Participants were then swept along on a video tour of the cotton fields presenting stark facts and striking visual images comparing conventional and organic cotton-growing processes. At the close of the video, with the music of Louis Armstrong playing in the background, Patagonia

- ▷ Cotton accounts for approximately 25% of the world's insecticide use.
- ▷ 8%–10% of world pesticides (fungicides, herbicides, insecticides and defoliants) are applied on cotton fields: 40 million lb of pesticides are applied to cotton fields worldwide every year—13 million lb per year on California's cotton crops alone.
- ▷ Conventional cotton crops in six California counties alone are dusted every year with 57 million lb of chemicals, including both pesticides and fertilisers.
- ▷ Pesticides used on cotton are among the most hazardous.
- ▷ Children are particularly vulnerable to pesticide-related health problems.
- ▷ Farm workers exposed to excess toxins are at risk from poisoning and health problems.
- ▷ Further problems are: over-spray from aerial delivery; run-off into irrigation ditches; leaching through soil to contaminate groundwater; soil erosion; loss of biodiversity; ecosystem damage.

Box 3: Environmental impacts of conventionally grown cotton

said: 'Let us show you what you folks love.' With a montage of young faces making tangible the importance of our legacy to the future, in the words of Kevin Sweeney, Patagonia's Director of Communications, 'It was impossible not to cry.'

Patagonia thus explained their rationale for switching to entirely organic cotton, and invited their suppliers and distributors to join them in developing the technical and managerial knowledge that this would require. The reaction of supplier Rob Koepfel, a textile laminator, summed up many participants' personal alignment with Patagonia's decisions and strategy: 'I came as a representative of business; I left a citizen of the earth.'

The tour, by providing a first-hand, personal experience of the impact of its product design and production process decisions and specifications, created the conviction that Patagonia had 'no choice, knowing what they now knew' but to convert to using only organically grown cotton. It also created the commitment in the entire organisation and value stream that would be required to overcome the challenges that this shift would entail.

Patagonia went on to develop marketing and communications materials to inform their customers and consumers—and anyone else who would listen—about the negative environmental and health impacts of conventionally grown cotton (summarised in Box 3), and requested others join them in creating a market for organic cotton. Farmers need a stable market in order to convert to organic, and handling costs would decrease substantially with increased volume. Patagonia was instrumental in getting Levi's, Nike and Adidas to commit to ordering three bales of organic cotton for every 100 they use.

Now, using sustainable farming practices that actually restore ecosystems, organic cotton is the least damaging fibre used in Patagonia's clothing.

Take heroic action

Patagonia has on numerous occasions chosen the heroic route, rather than the easy one. Each time, it weighed the costs and increased difficulties inherent in siding with its core values, then determined to find a viable way to meet *both* business and social responsibility goals.

In the case of the conversion to organic cotton, for example, Patagonia accepted the challenge of solving a myriad of economic, technical and managerial problems. The more conservative strategy might have been to avoid the issue altogether, or to slowly introduce more organic cotton products as fabric variety increased. Instead, Patagonia chose the heroic route of totally eliminating cottons grown with synthetic chemicals. This meant absorbing an economic hit due to higher costs for growing and handling organic raw materials,¹ and relying on business acumen and relationships with mills, distributors and customers to solve technical problems and maintain consumer perceptions that Patagonia was in no way sacrificing quality.

Other examples of Patagonia's heroism pepper its corporate history. As mentioned above, 20 years earlier founder Yvon Chouinard decided to opt out of the extremely successful, high-quality piton climbing equipment market and convert to clean climbing equipment with lower environmental impacts. The company leads the outdoor clothing industry in using fleece fabric made out of recycled soda bottles in order to reduce the impact of extracting and refining crude oil used in commercial synthetic fleece—a shift that simultaneously provided consumers with a high-quality new product while saving tens of thousands of barrels of oil and diverting over 100 million bottles from landfills in just six years. Patagonia dared to visibly support grass-roots activism; it openly disclosed the real environmental impact of its products; and, more recently, led by CEO Dave Olsen, it committed to renewable energy use for Californian facilities and decided to phase out PVCs from hardgoods. Looking into the eyes of courageous employees, it is clear that many people would rather work for a heroic company such as Patagonia.

In each of the above cases, however, answers and outcomes were not apparent to the people as they first made the strategic decisions. Although the company is privately held, concerns about potential impact on the financial viability of the business were nonetheless acute, and in fact may have been heightened by a sense

1 Increases in production costs for organic cotton varied between 15% and 40%. Although some of the additional costs for labour and separation of organic from conventional cotton within the production process are counterbalanced by reduced costs of chemicals, organic cotton currently remains more expensive. Patagonia absorbed some of the additional costs itself, and also asked customers to share costs but limited price rises to a maximum of 20%.

of deep obligation to the employees who had devoted a portion of their lives to Patagonia.

