Patagonia: A Sustainable Outlook on Business

INTRODUCTION

How can businesses make a difference in a world of decreasing resources? Patagonia is diligently working toward finding an answer to that question. Patagonia is a privately held outdoor clothing company based out of Ventura, California that generates yearly sales of approximately $540 million. Patagonia's clothing has been developed and marketed toward a variety of outdoor sports, travel, and everyday wear. The company has integrated core beliefs and values into every product it produces and is known for its innovative designs, exceptional quality, and environmental ingenuity. Its high integrity and commitment to the environment has placed Patagonia on the Ethisphere Institute’s “World’s Most Ethical Companies” list for six consecutive years since the list was first developed in 2007.

This case analysis will start by examining the history of Patagonia, including the inspiration behind its current state as an ethical and eco-conscious company. Patagonia's core purpose and values are examined, followed by the type of leadership and management styles that have led Patagonia to success. Next, we will examine Patagonia’s many environmental initiatives as well as how these initiatives fit with Patagonia’s core vision and values. We then describe Patagonia’s corporate social responsibility, particularly its relationships with its suppliers. We conclude by examining the future of Patagonia as it embarks upon new initiatives to advance its vision of environment conservation and restoration.

HISTORY OF PATAGONIA

Like many successful companies, Patagonia stems from one entrepreneur’s passion. In 1953 Yvon Chouinard, founder of Patagonia, developed a passion for rock climbing. His passions brought him west to the San Fernando Valley in California, where he became an expert at climbing and rappelling. Unfortunately, his passion was limited by a lack of appropriate climbing gear. The only available climbing gear were pitons, metal spikes that were driven into cracks or seams in rocks. These pitons were left in the rock, meaning that a long climb could require hundreds of these tools.

Chouinard became inspired after meeting a Swiss climber that had crafted his own set of iron pitons. After turning his parents’ garage into a coal forge, Chouinard began to make his own reusable pitons that were stronger than what was currently on the market. Word of Chouinard’s invention spread, and he began selling his pitons out of the back of his car for $1.50 each. Although the hobby was enough to support him, he often lived on less than a dollar day. Drifting along the
California coast, Chouinard took pride in his rebellious lifestyle. However, demand for his gear soon caught up with him.

By 1965 Chouinard decided to partner with Tom Frost to create Chouinard Equipment. For nearly a decade Chouinard and Frost made improvements on nearly every climbing tool. In 1972 Chouinard Equipment took its first steps towards environmental consciousness and revolutionized the idea of aluminum chocks to replace the pitons of the climbing industry. These chocks were designed to eliminate damage to rocks as they were wedged by hand rather than hammered into cracks.

Chouinard first realized a need for more functional climbing clothing when he purchased a rugby shirt on an overseas trip. The shirt provided protection from the elements and was a colorful contrast to the standard dull colored shirts climbers often wore. Soon Chouinard and his wife Malinda were selling clothing as way to support the hardware business, but by 1972, the clothing line had expanded to become its own business venture. The name Patagonia was chosen for the clothing line. The name was intended to reflect the mysticism of far off lands and adventurous places located not quite on the map.

Patagonia took off. Consumers loved Patagonia’s durable and brightly colored clothing. From the get-go, Chouinard and his wife Malinda knew they wanted to sell items that would have a minimal impact on the environment. In 1985 the firm began donating 1 percent of its total sales to environmental organizations.

However, like many companies, Patagonia tried to expand too quickly. This wide-scale expansion placed Patagonia into dire financial straits. Banks were not willing to provide the company with credit, and Patagonia had to lay off one-fifth of its employees. Chouinard considered selling the company. Instead, he chose to go in a more sustainable direction. The company switched to the more expensive organic cotton in 1996, a risky business move considering it increased the firm’s supply costs. He invested in other sustainable materials and decided to make products more durable. This was also a risky move because companies often rely on consumers coming back to get replacement products. Conceivably, the more durable the product, the less customers need to purchase from the company. However, the exact opposite occurred: consumers were more willing to do business with Patagonia due to its environmental consciousness and the fact that they could trust Patagonia’s products to last a long time.

