

Compatibility Between Business and the Environment: Examples from a case  
study of Patagonia

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## Abstract:

A relatively new concept, corporate environmentalism refers to the action corporations are taking to become more conscience of their environmental impacts. Using a case study of the company Patagonia, the dual motivations that exist for it and other companies to adopt more environmentally friendly policies are used to argue that environmental responsibility in business is possible. These motivations are values and beliefs held by those inside a company and financial gains found in corporate sustainability. Although there still exist many barriers, such as financial markets, lacking consumer education, and global complexity, businesses are taking steps to overcome these obstacles. The momentum companies are gaining once again illustrates that not only can sustainable business exist, but that it is becoming an imperative.

## Introduction

Global resources are being depleted at an alarming rate: between 1990 and 2010, the world's forests decreased from 19 million hectares to 13 million, the rate of water withdrawal has tripled in the last 50 years (Grossman, 2013, p. 9), and species are going extinct at much higher rates than historically recorded (Shogren et al, 1999, p. 1258). Pollutants are being released into the air and water at unprecedented levels. Toxic chemicals can now be found in 90 percent of the water of Earth. Evidence is amassing that greenhouse gas emissions are changing our climate, leading to loss in the cover of sea ice and increased frequency and intensity of extreme weather (Grossman, 2013, p. 9). These negative environmental impacts are not only bad for the physical environment, but are costly to address. The top 100 biggest environmental impacts are calculated to cost the global economy 4.7 trillion dollars per year (Truecost, 2013).

Due to the fact that many of these impacts are the result of industrialization, and in turn business operations, businesses are being called on to take a look at their practices and reduce their impact on the environment. Many global environmental problems can be traced back to corporations not taking responsibility for the full impacts of their activities, from the resources they use, through the manufacturing process, to the way they deliver their products to consumers (Dumett, 2006). The urgency is increasing as global production and consumption are expected to quadruple by 2030 (Smith, 2013). These facts reveal the need for companies to create more sustainable products and systems to lessen their negative environmental impact, as business actions have large implications for the future of the natural world.

There is increasing recognition in the business community and in society that an environmental crisis exists and that companies may be able to mitigate some of the problems in their practices. This recognition has come about due to a shift in awareness of environmental issues and a change in the social expectations of business. Historically, a firm's main objective was to maximize profits to its shareholders (Lioui and Sharma, 2012). Today, there is a growing consensus that corporations have obligations to all stakeholders in society, which can be extended to include the natural environment in which we live (Hilson, 2012; Clapp, 2005). Although this transition is not taking place in all businesses, it is reflected in the growing commitment that corporations are making to be more transparent about their actions. By 2004, 68 percent of the global 250 companies were releasing a separate sustainability report (Bhaduri and Ha-Brookshire, 2011). This transition is also visible in the increasing number of systems ranking corporations on their sustainability achievements, such as Newsweek's Green Rankings and Corporate Knights Global 100 Most Sustainable Corporations in the world.

Altering the practices of multinational companies like McDonalds and Wal-Mart could have major global impacts, as the reach and scale of these companies extends into almost every country on the planet (Price, 2006). Big businesses may have big

effects on society and the environment, which is why it is important to look at business practices. Some even believe that business is the only institution with a large enough reach and resource base to lead society towards the goal of sustainability (Anderson, 2009; Fisk, 2010).

This paper will discuss the question of whether or not businesses and sustainability are compatible using the company Patagonia as a case study. The multiple motivations that exist for the company to adopt sustainability into business practices, including both social values and economic benefit, are used to argue that business and sustainability can coexist. There are many barriers that companies still face in becoming more environmentally friendly, such as a lack of consumer education, the constraints of financial markets, and the political complexity of global business. These barriers could be used to argue that the sustainability and business are mutually exclusive ideas. However, Patagonia demonstrates that companies are taking steps to overcome these barriers and create a future where sustainable business will become the norm.

## **The Emergence of Corporate Environmentalism**

### *Development of terminology*

The terms corporate environmentalism, corporate greening, sustainable business, and corporate environmental responsibility have all developed to refer to the same basic idea, and are used in this paper interchangeably. Corporate environmentalism relates to the term sustainable development, commonly defined as “satisfying a national economy’s need for natural resources, while sustaining access to these supplies without compromising their use by coming generations” (Luke, 2013, p. 84). The concept was first applied to business in the mid-1980 in management and operations literature, but did not gain popularity until the 2000s (Bhaduri and Ha-Brookshire, 2011; Smith, 2013). The increase in the popularity of the concept is reflected in the number of attendees at the United States Green Building Council. In 1995, there were 135 people in the audience. By 2005, the audience had increased to 12,000 people (Anderson, 2009).

Due to the numerous terms used when relating the idea of sustainable development to business, there are a number of different definitions. These definitions all incorporate ideas of businesses creating plans to create more sustainable products and processes, as well as providing greater transparency to a larger group of stakeholders (Metta and Badurdeen, 2013; Sindhi and Kumar, 2012; Worthington, 2012). Environmental issues that businesses are beginning to address relate to management of greenhouse gas emissions, stakeholder engagement, environmental audits, recycling, waste management, and product innovation (Walker and Wan, 2012). Environmental regulations are often lacking in reference to these problems, so dealing with these issues is usually voluntary, going beyond basic compliance with the law in an attempt to mitigate environmental impacts of operations (Sindi and Kumar, 2012).

### *The theoretical framing of corporate environmentalism*

The theory of the triple bottom line is one of the main frameworks for looking at business and sustainability as relatable terms. The triple bottom line refers to people, planet, and profits, suggesting that a company faces no trade off between increasing environmental or social responsibility and financial improvement. This is due to the fact that economic success, environmental protection and societal well-being are all closely linked (Kim and Statman, 2012; Metta and Badurdeen 2013). This theory posits that a firm that invests in the environment will gain economically and environmentally at the same.