Sprinkle in a little magic

How do you create organisation-wide caring about the environmental and social impact of the products you make? Patagonia has a rather unique answer. Most of it has to do with establishing a very personal relationship with the outdoors. Loving a sport or outdoor activity is not only encouraged, but one of the key hiring criteria. Spending time in nature with Yvon Chouinard, whether fly fishing, surfing or climbing, is high on many managers' lists of most memorable experiences. Perhaps most significant, though, are the efforts Patagonia has made since its inception to 'give back' to the community. Since 1985 Patagonia has donated 10% of pre-tax profits (or 1% of sales revenues, whichever is greater) to grass-roots environmental programmes, as part of their corporate tithing programme. Where 'giving back' turns to magic is in the Patagonia internship programme, where individual employees, or groups of employees, are supported in taking up to two months' paid leave to work for a non-profit organisation of their choice. Almost 20% of the workforce has participated in front-line action from Tibet to Alaska, camping out in redwoods to prevent logging of old-growth forests, monitoring emissions in tidal flows in Puget Sound by kayak, or helping protect an endangered habitat. The important point here is that this is not a one-way relationship: the connection with these groups began to change the company. Employees built a whole new skill base, and came back passionate about the environment. They returned re-energised, and shared their slide shows, convictions and learning with the rest of the company. This combination of nature, tithing and internships has led to an explosion of activists in Patagonia. More importantly, from a business perspective, it has led to a mobilised community committed to transforming almost every aspect of Patagonia's products and processes. As one manager stated, 'For me, it is easy to follow the path of greening from love of mountain places to choice of dyes.'

The source of magic at Patagonia seems to be a unique combination of personal, very tactile, connection with nature and a dedication to contributing to solving the earth's environmental problems; this has become the lifeblood of the organisation. All this is combined with the quality and excellence required to serve a clientele who care primarily about purchasing extremely high-quality technical performance gear.

b. The bare essentials: ultimate purpose and core values

Patagonia exists as a business to inspire and implement solutions to the environmental crisis (Patagonia, *Louder than Words* 1999).

Purpose

Patagonia exists as a business to inspire and implement solutions to the environmental crisis.

Core values

Quality:	pursuit of ever-greater quality in everything we do
Integrity:	relationships built on integrity and respect
Environmentalism:	serve as a catalyst for personal and corporate action
Not bound by convention:	our success—and much of the fun—lies in developing innovative ways of doing things.

Box 4: Patagonia's purpose and core values

Source: Patagonia, *Louder than Words*, 1999

Patagonia's purpose and core values speak for themselves (see Box 4). As with a few other select, leading-edge companies, it is articulating and enacting a purpose that is much greater than making a profit, or even providing high-quality goods and services to customers. This definition of its ultimate reason for being has galvanised the entire organisation, provided a rationale for continued growth that fits with its values, and defined a heroic, visionary objective. The core values—'quality', 'integrity', 'environmentalism', and 'not being bound by convention'—form the guideposts for strategic and operational decisions.

Strikingly, this purpose and values statement is not a wish-list of aspirations for some future state. Rather, it is the result of a collaborative process by which Patagonia management and employees articulated and came to a shared understanding of their current operating purpose and values. This purpose statement builds on, and extends to a more active, positive stance: Patagonia's long-standing objective to 'do no harm'.

CEO Dave Olsen commented about their purpose:

We want to use what we know about managing a successful business to lead others in finding solutions to the environmental crisis. We have a couple of million customers we can tell our stories to, whether it is about organic cotton, or renewable energy. We have built an audience. We do feel great urgency that as a society we can't continue on the high consumptive path we're on. We need leadership to find a different way of being.

Standard business objectives are not left out of this equation. Olsen goes on to say, 'In order to be inspirational, we must be successful.'

Yvon Chouinard and Mike Brown, in a 1997 *Journal of Industrial Ecology* article, reflected on Patagonia's choice of environmental principles: 'We were interested not only in reducing our impacts—pollution prevention was a given—but also in keeping a focus on creating an economy that might someday allow us to restore the ecological health of the world.' Today, Patagonia is moving full speed ahead toward achieving these goals.

c. *Strategic rationale: 'It's the right thing to do.'*

We discussed earlier that Patagonia's innovations in environmental and social responsibility have not been led by legislative requirements, market pressures, or even a far-sighted strategic plan. Rather, the guiding principle has been a sense of 'doing what's right' at each branch in the road. Patagonia's penchant for 'doing the right thing' permeates every level of the organisation, from the CEO to production managers, team leaders, quality managers, operations leaders, new business managers, environment managers, human resource managers, and even finance. For example, with a 'build it and they will come' attitude, Patagonia is beginning now to design for disassembly and closing the loop, even though the infrastructure for dealing with products at end-of-life is not there. Their philosophy is that making products for reclamation will drive the need and prove the viability. As with organic cotton, in many areas Patagonia is leading the market—making the changes; collaborating with suppliers; then educating and enrolling customers in the rationale.

Dave Olsen related that Patagonia has many examples of doing things because they were the right thing to do, and of being fortunate, because they turned out to be commercially successful.