Today Patagonia is debt-free—and is still willing to bend the rules. For instance, the firm—which constantly remarks that it places the environment over profits—has embarked upon a “Buy Less” campaign. The campaign encouraged consumers to sell their used Patagonia gear on eBay or through Patagonia’s website. However, some analysts think this will actually increase Patagonia sales among those who care about the environment and among those who want to sell their old gear and use the proceeds to purchase new Patagonia products. These campaigns and Patagonia’s environmental consciousness have appeared to pay off: revenue has doubled since 2008. The firm has expanded, albeit more carefully, to 88 global retail outlets and sells its products in other retail establishments such as REI.
PATAGONIA’S PURPOSE AND CORE VALUES

When Patagonia was first developed, Yvon and Malinda agreed that the company would produce only products of the highest quality and manufactured in the most responsible way. The goal of the company would not be to make money but to share a love for the outdoors and create a diversity of products for all facets of outdoor life. Those values continue to govern the business practices of Patagonia. They selected the following mission statement for the company: “Build the best product, cause no unnecessary harm, use business to inspire and implement solutions to the environmental crisis.”

Patagonia strives to live out its mission statement every day. To make its mission into a reality, Patagonia has adopted four core guiding principles for its operations outlined in Table 1.

Table 1: Patagonia’s Four Core Values

<table>
<thead>
<tr>
<th>Quality:</th>
<th>Pursuit of ever-greater quality in everything we do.</th>
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<tr>
<td>Integrity:</td>
<td>Relationships built on integrity and respect.</td>
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<tr>
<td>Environmentalism:</td>
<td>Serve as a catalyst for personal and corporate action.</td>
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<tr>
<td>Not Bound by Convention:</td>
<td>Our success—and much of the fun—lies in developing innovative ways to do things.</td>
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For Patagonia, this means working with friends, hiring self-motivated, intelligent employees, and giving them flexible time to enjoy surfing, climbing, and spending time with their families. Another important value involves finding ways to be responsible by restoring or reusing, which has prompted the company to open retail locations in old buildings that have been restored. After the company nearly went out of business during the 1990s, Yvon Chouinard vowed to never again stray from the core values that he had adopted to develop Patagonia. These values are strongly embedded into all company operations and activities.

PATAGONIA’S LEADERSHIP AND MANAGEMENT STYLE

The headquarters of Patagonia, based out of Ventura, California, are anything but traditional corporate offices. Instead of parking lots full of cars, bicycles and surfboards can be seen lined up outside the building. It is not uncommon the see barefoot employees walking the campus, and the days surf report is posted above the desk at reception. Solar panels, Tibetan prayer flags, and sheds full of rescued or recuperating owls and hawks make this corporate campus unique and unlike any other. Employees can take off during the day to go surfing and eat organic food from the company's café. Patagonia also encourages employees to exercise, offering them areas for yoga or aerobics.
Yvon Chouinard set out to create a company that was proactive in its approach to how business is conducted by embracing a progressive corporate culture. For instance, Patagonia believes that employees should be out enjoying nature or tending their children when sick. Chouinard’s ideas have made the company widely popular with employees and have steered the company toward innovation and success on a global platform. For more than 20 years, Patagonia has been named one of the top 100 best companies by *Working Mother* magazine because of the flexible work hours and in-house child care center available for employees. From its beginnings, Patagonia was crafted as a company of sound ethical standards that would parallel the hopes and dreams of its founders.

Although Yvon Chouinard owns Patagonia, he surrounds himself with talented leaders to help advance the company’s goals. Patagonia also utilizes individuals who are just as passionate about the outdoors. For instance, the company collects insights from what it calls brand ambassadors from different outdoor sports areas, such as fly fishing, alpine climbing, skiing, and trail running. Additionally, Patagonia CEO Casey Sheahan is strongly committed to Patagonia’s vision of environmentalism and used to run the Conservation Alliance, an alliance of businesses co-founded by Patagonia to encourage outdoor firms to donate toward environment causes and organizations. Under his leadership Patagonia has expanded in its ventures to promote sustainable business practices and improve the environment. It also won Corporate Responsibility magazine’s 18th annual Business Ethics award for environmental sustainability. Sheahan was listed as one of the ten most ethical leaders by MBA.com. Patagonia’s leadership has become well-known for ethical conduct and for guiding the company according to its corporate mission and values.

**ORGANIZATIONAL SUCCESS**

The goal of most business strategies is focused on decreasing costs and increasing revenues, thereby allowing for maximum profit growth. In many ways, Patagonia seems to run counter to this supposition. For Patagonia the environment has been the primary focus.

When Yvon Chouinard created Patagonia thirty-five years ago, his goal was to lead by example and focus on core business values rather than bottom line profits. This non-traditional way of doing business has created a revolution in business thinking about the role of corporate social responsibility. The company has become a successful and sustainable privately held organization since its beginnings in 1972. It has been able to maintain average growth rates of 3-8% annually and has annual sales of approximately $540 million. By keeping the company private, Chouinard has been able to make strategic moves that fit his agenda and future goals.