Triple bottom line theory is closely related to shared value theory. Shared value refers to the belief that social and economic value are linked, and therefore corporations can increase social value and make a profit at the same time because the two are so intertwined. Overlooking social aspects such as the well-being of consumers, status of natural resources, and viability of suppliers will only cause profit loss in the long run (Porter and Kramer, 2011). Shared value asserts that the typical approach of businesses only existing to generate a profit is outdated. Instead, it proposes the idea that profits and social improvement can be achieved simultaneously. This is sometimes referred to as a double dividend or win-win outcome (Preuss, 2001).

The natural resource view of the firm is similar to the previously mentioned theories but goes further in depth. It is based on a resource view of the firm, which maintains that a firm is constrained by its resource base, including aspects such as firm size, finances, or employees. In the natural resource approach, this base is extended to include resources in the natural environment such as trees, metals, or water (Worthington, 2012). This view states that the natural resources on our planet constrain businesses and as these resources continue to be depleted firms will need to incorporate methods to sustain them in order to stay competitive (Fowler and Hope 2007; Worthington, 2012). Arguing that firms can gain a competitive advantage by incorporating sustainability into their business plan is an extension of the view that business and sustainability are compatible. The natural resources view could also be used to argue that it is becoming increasingly important to bring the two together as the availability of resources in the world continues to decrease (Chouniard, 2011).

Shareholder theory, on the other hand, is a traditional business theory from economists like Reich and Friedman. It is used to frame arguments against corporate environmentalism. It holds that a businesses' only obligation is to generate profit for those that hold stock in the company, and that investing in the environment will only take away from corporate profits (Kim and Statman, 2012; Porter and Kramer, 2011). According to this theory, the easiest way to make more money is to externalize as many costs as possible, and a firm that invests in the environment is acting against the concern of their stakeholders (Worthington,

2012). Therefore, it does not view business and environmental protection as compatible concepts.

The pluralist consideration of social goods is another theory to frame arguments against sustainable business, but for very different reasons than shareholder theory. It argues that the term sustainable is corrupted when applied to concepts like business and development. Combined terms such as sustainable business and sustainable development are a compromise between the ideals of development and sustainability. In this case, the idea of sustainability is compromised to align with the interests of the corporation rather than the environment (Nyberg and Wright, 2013). Rhetoric about businesses adopting environmentally friendly practices is not aimed at preservation of the Earth, but rather the preservation of business. This ultimately leads to a weak adoption of sustainability, which is defined as society believing it can still participate in accumulation of goods and capital while presuming that natural resources will always exist (Luke, 2013, p. 85). Strong sustainability, on the other hand, is the idea that man-made capital cannot be a replacement for the value of natural resources (Luke, 2013, p. 85). Ambiguous terms such as, 'sustainable plastic sales,' 'sustainable herbicide utilization,' and 'sustainable asphalt production' are all examples of the word sustainability being corrupted in this framework (Luke, 2013, p. 85).

A democratic framework of corporate environmentalism argues that corporations already have too much power and influence and operation outside of democratic processes (Reinhardt et al, 2008). From this viewpoint, corporations do not undergo the same process as governments, which incorporate civil society into decision-making. Therefore, corporations should not be able to make decisions for society (Reinhardt et al, 2008).

### **What does a sustainable business look like? A case study of Patagonia**

#### *Company History*

Patagonia is a well-distinguished brand when it comes to sustainability. Founded by Yvon Chouinard, who began making climbing gear in the 1960s and then later transitioned to outdoor clothing, the company is one of the earliest pioneers of corporate environmentalism (Fisk, 2010, Fowler and Hope, 2007). Patagonia is based in Ventura, California, and has a domestic presence and market in the US, Japan and Europe (Chouinard, 2005; McSpirt, 1998). The company has 1,350 employees and annual revenue of 540 million dollars (Welch, 2013). It sources materials and manufactures products in countries all over the world, including Argentina, China, Ecuador, Italy, Taiwan, Thailand, and the United States (Patagonia, 2013). The company's development has been marked by the values and beliefs of its founder, Chouinard, an avid outdoorsmen. Chouinard has written two books and many essays about his beliefs and values and the direction taken by Patagonia throughout the years. These values have been a cornerstone for Patagonia's development, and can be seen in the initiatives undertaken by Patagonia to incorporate sustainability into its business model.

Having spent a considerable amount of time outdoors, Chouinard has always been mindful about the environment. His dissatisfaction with the advancement of rock climbing technologies that caused harm to the rocks is one reason he made the transition from making climbing equipment under the name of Chouinard Equipment to producing clothing under Patagonia (Chouinard, 2005). As Patagonia continued to grow, he became aware of the environmental impact of his company and began to look deeper into the company operations. Self-education about the environmental impacts of the company's production is a continuous process for Patagonia. The company continues to learn more about its environmental impact and uses the knowledge it has gained to help other companies follow suit. All of these values are reflected in the company's mission statement, which is, "to build the best product, cause no unnecessary harm, and use business to inspire and implement solutions to the environmental crisis" (Patagonia, 2013).