Organic cotton was a big risk: we were prepared to take substantial losses for several years. In full sight of the risks, we decided to go ahead. We knew it was possible—that we had adequate supply, that organic cotton could be ginned, spun, etc.—but not that it would be commercially successful. It turned out not to be a commercial penalty.

Retrospective analysis would suggest that Patagonia did not leave this positive outcome to chance. Instead, it appears it is making strategic choices based on values about what is right, but putting all the energy of an integrated, aligned organisation around reducing any downside risks and laying the groundwork for positive outcomes now and in the future. Patagonia's work to reduce the incremental costs of its decision to use only renewable energy in Californian facilities (described in Box 5) illustrate this characteristic.

There is increasing evidence in the marketplace that proactively integrating environmental considerations into core business strategies, product design and production processes through the entire life-cycle will have synergistic effects in

Patagonia's motivation for converting to solar and wind power is once again that 'it's the right thing to do'. Although using renewable energy will carry an incremental cost, the company has taken a number of steps to neutralise the additional costs. By investing in energy conservation—such as new lighting, insulation, new more efficient motors to drive the conveyors at the Reno distribution centre—Patagonia has achieved a roughly 20% reduction on its 800,000 kWh/yr consumption. Although it will pay a premium for using 100% renewable energy, its net costs will be less. Thus, with planning and organisation, Patagonia is able to do the right thing environmentally, at no extra cost.

Patagonia is actively working to sell the concept of renewable energy to its suppliers by helping them discover that the economics really do work, that they can make investments in energy reduction and cleaner waste-water that provide tangible financial gains.

Of course, it might have been possible to attain the reductions without incurring the additional costs for renewable energy, but combining these provided a noble purpose that very probably contributed to the success of the conservation efforts. Additionally, converting to solar or wind power lessens the life-cycle impact of Patagonia production processes, and provides another model for employees, customers and other organisations of more sustainable business practices.

Box 5: Conversion to renewable energy— with strategies to make it cost-neutral

improving profitability and value—from cost reductions found through eco-efficiencies, to increased customer loyalty, to new product and business development. When asked if a strategic assessment of this business case for sustainability was part of Patagonia's strategic planning, Olsen replied: 'That is our hope. It is the substance of things hoped for, the evidence of things not seen.'

There are, however, signs that indicate this hope may prove justified and that the investments Patagonia has made may pay off soundly in the future.

d. Then again, we might be onto something here

On a variety of fronts, Patagonia's moves toward more sustainable products and practices have resulted in tangible strategic and operational benefits to the business, suggesting there is a solid business case for proactive improvements in environmental and social performance.

Customer loyalty and increased revenue

There is a certain percentage of customers—around 20%—who purchase Patagonia equipment because of its reputation and long-standing commitment to social and environmental responsibility. In this highly competitive market, even a few points of additional market share can be very valuable.

Differentiation in the marketplace

Environmental performance can serve to differentiate Patagonia products from those of competitors, in a market where differentiation based on technological performance is becoming increasingly difficult. As Randy Harward, Patagonia's Director of Fabric Development Quality and Environmental R&D, put it, environmental performance may even offer a way out of the 'game' Patagonia in which finds itself:

The evolution here has been because of heart, and what is the right thing to do. It has occurred to us that it might be a good business strategy, but that is not where it started. In fact, our environmental stance causes many problems, like dealing with increased costs, or ensuring we were not compromising quality. We have done it because it is the right thing to do, from an ethical stance.

Increasingly though, we are seeing benefits from an efficiency standpoint, from an innovation standpoint. It may even offer a way out of the game that we find ourselves in, where Patagonia is in a very saturated market where it is harder and harder to differentiate. We have existed on quality and technical innovation, but this is harder and harder to do. There are now hundreds of companies in a field where there were only one or two when the company started. All of these companies keep driving innovation forward—but always in smaller and smaller increments. Then they compete with each other, but, because significant technical innovations are hard, they are generally shared by suppliers, so many of competitors get them at the same time, so it is even harder to differentiate. So we are in that game—we are participating in creating a tweak war based on technical innovation. The question is how to get out [of this dilemma] and still be interesting. Living up to environmental and social values might just be the key here.

Customer trust

In one catalogue, Patagonia went on record saying 'everything we do pollutes'. It committed to making incremental steps, and invited its customers to accompany it on the journey. Managers were amazed when customers responded by saying, 'keep doing this; keep trying; thanks for being honest'. Patagonia's openness about the negative impact of its products has created a high level of trust among its customer base. This trust is likely to be transferable to other elements of customer relations and view of Patagonia as a brand. (Additionally, it is exactly this candour that provides the foundation for problem-solving that is leading to breakthrough new fabrics, modified production processes, and even new businesses, at Patagonia.)

Brand enhancement and free media coverage

Patagonia has a strong brand presence primarily based on the technical integrity and quality of its products. Yet social consciousness has always been a part of its value proposition, and it has a portion of customers who buy because of company

values. Karyn Barsa, Director of Operations, noted that environmental initiatives have contributed to the health of Patagonia's brand, allowing it a price point better than others, and increasing its help to dealers.