Patagonia promotes the idea that consumers should be buying and consuming less. They hold annual “Tools Conferences” that are designed to educate, motivate, and encourage environmental activists and consumers on how to more effectively advocate for the natural environment. Patagonia not only advocates a simplistic lifestyle through its cutting edge technology in clothing manufacturing and minimalist design, but it markets a simplistic lifestyle through its dedication to sustainability.

Patagonia has led the way in pioneering cutting edge technology for the production of its clothing. Most of the products that were originally produced and sold were made from conventionally grown
cotton. In 1994, the company pushed for a shift to organic cotton when it realized the environmental damages that were incurred during conventional cotton growing. Organic cotton cost 50 to 100 percent more, and suppliers at first were reluctant to make the switch. They were unsure whether customers would be willing to pay a premium price for new products made out of organic cotton. However, resulting sales rose 25 percent.

Despite the establishment of the organic cotton industry, Chouinard was unhappy with the idea that organic cotton was not self-sustaining and could not be recycled or reused. This brought about another organizational shift toward making products that would be completely recyclable and could be produced out of recycled materials. In 1993, Patagonia was the first to introduce fleece made from recycled plastic soda bottles. To date, Patagonia uses a number of more environmentally friendlier fibers, like organic cottons, recycled polyester and nylon, chlorine-free wool, and hemp for the production of a number of its products. These innovations have created an organization built on successful sustainability.

ENVIRONMENTAL INITIATIVES

Over the years, Patagonia has teamed up with other corporations to develop and create initiatives aimed at reducing the environmental footprint businesses leave behind. They have pioneered revolutions in clothing technology development and manufacturing. Patagonia has also been an innovative force in creating programs that deal with the environmental crisis head on, as demonstrated by the initiatives below.

1% FOR THE PLANET:

The organization 1% for the Planet is an alliance of businesses that donate part of their proceeds to environmental organizations to support sustainability and the preservation of the environment. Since 1985 Patagonia has committed to donate 1 percent of its sales to environmental organizations around the world that work to conserve and restore the natural environment. Since it started to support 1% for the Planet, Patagonia has contributed more than $46 million in donations. Yvon Chouinard has also partnered with other likeminded entrepreneurs to create a nonprofit that encourages other companies to join the initiative.

COMMON THREADS INITIATIVE:

This initiative embraces the concept of "Reduce, Repair, Reuse, Recycle, Reimagine." The Common Threads Initiative is a partnership with Patagonia and their customers to buy and use clothes more sustainably. Patagonia's ultimate aim is to close the loop on the lifecycle of its products. As mentioned earlier with Patagonia's "Buy Less" campaign, the firm encourages customers to buy less, including refusing to buy from Patagonia products that they do not need. To reduce the amount of products that customers do purchase from Patagonia, the company seeks to make quality products that will last a long time. Patagonia also posts advice on its website for consumers on how to take care of problems with their clothes so they will not have to be thrown away, such as ways to get rid of stains.
The second part of the process involves repairing products. Patagonia offers to repair products for free if it appears that Patagonia is responsible for the need. If not, Patagonia offers to repair the product at a “fair price” and tries to have the product back to the consumer in 10 business days. Next, Patagonia encourages users who no longer want their products to donate them to a charity or sell them. Patagonia offers consumers the ability to sell their products through their Common Threads website or through eBay. However, if the product is worn out, then Patagonia will take the product and recycle it into something else. Since 2005 Patagonia has turned 34 tons of recycled clothes into new clothes. Finally, Patagonia urges its stakeholders to reimagine a world where goods are only purchased when nature can replace them. By engaging in the Common Threads Initiative, Patagonia hopes to create a closed loop system in which its products never end up in a landfill.

CONSERVATION ALLIANCE:

The Conservation Alliance was co-founded by Patagonia in 1989. The purpose of the Conservation Alliance is to encourage businesses in the outdoor industry to contribute to environmental organizations. Throughout the years the Conservation Alliance has grown beyond its four founders to include over 170 businesses. The Conservation Alliance donated $900,000 in 2010. Patagonia remains actively involved with the Conservation Alliance and maintains a seat of the board.

BLUESIGN® STANDARD:

Patagonia is currently working with bluesign® technologies in its quest to reduce resource consumption. For those resources that cannot be reduced, bluesign helps Patagonia to use more sustainable resources that will have less of a negative impact on the environment. Those who work with bluesign must adhere to a set of rigorous standards, and bluesign will audit its partners—including Patagonia—to determine how many of their processes meet these standards. Bluesign standards for improvement cover five areas: resource productivity, consumer safety, water emissions, air emissions, and occupational health. To demonstrate their commitment, bluesign partners must adopt management systems to improve their performance in these areas.