### *The Dark Side of the Apparel Industry*

The apparel industry is arguably the most global industry in the world, with the production of a single item of clothing taking place in multiple countries (Bhaduri and Ha-Brookshire, 2011). The process that a product undergoes from raw material to finished good is referred to as a supply chain (Crandall, 2006). The steps in these chains can include farmers, chemical manufacturers, dye houses, fabric mills, sewing factories, trucking companies, and shipping brokers, to name a few (Dickenson et al, 2012). Supply chains have become longer and more complicated as global competition has created pressure for companies to locate different parts of their production in varying locations around the globe (Huang et al, 2012; McSpirit, 1998, Vogel, 2010). Patagonia, for example, has 500 people on its payroll, while 10,000 people could have worked on a Patagonia product during its journey through the complex supply chain (Chouinard and Stanley, 2012 p. 54).

The extent and complexity of supply chains make them a large contributor to the environmental impacts associated with the apparel industry<sup>1</sup>. The complexity also makes them difficult to monitor and manage. Wal-Mart realized after an environmental assessment that only 10 percent of its environmental impacts was coming from store operations, while the remaining 90 percent was due to activities in its supply chain (Chouinard and Stanley, 2012 p. 87). The greatest environmental impacts from supply chains are the use of harmful materials and processes, and the necessity of transport over long distances.

Two of the most common materials in clothing are made from very environmentally damaging substances. One is polyester, which is made from petroleum and is non-biodegradable (Claudio, 2007). Another is cotton, which when grown conventionally requires copious amounts of chemicals. Chemicals are used when growing cotton to prepare the soil, fertilize the crops, and kill pests. In the United

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<sup>1</sup> Interview with Andreas Udby. Business Professor at University of Puget Sound.  
10/14/13

States, pesticides used on cotton crops account for a quarter of the total amount of pesticides used in the country (Claudio, 2007). When rainwater full of pesticides runs from cotton fields into rivers and oceans, it creates dead zones where no animals or plants can survive (Chouinard and Stanley, 2012).

Textile manufacturing, which turns the raw material into a finished product, is associated with generating large quantities of hazardous waste byproducts such as untreated wastewater (Claudio, 2007). This is known to be one of the leading causes of freshwater pollution. The Pearl River, for example, flows into the South China Sea and now runs indigo due to the discharge of wastewater from blue jean factories upstream in Xingtang, China (Chouinard and Standley, 2012).

Long supply chains, in which a product must stop many places, result in products traveling over long distances and generating large amounts of greenhouse gas emissions. A Patagonia polo shirt, for example, generates 21 pounds of carbon dioxide during its travel from a crop in a farmer's field to a finished product in a warehouse (Chouinard and Stanley, 2012). These emissions add up, reflected in the fact that the atmospheric concentration of carbon dioxide has reached its highest level in 600,000 years. Many of the garments created through these long and dirty processes ultimately end up in the landfill, which is a further environmental impact. Clothing represents four percent of solid waste in the United States (Claudio, 2007). These dirty products and processes often go unseen because they take place so far from the eyes of consumers. However, companies are starting to acknowledge these impacts and address how they can make changes to alleviate them.

#### *What Patagonia is doing to limit its environmental impacts*

Chouinard has been addressing the environmental impacts of his company for a long time. In 1991, the company began a life-cycle analysis of the four main materials used in its products to fully understand the environmental impact at each step in the production process. It has completed this analysis for 150 of its most popular products, which represent 80 percent of Patagonia's sales (Chouinard and Stanley, 2012). The findings from this study were eye-opening for the company and prompted it to reevaluate the materials and processes it was using.

The company now tries to embed environmental concerns into many aspects of its practices, from how employees get to work each day to what happens to Patagonia products after use. The production process begins with what supplies are used in each product and where they come from. In 1996, the company decided to switch to use of organic cotton rather than conventional cotton. This had many environmental benefits, one of which is 20,000 liters of water saved per kilogram of cotton (Claudio, 2007). To get a better understanding of where supplies were coming from, the company reduced the number of factories in its supply chain by one-third (Chouinard, 2005). This enabled better communication and improved the company's ability to oversee production, which allowed Patagonia to make sure

all the factories making its products were meeting the same environmental standards.

In 1993 Patagonia became the first company to make fleece from post consumer plastic soda bottles. This has saved 86 million plastic bottles from the landfill over 13 years and has reduced the need for fleece made from petroleum-based polyester (The Footprint Chronicles, 2013). Patagonia is also working to change what happens to a product after a consumer is through using it to reduce the amount of clothing that ends up in the landfill. In 2011, it developed the Worn Wear program, which allows customers to return all Patagonia products for recycling. It has also collaborated with eBay to encourage customers to sell used products online rather than throw them away (Chouinard and Stanley, 2012).

Patagonia is not the only company making changes like this. Companies of all shapes and sizes are addressing their environmental impact, which shows that corporate environmentalism is not an isolated trend. Wal-Mart, a company that is the polar opposite of Patagonia, has also been making many changes to address its environmental impacts. In comparison to Patagonia's annual revenue of \$540 million, Wal-Mart is the world's largest corporation with annual revenue of \$400 billion (Chouinard and Stanley, 2012; Fisk, 2010). In the past, Wal-Mart was focused on selling goods at the lowest price. It has now shifted its goals to include commitments to using renewable energy, creating zero waste, and selling products made from sustainable natural resources (Fisk, 2010). As a result of these new objectives, Wal-Mart now boasts the world's largest low-idling truck fleet, (Chouinard and Stanley, 2012), and has become the world's largest buyer of organic cotton (Claudio, 2007).

Other large, multinational companies are also addressing their environmental impacts. Coca-Cola, Kellogg and DuPont are currently working together on an initiative to develop material-neutral packaging. This could have tremendous environmental impacts, as a third of all waste is a result of packaging (Chouinard and Stanley, 2012). That such a diverse array of companies have begun to address their impact on the environment shows that they believe sustainable business to be possible and profitable.