In the past, Patagonia has been fairly modest and understated about its activities in social responsibility. Now, it intends to be more explicit to each customer group in the marketplace, reinforcing this aspect of the Patagonia brand.

There have also been unintended side benefits to Patagonia's social stance. Patagonia estimates that, because of its social activism and environmental initiatives, it receives an impressive US\$5–7 million a year (3%–4% of sales) in free media coverage, which is much more powerful than advertising.

New business development

Patagonia has started new business and product lines directly related to innovations stemming from its environmental efforts. Its new business, 'Beneficial Ts', which in one year became the largest supplier of organic cotton blank t-shirts, stemmed from a work team going outside to acquire commodity contracts in an effort to increase the organic cotton market. 'Seedling'—a bright, colourful line of infant apparel made from unused material cut from the gaps in the patterns of adult clothing—originated from a problem-solving discourse with a vendor about attempting to recycle fabric that no one wanted following Patagonia's environment-focused supplier conference. It was the brainchild of Patagonia's product designer, Janna Vaattainen, who creatively pieced together this new clothing line, using patterned and solid pieces of various colours, all in one garment, in an effort to reduce the estimated 18% of fabric that typically ended up on the cutting-room floor. (The 'Seedling' line, plus continuous improvement in positioning 'markers' for greater efficiency, is slowly reducing this volume of fabric scrap at Patagonia.)

Efficiencies and waste reduction

Patagonia's internal environmental improvement efforts have reduced waste by about two-thirds through re-use and recycling, improved efficiency of lighting, heating and cooling, and reduced use of toxic substances and emissions. In the 2½ years since Patagonia's new worldwide distribution and customer service centre in Reno opened, only three 36-40-yard dumpsters of waste have been hauled away. Energy conservation achievements already described are supplemented with architectural design innovations adding up to more than a 30% reduction in energy costs.

Broader market segments

The growing percentage of Patagonia business devoted to sportswear belies an underlying current of internal conflict which is only recently becoming resolved—because of Patagonia's new clarity on its fundamental purpose. Moving into the general sportswear consumer market represented a strategic dilemma that shook the company—founded on providing high-quality, technically superior products to devoted athletes and outdoor enthusiasts—to its core values.

The rationale for entering the sportswear market is clear: an increasing number of people are wearing sportswear clothing, the margins are better, volumes are higher, and demand is more uniform, avoiding the off seasons that exist in most highly technical sports activities. The problem with this direction—according to Patagonia management and employees—is that these products have lower technical specifications and represent a move away from ‘expert’ customers. No one wanted to sell out on the original mission of the company—to provide high-quality technical equipment and clothing—purely for increased profits.

Ironically, the redefinition of Patagonia’s purpose and commitment to organic cotton has provided a rationale for making sportsgear and brought about a resolution to the conflict that everyone could get behind, as all cotton used in sportswear production is organic. One moral purpose has been replaced by another!

Employee commitment and loyalty

Patagonia has truly won the hearts and minds of employees, most of whom are passionately committed to ensuring Patagonia’s business success and achieving its purpose. The following striking comments demonstrate a level of dedication seldom found in industry:

The employee base feels this is where our destiny lies.

For any organisation where you get a person so totally committed to a whole approach, they can’t imagine being anywhere else! It becomes your life when you work for a values-driven organisation. We don’t compete on salaries, or benefits. People are here because it integrates into their life.

Our strength is the quality of our people—people have the passion.

Attracting and retaining employees

Patagonia’s breakthrough human resource practices and environmental responsibility agenda have resulted in high employee commitment that turns into bottom-line results. Employee retention is high compared to industry averages in both retail (turnover is only 20%–30% a year versus a typical 100%) and administration (administrative turnover is running at ~5%, sometimes 3%). Here are some comments from management:

We have low turnover here—we are connected to a greater purpose than making a profit.

We have zero turnover among employees who have children in our on-site childcare.

We have issues of retention that other companies wish they had.

Recruitment, selection, and development experiences of organisational members are all aligned to achieve the corporate purpose and values. Terri Wolfe, Patagonia’s Human Resources Director, emphasised that the employment culture

is not only intentionally linked to, but is entirely contingent on, Patagonia's business mission. Her philosophy is that, although they look for technical skills, these can be trained or learned, whereas personal commitment to a cause and being passionate about things must be selected for.

Deeper knowledge and new competences

The most significant internal impact of Patagonia's environmental initiatives was unexpected. As Patagonia worked to better understand the life-cycle impacts of its products, as it met the challenge of converting to organic cotton, as it researched for substitute materials and dyes, it has gained invaluable benefits in increased knowledge, competences, and confidence about managing the entire production process. Despite the fact that it had established pivotal relationships with suppliers and customers and designed a production process that was one of the finest in the outdoor and apparel industries, it still found tremendous scope for learning from being forced to develop a more external focus, to work outside of its industry, and to create new alliances for change with vendors, suppliers and customers.