Some of the more environmentally damaging and unhealthy aspects of the textile industry are the chemicals used in the process. Bluesign has included three color coded categories for chemicals such as dyes: blue for “safe” chemicals, gray for those requiring special handling, and black for “forbidden” chemicals. The goal is to totally eliminate these “black” chemicals through the adoption of alternative chemicals or processes. So far Patagonia has 16 percent of its products that qualify as “bluesign-approved fabrics,” with the goal to increase this to 100 percent by 2015.

CONSERVACIÓN PATAGONIA

Conservación Patagonia is an effort by Patagonia employees to create a national park in South America. Some Patagonia employees have traveled to South America to aid in the construction of this national park. Employees have engaged in activities such as trail construction and the restoration of the park’s grasslands. This provides them with direct experience in helping to
restore and preserve the environment—the very goals that Patagonia itself embraces. The park is estimated to be about 650,000 acres upon completion.

PATAGONIA PROVISIONS

Yvon Chouinard continues to remain proactive not only in addressing Patagonia’s goals but also in including other businesses and stakeholders in the company’s environmental vision. One of the firm’s more recent ventures includes Patagonia Provisions. In this initiative, Patagonia partners with First Nation fishermen in British Columbia to offer sustainable Pacific smoked salmon and jerky products.

Patagonia embarked upon this initiative to combat the unsustainable harvesting of salmon populations. While farmed salmon seems like a viable alternative, the chemicals and pollution at these farms concerned Patagonia founder Yvon Chouinard. Inspired by Patagonia’s earlier quest to source sustainable cotton, the firm began investigating ways to offer salmon that was not only sustainably sourced but also healthier. The company partnered with fish conservation program Skeena Wild to look into sustainable sourcing techniques, identifying many native practices from First Nation peoples that appeared to be the most sustainable. The resulting fish processing plant in British Columbia actively partners with nonprofit conservation organizations to ensure sustainable fishing practices. The firm also investigated ways of smoking the salmon to create quality salmon jerky. With this new venture, Patagonia hopes to be profitable, sustainable, and influential toward other companies looking to pursue similar practices in preserving and restoring the environment.

OTHER INITIATIVES

Patagonia has also invested in a number of other initiatives spanning from supply chain tracking to responsible water consumption. One of Patagonia’s major goals with these environmental initiatives is to get other stakeholders involved in the common mission of environmental protection and appreciation. The following are some of Patagonia’s other projects:

- **Patagonia Music Collective**: Patagonia partnered with musicians to create the Patagonia Music Collective. This partnership sells “benefit tracks” on iTunes for 99 cents. All proceeds are donated to environmental causes.
- **The Footprint Chronicles**: Patagonia provides an interactive site that enables users to track the environmental impact of certain Patagonia products throughout the supply chain from design through delivery.
- **Our Common Waters**: This campaign seeks to educate stakeholders about the growing crisis of water consumption. As the demand for water grows among the human population, businesses will have to do a better job of conserving these critical resources. Patagonia is investigating the amount of water it consumes to find ways to reduce its water footprint.
- **Voice Your Choice**: Voice Your Choice gets consumers involved in determining to which environmental organizations Patagonia should donate money. Each store is provided with $5,000 to distribute to three environmental organizations. Store customers can then vote on
the top three. The winning store receives $2,500, the second winner receives $1,500, and the third receives $1,000.

**CORPORATE SOCIAL RESPONSIBILITY**

Large corporations have huge impacts on society. Because of this, stakeholders are increasingly expecting large organizations to fulfill social responsibilities for each stakeholder group. Patagonia has always had a focus on satisfying the stakeholders of the community by producing products made from eco-friendly materials. Along with producing environmentally friendly products, the company has increased its efforts to host and sponsor environmental initiatives throughout the years. It has participated in and sponsored events ranging from promoting wildlife corridors to combating genetic engineering.

In addition to satisfying stakeholder groups throughout the community, Patagonia also focuses on satisfying its employees. As described earlier, Patagonia believes in a work/life balance philosophy. Due to this strong relationship with its workforce, the company has a 25 percent turnover rate compared to the industry average of 43.8 percent. Patagonia averages nine hundred applications per job opening, providing it with the opportunity to hire the best talent.