### **The dual motivations for corporate environmentalism**

There are two primary motivations cited in the literature and reflected in the experience of Patagonia that exist for companies to adopt sustainability into their practices. These factors can be broken into social and economic motivations. Socially, the values and organization of a company are a large motive for incorporating environmental concerns into business. Economically, sustainable initiatives have created savings and increased profits for Patagonia and other companies. The variety of motives is beneficial, as different companies may undertake corporate environmentalism for different reasons. They show that companies benefit in multiple and diverse ways from addressing their

environmental impacts, which supports the argument that business and sustainability are compatible. The complementing social and economic motivations also support theoretical frameworks of shared value and the triple bottom line, which hold that social and economic goals are achievable in business.

### *Values and beliefs*

One of the primary motivations that have led Patagonia to adopt its sustainable practices is the values and beliefs held by founder Yvon Chouinard and found throughout the company. The values of top management have been cited as a motivator for corporate environmentalism by different authors. These scholars argue that stronger environmental values, such as the belief that firms have a moral obligation to protect the environment (Worthington, 2012), the belief that firms have to do the right thing for society (Cetindamar and Husoy, 2007; Sharfman et al 2009), or the belief in ecological responsibility (Dangelico and Devashish, 2010), will lead to more proactive management and stronger incorporation of environmental protection into business practices. If these values are found in the leadership of the company, such as in the founder or CEO, the company can be more successful in incorporating values into business practices (Borial, 2012; Sindhi and Kumar, 2012; Uecker-Mercado and Walker, 2012 Walker et al. 2008).

The values of Chouinard can be seen clearly in all aspects of Patagonia's operations. Chouinard has written two books and many essays discussing his beliefs and how he tries to incorporate them into his business. In his book, 'Let My People go Surfing, The Education of a Reluctant Businessman,' he discusses how he works to instill values from his experiences in the outdoors and study of Zen philosophy into the company's daily practices (Chouinard, 2005). He maintains that he never wanted to be a businessman, but now that he has become one, he feels a responsibility to use the resources he has to help improve the world, whether that be through the company's donation of money to environmental conservation and activist groups, or in trying to create a model for improving the environment in which other businesses can follow.

Chouinard has also worked to assimilate his values into all levels of employment at Patagonia. This is cited in environmental management literature as an important component of the ability of a company to pursue environmental operations. Just as the values of leadership are important, so are the values of members of the organization at different levels, as they are often the ones carrying out daily tasks (Dummett, 2006; Preuss, 2001; Sindhi and Kumar, 2012). Patagonia has made a point of hiring employees that hold similar beliefs and values. Not every employee does a job specifically aimed at reducing the environmental impact of the company, but employees that may not be as connected to the environment are encouraged to support other causes they feel strongly about.<sup>2</sup> Employees are able to take paid time off to volunteer with nonprofit organizations, encouraged to donate to non-profit

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<sup>2</sup> Interview with Elissa Longman, Environmental Analyst for Patagonia. 11/8/13.

organizations and given a subsidy to purchase hybrid vehicles (Chouinard, 2005). This encouragement and dispersal of values is important to Patagonia's ability to incorporate environmental initiatives at all levels of its operations because every employee understands and can help carry out programs in this area.

Along with the shared values held by the management and employees, the organizational culture existing in a company has important implications for the ability to adopt innovative measures that are important in the creation of environmental policies (Sharfman et al, 2009; Uecker-Mercado, 2012). Chouinard has created a flexible organizational structure where employees can suggest ideas or question current practices (Chouinard, 2005). He prefers to manage the firm through a style he refers to as MBA, or management by absence (Chouinard, 2005). He would rather be out of the office testing the quality of his products instead of in the office overseeing operations, and therefore selects employees that are capable of thinking and problem solving on their own (Chouinard, 2005). He has tried to create a flexible employee culture by allowing adaptable work hours that enable employees to surf or ski and, as well as not enforcing a dress code (Chouinard, 2005). This culture further assists in creating an organization structure that embraces environmentally minded employees and employees willing to create innovative environmental policies.

The dispersal of values and beliefs in Patagonia has motivated the company to pursue many environmental initiatives over the years because the employees believe it is the right thing to do for society and the environment. Elissa Loughman, Environmental Analyst for Patagonia says, "Once you know the impact of a product, you have to fix it."<sup>3</sup> These values can be seen in initiatives such as the different educational campaigns the company takes on each year and cases when it has cut into profit to donate money or make more environmentally friendly products.

Each year Patagonia takes a contemporary issue and develops a campaign around it in order to educate its customers about environmental problems. Through essays published in the company catalog, on the website, and information presented in stores, Patagonia uses its resources to educate the public about the environment (Ridgeway, 2013). Examples of past campaigns are 'Our Common Waters,' educating people about problems effecting the availability of freshwater on the planet and 'Vote for the Environment,' which worked to get customers out to vote and to consider the environment in their choices (Patagonia Campaign Archives 2013).

The current campaign Patagonia has taken on is called 'The Responsible Economy.' Through essays written by Chouinard and Rick Ridgeway, the head of the company's environmental department, Patagonia is addressing the problem of an economy lead by growth (Ridgeway 2013). As part of this campaign, the company released a video on Black Friday titled "Worn Wear," with stories from some of the company's

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<sup>3</sup> Interview, 11/8/13.

ambassadors sharing how they have gotten the most out of their gear. The company also released repair guides for Patagonia clothing through iFixit and offered in-store assistance for repair at 15 locations to encourage people to make their clothing last rather than purchasing new items (Maheshwari, 2013). These campaigns reflect the values and beliefs of Patagonia, its founder, and its employees. It also shows how it is working to make environmental values increasingly common in society.