In converting to organic cotton, for example, production managers found they couldn't simply go to a textile mill and say, 'Please send me organic cotton with the same quality features.' So Patagonia had to take responsibility through the entire process—fibre production, ginning, fabric design, spinning and weaving, distribution and transportation, etc. Managers stated that the company is now more confident in taking hold of the entire process chain, and with specific elements such as the handling of fabric lamination internally, allowing 'middlemen' to be cut out of the process.

CEO Dave Olsen highlights more generally the value to marketing of learning to tell their environmental story effectively:

There is a great opportunity to raise awareness and concern with all people. The challenge is for us to become better marketers. We have to make it simple and straightforward, even though it is not a simple story. Really, this particular challenge will help us become a much more successful business. If we can tell the environmental story in ways that get people to change their behaviour, it will really help us in other areas of business. We are too much in the details, too close to it—tend to say too much, haven't spent enough time with customers to know what sells. The better we get at that, the better we'll be at marketing other issues.

Stimulus for excitement and innovation

'There is an evolving sense within the company that, if Patagonia can design and make products correctly from an environmental perspective, not only will it be the right way to do it, but it will make the company more exciting and innovative at the same time,' according to Randy Harward. Patagonia staff members, even their suppliers, are embracing the challenges that becoming more sustainable implies.

At a pragmatic level for Patagonia, these innovation challenges include: discovering or developing high-quality substitutes for product components to eliminate toxic materials; ‘closing the loop’ by designing products for construction from recyclable materials, disassembly and re-use or eventual recycling; minimising material and energy inputs; restructuring global production processes to reduce transportation; reinventing design patterns to fit colour palettes limited to the least-toxic dyes; and finding effective ways of communicating with each customer segment.

From a supplier’s perspective, Patagonia is most often seen as a prized customer with whom there has been a long-term relationship focused on continuous improvement to achieve stringent quality levels. Patagonia’s commitment to reducing environmental impact has meant drastically shifting requirements. Many suppliers were not able to adjust, although some of these are now developing new technology and capabilities and coming back.

Patagonia veteran Director of Contract Management, Roger McDivitt, tells of one notable example illustrating a very positive response within Patagonia’s supply chain to the shift toward organic cotton. Johnny Yeung from Thai Alliance Textiles, a mill in Bangkok that spins yarn for a Patagonia shirt supplier, on being told of the new requirement, adapted his organisation to provide organic cotton at great expense and trouble. His rationale? According to McDivitt,

Personally, he became attuned to the ethical issues of organic cotton. But, from a strategic business perspective, Yeung was interested in keeping his organisation from stagnating. To counter the sense that ‘what we do for a living is what we do’, he saw the shift to organic cotton as a chance to force his organisation to respond to something new. Thus he used this as a business opportunity to remain flexible. Right now, spinning organic cotton is a niche business, but Yeung has determined that, if he can figure out how to do it well, it is a competitive advantage to him. Since it is a difficult process, he can distinguish his business from the guy down the street. He was looking for something that isn’t easily copied—organic cotton certainly is that. He also did it out of consideration to us.

Yeung has gone on to find innovative ways of spinning organic cotton with polyester, an important capability for Patagonia’s product line. (Patagonia is looking into the life-cycle recycling implications of multiple-materials fabrics.)

Strategic positioning for the future

Patagonia is focused on the future, not just the rear-view mirror. It is positioning itself for what managers project will eventually be increased demand from customers, critical requirements of the marketplace, and a key source of excitement and innovation internally and externally.

‘Do you *know* what’s in that shirt you’re wearing?’ Patagonia managers jokingly laughed at the fact that each of them had fallen prey to this ‘conversation stopper’ at a party. Their point, though, is that, although for the most part consumers have

no idea what is in the garments and other products they purchase or the social conditions under which they are made, there is increasing awareness on the part of customers and consumers, and increasing transparency of organisational activities and impacts. Patagonia intends to continue to lead the customer in coming to these understandings. Harward comments:

It really is scary, what is in products . . . I believe that this value awareness will become more mainstream. I don't know when, but it will become apparent to consumers at some time. We have a strategy of trying to match a growing awareness of environmental impacts. Culturally, we hide a lot of those costs; at some point the real costs of environmental impacts is going to reach consumers, and those [companies] that have figured out this strategy will be in a much better position.

It may be that incorporating environmental criteria causes us to approach solving customer problems in a unique way—and we stand out in the marketplace. Customers respond to what we are calling the 'elegant solution'. When you can put all that together, [what you offer] is the newest cool product—it really does perform and, by the way, it is environmentally sound. This is a combined value that is generated and can't be pulled apart. That's very appealing to us.

Geoff Cline, Patagonia's In-House Counsel, adds:

Our marketing message is not that this is important because it is good for you, or even the right thing to do—but instead that these products have a lot of excitement, innovation, sex appeal and dynamism.

With the right marketing approach to go with this business approach, we will win the hearts and minds of people, because, if you have the choice between the two products, why would you buy the one to hurt your kids' future? It is intuitively impossible—but it has to be exciting.