Patagonia also works with factories to ensure that its products are being produced in alignment with Patagonia’s corporate values and environmental integrity. In 1990 Patagonia developed the Contractor Relationship Assessment, a scorecard used to rate a factory's performance. To ensure objectivity, Patagonia also uses third party auditors to determine whether suppliers are working in compliance with Patagonia standards, including working conditions and human rights. In 1996, Patagonia became a founding member of FLA (Fair Labor Association), which conducts audits and training on factory conditions. While Patagonia temporarily dropped out of the FLA, it later rejoined the organization. In 2007 the firm joined the Fair Factory Clearinghouse (FLC), which is a database that helps Patagonia collect and manage supplier data that deals with social and environmental issues. This information is shared with other firms in Patagonia’s industry and can help establish benchmarks for best practices.

Patagonia also joined the Joint Initiative on Corporate Accountability and Workers Rights (JO-IN) in 2004. JO-IN is a collaboration between organizations such as the Ethical Trading Initiative and the Fair Labor Association. Its purpose is three-fold. First, it wants to improve labor conditions by investigating ways to increase the effectiveness of different stakeholder approaches in the development and enforcement of codes of conduct. Secondly, it aims to increase cooperation between organizations on global supplier ethical practices. Finally, it seeks to increase awareness of how these codes can better the workplace conditions at global factories. Patagonia took the strategies it learned from this collaboration and tested them on one of its factory suppliers in Turkey. Initial results implied that the factory's conditions were improving. This collaboration into best practices for global supplier codes of conduct and enforcement can help Patagonia manage the ethical conduct of its many suppliers.

When deciding whether to open a new factory, Patagonia’s Social/Environmental Responsibility (SER) department collaborates with its Sourcing and Quality departments to determine whether a
certain factory would be a good fit for Patagonia. Patagonia places so much importance on ensuring social and environmental responsibility that the director of the SER department has the power to veto a potential factory location if he or she believes the factory is not in compliance with Patagonia’s CSR goals or regulations. Patagonia has also developed a Workplace Code of Conduct that is based upon standards found in the International Labor Organization.

Finally, Patagonia regularly audits its factories. It audited 90 percent of the factories it uses in 2010. It also scores factories based on how they measure up to social responsibility and environmental goals. For its materials suppliers such as mills, Patagonia has Environmental Health and Safety requirements as well as a Raw Materials Social Responsibility program. Under this program, Patagonia’s materials suppliers must audit their factories to measure whether they are in compliance with safety, social responsibility, and environmental criteria as well as areas of improvement. By raising the bar for social and environmental responsibility among its suppliers and factories, Patagonia is attempting to incorporate corporate social responsibility among all of its stakeholders.

**WHAT THE FUTURE HOLDS FOR PATAGONIA**

Patagonia shows no signs of slowing down, and neither does Yvon Chouinard. The company remains dedicated to advancing environmental awareness among businesses—even if it entails partnering with some unlikely companies. For instance, Patagonia partnered with Walmart and Adidas to form the Sustainable Apparel Coalition. This was not the first time Patagonia worked with Walmart; it had partnered with the firm in 2009 to collaborate on a sustainability assessment tool that would help Walmart monitor the sustainability of its supply chain. The Sustainable Apparel Coalition (SAC) is a broader alliance of companies that will create an index to measure sustainability criteria in business supply chains such as energy use and work conditions. The SAC is also creating an index called the Higg Index to measure the sustainability of apparel based upon the materials and processes used. Patagonia realizes that to create lasting change, it must not only improve its sustainability operations but also assist in helping other businesses learn how to reduce their impact on the environment.

Chouinard continues to see himself as an innovator rather than just an inventor. Under his influence and the influence of company leaders such as CEO Casey Sheahan, Patagonia seeks to make a difference and create a revolution in how businesses view sustainability. Rather than taking from the environment, the goal for Patagonia is to educate consumers and businesses about how they can help to preserve it.

Ironically, this vision was reinforced during the 1990s when Patagonia almost went out of business due to rapid expansion. According to Chouinard, keeping the firm in business meant reexamining the firm’s values. The company came out of the crisis stronger and more dedicated to making a positive impact in both the environmental and the business realms. Patagonia demonstrates how strong corporate values and ethical leadership can create a company that is both successful and a role model for those who desire to make a positive difference.
QUESTIONS

1. Describe how Patagonia acts out its four core values?
2. How has Patagonia been able to promote sustainability among other businesses?
3. Do you think it is beneficial in the long-term for Patagonia to branch out into ventures other than apparel? How has it been able to align initiatives such as Patagonia Provisions with its core values?

Sources
Patagonia, Patagonia and Corporate Social Responsibility (Patagonia Inc., 2007).