The strong environmental values held by the company are also revealed through the dedication Patagonia has shown to supporting nonprofit organizations over the years. In 1985, the company decided to pledge one percent of sales to organizations working to preserve and restore the environment. In 2002, it turned this program into a non-profit corporation called 1% for the Planet, which allows other companies to make the same pledge. These companies now total more than 1,200, and together have donated more than 100 million dollars (1% For The Planet 2013). The causes Patagonia supports are often controversial and not supported by all customers. However, Chouinard maintains that he would not change his support for these issues just to maintain business (McSpirit, 1998). The donations are not given in hopes of enhancing the company's reputation, but to support causes they believe in.

Finally, environmental values are evident in decisions Patagonia has made about its products over the years. After becoming aware of the harmful impacts of conventional cotton, it made the switch to organic cotton in 2006 (Casadesus-Masanell et al, 2009). Organic cotton was in limited supply, which made it 50-100 percent more expensive than conventional cotton (McSpirit, 1998). In order to reduce the price increase that would be felt by customers, Patagonia capped the increase at two percent and then cut into its profit margin (Fisk, 2010). The company made the switch because it values the benefits of using less water and pesticides to produce organic cotton. It was willing to reduce profits to make this change because of the belief that it was the right thing to do.

The beliefs that have influenced Chouinard and employees inside Patagonia are becoming more prevalent in society and in other companies as the general public becomes more educated about the degraded status of the environment. This increase in awareness is leading those operating in the business world to take responsibility for the environmental impact of corporate activity and operations in supply chains. It is becoming increasingly common for businesses to have separate sustainability departments and to issue sustainability reports, exemplifying the increasing pervasiveness of environmental values in business.<sup>4</sup>

There are many other examples of companies where sustainability initiatives have stemmed from environmental values besides Patagonia. Another instance is the carpet company Interface. Carpet is a petroleum-based product, which means that it

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<sup>4</sup> Interview with Keith Miller. Corporate Sustainability Manager for the 3M Company. 11/4/13.

is typically a resource intense and environmentally damaging product. Ray Anderson, founder of Interface, was unaware of the environmental impacts of his company until he had what he refers to as an epiphany. After reading Paul Hawken's book 'The Ecology of Commerce,' Anderson realized how harmful his business was to the environment and decided he was going to change that (Anderson, 2009, p. 13). As a result of his declaration, Interface has undergone an impressive transformation. Since 1994 it has cut greenhouse gas emissions by 71 percent, reduced waste by 66 percent, and decreased water use by 75 percent (Anderson, 2009, p. 246). All these initiatives originated from the values and beliefs held by Anderson.

### *Financial benefits*

Although environmental values are becoming more standard in society and in business, they are not always enough to motivate companies to change their ways. Financial benefits are another incentive that companies have. Making changes that are advantageous for the environment has also turned out to be economically beneficial for corporations, evidence that the theories of triple bottom line and shared value are true and sustainability in business is possible. Patagonia, as well as other companies that have adopted environmental initiatives, have benefited economically from cost savings, increased sales, and improved performance. Chouinard claims that every step he has taken for the environment, even if costly at first, has turned out to be more profitable for the company in the long term (Chouinard, 2005). Examples of environmental initiatives cited in the literature that cut costs are reducing waste, (Walker et al, 2008), cutting down on packaging (Lioui and Sharma, 2012), preventing pollution that may require costly clean-up (Lioui and Sharma, 2012; Walker, 2012), and using cleaner energy (Crandall, 2006).

One example of an initiative to reduce waste was Patagonia's removal of packaging for thermal underwear. This ended up saving twelve tons of packaging materials from ending up in the garbage, while at the same time saving the company \$150,000 dollars (Chouinard, 2005). Other companies have found cost savings in environmental initiatives as well. Ray Anderson, founder of Interface, claims his sustainability program paid for itself because of the cost savings it created. He cites \$450 million dollars saved by eliminating waste throughout the company (Anderson, 2009, p 246). Wal-Mart, in addition, sees sustainability as making good business sense. By switching to renewable energy, the company believes it will save financially as energy costs increase. These examples support the theory of the natural resource view of the firm, as companies are benefitting by using resources more sustainably.

A second financial benefit cited by Patagonia is increased sales found through an enhanced reputation. Incorporating environmental initiatives may be a way to protect a company's reputation in the eyes of stakeholders (Dummett, 2006; Huang et al, 2012). An improved image is believed to help gain legitimacy with stakeholders, as well as enhance competitiveness (Dangelico and Devashish, 2010;

Worthington, 2012). A benefit of a more positive reputation is loyalty from customers. Chouinard writes that during the 2008 recession, Patagonia and the top five companies that were part of 1% For The Planet reported record sales despite the economic downturn. He accredits this to the fact that because customers were buying less, they were only buying from companies they trusted (Chouinard and Stanley, 2012). Therefore, companies with an enhanced reputation from sustainability initiatives receive financial benefits in the form of more loyal customers.