Enhanced value proposition

As part of its strategic planning, Patagonia management is re-examining the value proposition both for existing products and for the new products and services that it might offer.

It would be lax to describe the environmental aspects of Patagonia products without mentioning a characteristic that has been built in for years: durability and longevity of product. Of course, the longer the life-span of a product, the fewer needed by the consumer—hence the lower potential negative environmental impacts related to the production of the commodity in general. Patagonia designs for endurance and longevity. A company newsletter article jokingly tells the story of 'Joe's ten-year-old long underwear' which constantly fails to receive a very deserved retirement from the lifetime of adventure and abuse through which Joe has been putting it. Children's clothing is so strongly over-built that it is easily passed down multiple times. Performance guarantees are part of the Patagonia promise.

Patagonia shows a sophisticated understanding of providing increased value to the customer. In talking about the social conditions in factories where garments

are made and the environmental impact of products, managers clearly realise that the product history and product future are part of the value proposition. As they shape, understand and meet the needs of customers regarding these social and environmental impacts, they are banking on the fact that values have value. Patagonia is also exploring ways of providing services as well as products, for example, renting rather than selling highly specialised technical products, or leveraging the Patagonia image and sense of ‘club’ membership without selling goods.

e. *Warp and weft: weaving a sustainable tapestry*

It is one thing to commit to creating more sustainable industrial practices and to inspiring and implementing solutions to the environmental crisis—another to bring it to reality. As might be expected, Patagonia has done many things well, but has also encountered strategic and operational challenges. Below is a discussion of its approach to implementation.

Platforms, playgrounds, and protesting

What most differentiates Patagonia’s efforts from those of many others is that it is moving beyond isolated environmental and social improvements dominated by the mainstream thrust of production-as-usual to a coherent strategic platform integrating all aspects of design, production, supply management, marketing and human resource management.

On multiple fronts, Patagonia is experiencing the synergistic benefits of a unified ‘platform’ approach, and it is poised to increasingly reap these benefits. It has achieved: increased commitment and retention of employees attuned to working in a values-driven organisation; clarity of branding and customer understanding from a unique message; suppliers committed and confident enough to invest in radical shifts; and human resource practices that align on-site childcare and activist training with strategy—to name but a few examples.

Redefining design, production and operations management

Patagonia’s strategic integration of environmental criteria has had reverberating ripple effects in every aspect of its business.

Product design changes were mandatory if environmental impacts were to be reduced. Life-cycle analyses revealed negative environmental impacts in every stage of Patagonia’s products’ life-cycles—but high-impact areas most under Patagonia’s control are materials choice and colouring. Patagonia’s products are known for their deep, vibrant colour, and one of Patagonia’s key selling features distinguishing them from competitors has been unusual fabrics. Given this, designers were at first disconcerted by having limitations imposed by constraining

Patagonia has created for designers, suppliers and customers a concise overview of the environmental impacts of modern fabric-dyeing techniques as a guide for decision-making. In it, it developed for each major fabric type (nylon, polyester, cotton and wool) an 'Impact Matrix' table summarising the relative impacts of various dye types and dyeing methods on water usage, energy consumption, toxins (primarily metals, chlorine, azo dyes and sulphides) and biodiversity.

WOOL

<i>Method</i>	<i>Water</i>	<i>Energy</i>	<i>Toxins</i>	<i>Biodiversity</i>	<i>Comments</i>
Acid-metallicised	High	Med	High	Med	
Acid reactive	High	Med	Med	Med	
Acid milling	High	Med	Med	Med	
Acid levelling	High	Med	Med	Med	
After chrome	High	Med	Very high*	High	* Due to metals
Natural	High	Med	Med	Low	

*Product assessment***NYLON**

<i>Method</i>	<i>Water</i>	<i>Energy</i>	<i>Toxins</i>	<i>Biodiversity</i>	<i>Comments</i>
Disperse	Low-med	Med	Low-med	Med	
Acid	Low-med	Med	Low-med	Med	
Direct	Low-med	Med	Low-med	Med	

*Product assessment***POLYESTER**

<i>Method</i>	<i>Water</i>	<i>Energy</i>	<i>Toxins</i>	<i>Biodiversity</i>	<i>Comments</i>
Disperse	Low-med	High	Very high*	High	* Due to carriers
Basic	Low-med	Med	Low-med	Med	

*Product assessment***COTTON**

<i>Method</i>	<i>Water</i>	<i>Energy</i>	<i>Toxins</i>	<i>Biodiversity</i>	<i>Comments</i>
Reactive	Low-med	Low-med	High*	Med	* Due to salt
Vat	Low-med	Med	Med	Med	
Direct	Low-med	Med	Med	High*	* Due to oxidation
Sulphur	Low-med	Med	High	High*	* Due to oxidation

*Product assessment***Box 6: Patagonia's 'Impact Matrix' for dyes**

materials and colour palettes. With time, however, they did develop attractive and viable solutions to retaining product quality with lower environmental impact (see Box 6 for a sample of Patagonia's assessment of the environmental impacts of dyes). Once they recovered from the initial shock, designers rose to the challenge, and even identified additional benefits from these constraints, such as efficiencies gained from simplification.