Finally, Patagonia has gained financially through the implementation of environmental policies due to improved performance and efficiency. The literature argues that environmental policies often require increased coordination and communication in supply chains, which benefits both the environment and a company's organizational process simultaneously. Scholars also argue that environmental policies can facilitate enhanced employee training and communication (Borial, 2007). Further, it is alleged that environmental policies require increased innovation, which may lead to improved production and efficiency in all aspects of business (Lioui and Sharma, 2012)

Patagonia exemplifies this benefit in the steps it has taken to make its supply chain more sustainable. To ensure the environmental quality of its products, the company chose to reduce the number of its suppliers so it could keep better track of conditions and procedures at each facility (Binns, 2011). In 2007, the company reduced its suppliers from 108 to 45 (Patagonia, 2013, Para. 8). Although the original goal was to ensure suppliers were meeting the environmental standards set by Patagonia, it resulted in increased efficiency due to less complexity in the supply chain. The company cites efficiencies such as improved communication between the company and its suppliers (Binns, 2011). This can transfer into financial benefits as better communication on expectations results in fewer mistakes. About one percent of fabric in the apparel industry is thrown away because of errors (Chouinard and Stanley, 2012). If expectations are met the first time around, the waste and the cost of re-manufacturing are eliminated. Though improvements in performance are often an indirect result of environmental initiatives, as other companies begin to realize the benefits, this could become an even larger motivation.

### **Barriers to sustainable business exposed by criticism of Patagonia**

Despite the many achievements Patagonia has made in incorporating sustainability into its business model, there are still many criticisms of the company. These criticisms could be used to frame arguments against sustainable business, as they expose the many barriers that still exist to companies becoming more sustainable. Critics see sustainable business through frameworks such as shareholder theory and the pluralist consideration of social goods, which do not view business and sustainability as compatible.

### *Discordance between economic markets and the environment*

One of the main criticisms of Patagonia is that despite all its talk about the environment, it is still a growth dependent company making a profit by selling consumer goods. Though the company markets its products to an outdoorsy, environmentally educated crowd, the clothing items that are most popular are the least technical (Hepburn, 2013). Online comments after the release of a Black Friday advertisement reading, "Don't Buy This Jacket," point out that the company did not actually stop anybody from buying its jacket (LoGuarato, 2011). In fact, sales increased by \$158 million during the nine months after the release of the advertisement campaign (Stock, 2013). These critics argue that the discourse of sustainability is helping Patagonia to sell more products (Hepburn, 2013; Lowitt, 2011). This view observes Patagonia through a pluralist consideration of goods framework, as it asserts that Patagonia is using sustainability to increase sales, which compromises the basic concept of sustainability.

This criticism stems from a general uncertainty of whether capitalism, with emphasis placed on growth, accumulation of goods, and use of environmental resources, could ever be made into an environmentally friendly system (Forbes and Jermier, 2010). This is one of the main arguments used against the standpoint that sustainability can be achieved in business. It views the goals of a market economy in which all businesses operate as an opposing force to sustainability.

The profit motive and desire for continuous growth is one component of financial markets that make it difficult for the environment to be integrated into business operations. The rationale that many businesses hold is that investing in the environment is going to be costly, following the framework given by shareholder theory. Consequently, many companies are still not willing to sacrifice their profits in the interest of society or the environment (Reinhardt, 2008). Even companies such as Patagonia, which have made significant efforts to change their processes to align with the environment, only make changes to the extent that they will still make a profit (Kim and Statman, 2012). Chouinard states that even companies that are environmentally minded need to make money, otherwise, they would not be able to exist (Chouinard and Stanley, 2012).

Financial markets are also focused on short-term growth, which makes it difficult for companies to look at the long-term benefits they may receive from protecting the environment due to the fact that environmental initiatives are often more expensive in the short term. For example, when Patagonia initially made the switch to organic cotton, it cost the company 50 to 100 percent more than conventional cotton (McSpirit, 1998). In the long term, the price eventually went down as more suppliers for organic cotton came into the market, but the company had to be willing to take the risk of increasing short-term cost. To other companies, the increased cost in the short-term is often seen as damaging to profits and therefore not compatible with business (Sindhi and Kumar, 2012).

The final aspect of the economic model that impedes business from adopting sustainability is that there is no mechanism that accounts for the environment in our economy. Environmental impacts caused by businesses, such as pollution or greenhouse gas emissions, currently have no cost that businesses must pay. These impacts are referred to as externalities. Externalities distort markets and are very hard to calculate (Anderson, 2009). Ecologist Robert Constanza illustrates the effect externalities have by stating, “We have been cooking the books for a long time by leaving out the worth of nature” (Chouinard, 2005, p. 199). Externalities make it difficult for businesses to include environmental impacts in their calculations because there is not yet a standard mechanism to do this. It is also difficult to put an economic value on nature because there are many different ways to value the environment. Additionally, externalities act as a barrier because not all companies are working to include externalities into business costs. This creates an uneven playing field, as not all businesses are paying the extra price.

### *Lack of societal education*

Another criticism of Patagonia is that not all the products it makes are environmentally friendly. A Greenpeace hazardous chemicals report found that Patagonia and other companies in the apparel industry are still using perfluorinated and polyfluorinated chemicals (PFC's). These chemicals have been connected with problems with the immune system and fertility in humans, and also bioaccumulate in nature. The report criticizes Patagonia for depicting itself as a green company when it still uses chemicals hazardous to the environment and human health in its products (Nemes, 2012).

One reason Patagonia is still using dangerous chemicals in its products is that they have not yet figured out a way to achieve the same quality standard for some products without the use of these chemicals (Nemes, 2012). Patagonia holds that polyfluorinated chemicals are crucial for maintaining the water resistance of many of the company's products. Without the chemicals, the company feels the quality of its product would be degraded, which would result in the item being thrown away sooner. This outcome is also not advantageous for the environment. The modernity of the idea of incorporating sustainability into business results in a lack of developed processes for environmental manufacturing and environmental decision-making processes (Sharfman, 2009). This lack of models is another barrier to sustainable business. When Chouinard began to integrate environmentally friendly practices into his business, it was difficult. He noted that, “there is no book you could pick up that said, here is what you need to do” (Casey, 2007). It is still difficult for the company to make environmental decisions, as seen in the example of judging whether to use chemicals or make a product that is more likely to be thrown away. Without preceding knowledge of which materials to use or how to make decisions about which product attributes are more desirable, innovation and commitment are required. Companies must develop new manufacturing systems and find new materials to use, which requires extra effort and resources.

Another reason that products made in unsustainable ways are still being sold is that consumer demand for these products continues to exist. One example of this is evident in a daypack made by Patagonia. In contrast with other Patagonia packs, the company used no recycled fabrics in this one. They made this information clear to customers on the website. Yet, customers still purchased the pack despite the availability of the information, which encouraged Patagonia to keep selling the product (Chouinard and Stanley, 2012). This example demonstrates the lack of consumer pressure, which decreases the urge for companies to change their practices

The average consumer today still places value on lower prices, regardless of the environmental cost associated with those low prices (Walker et al, 2008). Additionally, they are consuming and discarding new items much faster than in the past (Metta and Badurdeen, 2013). In the United States alone, 68 pounds of clothing ends up in the garbage each year per capita and this number is only expected to continue increasing (Claudio, 2007). These facts reveal that consumers are not yet changing their practices to the extent that some believe. This is a result of the fact that a majority of consumers lack awareness about the products they are consuming and environmental impacts associated with those products (Dangelico and Daveshish, 2010; Vogel, 2010). Although consumer pressure does exist, it is not yet a significant influence for companies to change their practices. The lack of consumer pressure is another barrier which society must overcome to make sustainable business a norm.

#### *Political complexities associated with globalization*

One reason consumer pressure is not yet a strong motivator is that the complexities associated with the apparel industry and complicated supply chains make it difficult for companies and consumers to understand all the impacts involved in the creation of a product. Despite the steps Patagonia has taken to reduce its elaborate supply chain, its products still generate a significant environmental impact. A single Patagonia polo shirt, made of organic cotton and in factories approved the company's environmental department, still requires 2,700 liters of water and leaves behind three times its weight in waste (Chouinard and Stanley, 2012, p. 14). These impacts are due to the globalized nature of the apparel industry in which Patagonia operates.

The interconnectedness of the world and spread of production throughout different countries and continents makes it difficult for companies to reconcile business practices and environmental impacts. Diverse parts of the world have distinctively different governance systems, regulatory methods, and enforcement and monitoring abilities, which make it difficult for companies to create worldwide standards (Christmann, 2004; Arya, 2006). Levels of transparency also differ across borders, making it difficult for companies to get information on their suppliers in other countries (Blackman, 2008). Despite the lengths to which Patagonia has gone to provide transparent information about its supply chain, this information is limited.

The Footprint Chronicles, which consumers can access online, provides access to information about Patagonia's supply chain. However, it only includes impacts made from primary materials, not from the complete list of components that have an impact, such as packaging (Walker, 2008).

Another political barrier is that not all companies are addressing the impacts of their supply chain as Patagonia has done. Companies that are socially or environmentally minded are only a small percentage of companies existing in the world (Fowler and Hope, 2007). It will continue to be difficult for companies to be environmentally minded until it becomes the norm for companies to make this change. It will also prevent the positive environmental effects from becoming as widespread as necessary to slow down problems such as climate change and resource devastation. Even inside a single company, environmental efforts are often isolated, focusing on individual aspects of production rather than the impacts of the entire company as a whole (Smith, 2013). This may be due to ignorance on the part of managers, but also employees at different levels who may not understand how they are supposed to apply environmental policies (Borial, 2007). This is a barrier for companies like Patagonia because even though it is limiting its environmental footprint, its impact will continue to be minimal if other companies do not do the same.

### **Efforts undertaken to overcome the barriers to sustainable business**

In light of the many barriers that exist for companies trying to integrate environmental protection into business practices, efforts are underway to reduce the extent of these obstacles. Through partnerships and innovation, Patagonia has set about to change the status quo and make sustainable business a standard for the future. Though there is still a ways to go, these efforts show that businesses are committed to turning sustainability into an integral part of their operations.

#### *Economic valuation of environment*

To combat institutional barriers in the global economy, such as the short-term horizons of business and externalities, Patagonia and others are working to create a standard environmental accounting method. The Sustainable Apparel Coalition, which includes Patagonia, Wal-Mart and 47 others in the apparel industry, is working to put an economic value on the environment to reconcile the differences between the environment and economy (Chandler, 2011). Representing more than one-third of the apparel and footwear industry, the coalition is creating a tool called the Higg Index that will allow companies to measure the environmental performance of their products (Sustainable Apparel Coalition, 2013). The goal of this project is that it will allow businesses to incorporate the true cost of the environment into the price that they and consumers pay for products (Chouinard et al, 2011). This index will allow all companies in the industry to measure their products on a standard scale (Patagonia Report, 2013), which will educate corporations about the environmental costs associated with their operations and

make it easier to integrate the environment into business decisions. A standard system will help level the playing field between companies, as products and environmental impacts will be measured on the same scale.

### *Consumer and corporate education*

To address the barrier of consumer and corporate ignorance, new approaches are being taken to educate these societal groups. The intent is that through consumer education, customers will be able to make better decisions and pressure companies to make changes that align with the environment. Corporate education aims to make it easier for companies to change their practices by creating models and standards that they can follow.

To make an impact, consumers need to be educated about what they are buying and the impacts associated with different products. Another goal of the Higg Index is to eventually have the information about the environmental impacts of each product available to consumers. The coalition hopes to create a product label that can be scanned by a smart phone to give customers access to the environmental ranking of the product to help them make more informed buying decisions. This education will help consumer pressure become a stronger motivator for companies to be more environmentally conscious, as consumers will have a better understanding about each product they purchase.