Patagonia's hardgoods division also illustrates the integration of environment into product design. Beyond its immediate focus of eliminating toxic materials (for example, in the spring 2000 travel bag line, a replacement product has been introduced with higher quality and technical functionality, yet at the same price to the customer and produced without PVC), Patagonia is exploring design for disassembly, re-usable materials, and dematerialisation. The vision is design for 'closing the loop', where materials are easily separated into either a technical materials cycle of re-use-recycle or a natural cycle that is compostable. Although there is not currently an infrastructure in place for dealing with end-of-life of travel bag and footwear products, managers believe that it will come, and are designing the products for reclamation. The philosophy put forward by hardgoods team leader, Gary Eckwortzel, is that 'If we don't take the first step, others won't take the second.' Once again, he articulated that Patagonia's motivation is that it is the right thing to do, and that, although customers won't buy solely because a product is environmentally right, if they don't have to compromise quality between two identical products, they will choose the environmental option.

Contracts management ensures all product elements are available to the factory, on time, to meet the 'recipe' of each style slated for production. Contract managers have integrated environmental and social considerations as part of the style definition of Patagonia products, and work carefully to select and develop suppliers capable of meeting Patagonia's quality, social working conditions, and environmental standards.

From a pure vision of sustainable commerce simultaneously achieving business, social and environmental needs, this area is probably one of Patagonia's greatest challenges. In an industry where cost is critical to competitiveness, as McDivitt puts it: 'There is a gentle breeze blowing to find a cheaper place. This gives incentive to be transient, to only develop a supplier until I can find a cheaper place.' Unfortunately, these dynamics have been exacerbated even further by the efforts to reduce environmental impacts: increased materials costs (of organic cotton or non-toxic materials) often means labour costs are squeezed, which can amplify the negative social costs and disruption to community if meeting environmental criteria requires moving to a new supplier. Although Patagonia may be one of the industry leaders in providing prevailing industry wages and 'acceptable working conditions', the bottom line is that the entire industry is participating in a value-sharing structure that leaves little at the bottom end for those providing raw materials, cutting and sewing.

Production changes in fabric layout and use have greatly improved materials efficiency. Patagonia used to put small, medium and large patterns each on their own marker. Now, before any fabric is cut, teams supported by computer-aided design and manufacturing software carefully set markers to optimise fabric efficiency, integrating all three adult sizes, plus the infant 'Seedling' line patterns, to optimise materials use.

The markers are the easy part of the 'Seedling' product line. It was the production operations to create this line that required phenomenal commitment and flexibility. From the cutter, the Seedling pieces are gathered, shipped to Reno, separated and sorted to match arms, legs, etc., and then, the next season, sewn into mix-and-match outfits for infants. (The Seedling line currently piggybacks on the adult season.) The challenge doesn't end there, however. Ironically, Patagonia's continued strides in improving markers may eventually threaten their new Seedling business!

Packaging waste has also been minimised, resulting in many successes (as is evidenced by the minuscule amount of waste hauled from production and distribution facilities), but also some failures. For example, what were thought to be improvements replacing plastic bag packaging on capilene underwear with rubber bands holding on a 'face plate' tag have turned out to have numerous logistical hassles for barcoding, merchandise handling and product display.

Involving the entire value stream has been a key part of Patagonia's success. Patagonia's conference to engage its suppliers and distributors in including environment as part of their quality definition, and its work to bring energy conservation techniques to suppliers have been described above. This is part of the ongoing work to align its entire value stream in integrating environmental excellence into product design and production management. Patagonia describes its stance with suppliers not as prescriptive, but as 'co-venturing'. As indicated earlier, this closer involvement with the entire value stream has created new competences and capabilities at Patagonia. In addition, it has put the company in a position of trying to initiate dialogue with chemical and pesticide companies (which also make fabric dyes). Sweeney's advice from his days in civil action is to 'invite the enemy into your camp, . . . to push the envelope, but not close the door'. He also noted that getting to know organic farmers forced them to make the connections between environmental and social issues, in ways they had not previously considered.

Environmental principles and goals, listed in Patagonia's 1995-96 *Environmental Assessment Report*, guide design and decision-making in all areas. The principles are:

- Maximizing the efficiency of systems: using less and changing systems to improve use of time and resources
- Closing the loop: using recycled materials and maximizing recyclability of materials and products

1. Include environmental costs in accounting and production systems.
2. Eliminate all solid waste sent to landfills from domestic facilities and reduce waste from international facilities.
3. Establish stewardship requirements for all products.
4. Increase customers' awareness of product impacts and benefits.
5. Educate suppliers to meet environmental standards.
6. Increase the efficiency of our use of resources.
7. Reduce the impacts of facility construction and operation.
8. Expand the use of sustainable paper products while reducing the use of paper.
9. Reduce our use of energy and increase our use of sustainable forms of energy.