Another way Patagonia is working to educate consumers is by being transparent about its products and processes through programs like the Footprint Chronicles. Initiated in 2007, this program allows consumers to follow products through the supply chain using an interactive map on the company website (Walker, 2008). The website shows the location of all textile mills and factories that create Patagonia products. Each individual location can be clicked on to give the consumer more information about processes and associated environmental impacts (Patagonia, 2013). The goal is again to allow consumers to educate themselves about each product to enhance their decision-making abilities. As technology becomes increasingly available to consumers, this will continue to be a beneficial way for them to gain information about products (Fisk, 2010).

Patagonia is further addressing consumer education by encouraging its customers to demand less clothing and purchase clothing that will last longer. The Common Threads Partnership is an agreement Patagonia offers to its customers. In this agreement, Patagonia pledges that it will build products that will be long lasting, repair clothing that needs fixing, and recycle clothing that customers return after use. In turn, customers agree to commit to reduce their consumption by buying only what they need, having clothes repaired, and recycling items after use (Patagonia, 2013). As consumers make more educated decisions, they will become stronger drivers of change in corporations (Hilson, 2012).

Patagonia is working to set an example that others may follow to confront the challenge that corporations currently face of a lack of models to follow. In leading by example, Patagonia is attempting to show that it is possible to incorporate environmental stewardship into business and to educate others on how to do this by sharing its own experiences. One way it is working towards this goal is by creating partnerships with other businesses. Some of these partnerships have been mentioned already, such as the Sustainable Apparel Coalition and 1% For The Planet. Another example of such a partnership is the Conservation Alliance. This is a collaborative effort between Patagonia and 180 other companies that have all committed to donating money to conservation organizations. In 2013, they donated \$1.3 million dollars to 38 different organizations (Patagonia Report, 2103, p. 25). This partnership has helped spread the value of conservation throughout the business world, and is showing other organizations how they can support environmental causes while benefitting financially.

### *Global standardization*

Standardization in supply chain management is helping to create global uniformity in environmental standards and quality. The globalized nature of supply chains is not going to change, but by creating standards for suppliers to follow companies can reduce the complexities of dealing with cross-country boundaries. One method to create consistent standards for suppliers in different countries is through third party certifications. One example of this is the Bluesign, an certification system which Patagonia is working with. Bluesign is an independent standard that companies may adopt. It sets rigorous standards that address resource consumption, chemical use, and water use in production. Patagonia is working to have all suppliers meet the Bluesign standards by 2015, and is encouraging other companies in their industry to work with this standard as well (Patagonia, 2013). This standard helps to inform companies about ways they can reduce their environmental impacts. It also creates criteria that they can require all suppliers to work with, which creates consistency despite differences in regulations or enforcement across borders.

Innovative global partnerships have arisen due to the increasing international nature of business, which are also addressing the problem of global complexity. Moving away from more traditional models of government regulation, international treaties and NGOs have become increasingly important in the creation environmental standards for companies that operate in many different countries and governmental jurisdictions (Cetindmar and Husoy, 2007). International agreements such as the Global Compact and the Organization for Economic Co-Operation and Development guidelines for multi-national corporations attempt to establish environmental issues as a central component of business practices and set standards for multinational corporations to follow (Clapp, 205).

Agreements between those in the same industry are also increasing in number and helping to reconcile cross-country differences. Partnerships such as the Sustainable

Apparel Coalition that Patagonia is a part of is an example of industry agreements that create standards to level the playing field. Another example is the Outdoor Industry Association Working Group. This group incorporates over 100 companies in the outdoor industry, with goals of sharing information between companies and helping advance sustainability policies in participating businesses (Patagonia, 2013). New forms of business partnership and collaboration are going outside traditional political structures to make environmental standards consistent across borders, increasing the possibility of sustainable business. Due to the globalized nature of the business world, these non-governmental frameworks for business regulation may become increasingly important (Bernstein and Cashore, 2007).

## **Conclusion**

As the urgency to address environmental issues increases, the actions taken by business institutions are an important part of the solution to limit the deterioration of the natural world. The complimentary motivations that exist for business to align its practices with the environment, including both societal values and financial benefits, confirm the ability of corporations to take on the goal of sustainability. In spite of the barriers that businesses face due to the contemporary nature of sustainable business, the dedication and advancements that corporations such as Patagonia have made verify the potential that companies have to positively influence the environment. Efforts to create a standardized way in which businesses can account for the environment in their calculations, educate consumer and corporations, and create global standardization offer optimism for the future of sustainability in business. The partnerships and innovation that can be seen in the business world as it adapts to evolving environmental parameters are evidence that business is working to become a positive environmental force.

The implications of the fact that business is working to be at the forefront of sustainability initiatives are huge. As global businesses such as Wal-Mart commit to reduce their environmental impact, the significance for the natural world is immense. The scale and global reach of multinational corporations suggest that the benefits of such commitment to the environment will be extended across the globe. Business is not the entire solution to repairing the damaged global environment, but it can be a strong leading force in getting society to work towards sustainability.

There is much additional research that could be completed on the topic of sustainable business due to how recent of a topic it is. Much of the current literature is theoretical. It would be interesting to gather more quantitative data on how environmental impacts from companies like Patagonia, that have made strong commitments to the environment, compare to companies that have not made such changes. Further research on environmental management strategies and methods to further reduce the complexity of supply chains would also be beneficial to assist businesses in becoming more sustainable. Finally, it would be interesting to look further into how the business world influences society and ways corporations can work to further educate consumers and be a positive global force.

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