Box 7: Patagonia's five-year environmental goals

- Protecting public and worker health: avoiding toxic materials and hazardous processes
- Using renewable resources wisely: using sustainably grown or harvested products and materials appropriately
- Conserving nonrenewable resources: specifying particular conditions of use and increasing efficiency of use
- Educating ourselves and our customers: increasing understanding of our environmental impacts and what we can do about them

Each department is expected to achieve the goals summarised in Box 6.

Secret formula for brand loyalty: brand qualities are verbs, not adjectives.

We are a high-visibility company, totally out of proportion to our size.

Selling for Patagonia is like being ISO-certified.

Banks compete to finance us—Patagonia is viewed as a trophy credit.

We are also a trophy customer for suppliers.

This company stands by its friends; this is a big part of our brand.

Patagonia's brand has evolved not from clever marketing, but instead as a reflection of their bold, far-reaching corporate actions over 25 years. Producing only the highest-quality goods; actively supporting retailers; taking an activist stand on redwoods; guaranteeing its products for life; giving back with both money and time; daring 'not to be bound by convention'—all these demonstrate the action orientation that has defined what Patagonia means in the marketplace. As it moves into the future, Patagonia is just as proactively taking the initiatives that will define it as a leader in integrating the concepts of environment and innovation.

Transition to a values-driven culture

Several years ago, Patagonia's leadership recognised the need to make a transition away from the day-to-day operational leadership of the original founders and management group. To accomplish this, they determined that they must develop a 'values-driven' culture, where all people take responsibility for their individual actions, aligned around a commonly shared purpose and set of values. Thus began their values discussion, where three times a year the entire employee community breaks up into groups to discuss each of the key values, how Patagonia is living by them, how not, and what could be done to be more values-focused.

CEO Dave Olsen has attributed a great deal of importance to the development of the cultural elements of the shift that he sees as fundamental to the transformation Patagonia is making. In addition to the values discussions, the organisation has provided education and leadership focused on building within the entire workforce these key attributes: curiosity, risk taking, mutual support and flexibility. His rationale:

. . . to introduce a grand vision of sustainability too far ahead of culture that can get us there is a big strategic mistake. I have been focused on creating the culture that all employees can embrace. Unless we do this, we won't be effective, because there is too much learning required in all areas. The problem is not technical, it is socio-technical.

Sustainability as a values discipline

Patagonia's self-appointed (but organisationally empowered) cross-functional team responsible for finding the bridge from principles to action is working to define Patagonia's long-term strategic plan and to integrate environmental principles with business practices. They are enthused with the idea of looking at environmental performance, maybe even sustainability, as a value discipline—the core organising principle of the company. They suggest extending the concept put forward by Treacy and Wiersema (1996), who propose a strategy for reinventing competitiveness that focuses on one of three value disciplines—customer intimacy, product leadership or operational excellence—to a fourth value discipline that actually has values! The goal would be to 'organise the business around a sustainability paradigm (or whatever the right word is for building a product that is designed around principles of no waste, that is useful, consumed, then re-used, and disposed of in a way that is friendly and feeding at the end of life)', according to Randy Harward. Thus this new value discipline would bring together the values of innovation and customer intimacy and product leadership (other types of value) in a new way of doing business that changes the competitive landscape and reshapes customers' value expectations.

3. Conclusion

Patagonia's vision is to create a concrete message of hope: to model for society a new way of designing and producing value that is restorative, rather than damaging, to the environment.

Perhaps because they know more about what the real requirements are, what it really means, managers at Patagonia are cautious about using the word 'sustainable' to refer to their business operations. Yet Patagonia clearly stands out as a leading example of a company proactively, with passion and high integrity, making the transformation to a more sustainable business model. These same managers reveal a level of dedication and commitment unheard of in most business ventures: 'We honestly want to give our lives' purpose to this company; this is an opportunity to do that—you don't get that very often.'

Patagonia has made much progress, but still has a long way to go. In Kevin Sweeney's words:

In any entity where ideology is involved, there is a disparity between ideology and reality. A potential pitfall is that this gap will always be the subject of intense conversations. This can be constructive or destructive. A positive vision is much more constructive. What is important is the ability to create a vision—what the country could be like, what a company could be like. It is a rare skill, but, when it is done, it is magic.

Patagonia is creating that vision.

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David Olsen, CEO
Lu Setnicka, Director of Public Affairs
Randy Harward, Director of Fabric Development, Quality and Environmental R&D
Kevin Sweeney, Director of Communications
Gary Eckwortzel, Team Leader, Hardgoods
Neil Edwards, Director of Finance
Mike Brown, Environmental Assessment
Eric Wilmanns, Environmental Assessment
Julie Ringler, Production
Geoff Cline, In-House Counsel
Adrienne Moser, Team Leader, Kids'
Roger McDivitt, Director of Contract Management
Karyn Barsa, Director of Operations
Terri Wolfe, Director of Human Resources
Bruce Barbour, Team Leader, Watersports