

Chapter 16

Sustainability and Competitive Advantage: A Case of Patagonia's Sustainability- Driven Innovation and Shared Value

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ABSTRACT

Sustainability and Corporate Social Responsibility have been perceived for many years by companies only as an annoyance, involving regulations and extra cost. The recent economic downturn and increasing stakeholder pressure have forced businesses to embrace the complexity and interdependencies between shareholder value and sustainable value. Sustainability-driven innovation is the key to overcoming the old conflict between economic and social objectives and, as in the case of Patagonia Inc., is paying off for a growing number of companies as it generates a sustainable competitive advantage. This chapter explores ways in which corporations can pursue economic, social, and environmental objectives simultaneously while creating shared values. It also looks into the very complex issue of measuring both the business and social impacts of shared-value strategies.

INTRODUCTION

The recent economic downturn, coupled with two of the worst ever environmental disasters and some highly questionable corporate practices, revived the long-standing debate about the role of business in society and is raising important questions about the ways in which businesses can pursue their objectives (being profitable), whilst generating positive value not only for themselves but also for the stakeholders involved in their activities – their

investors, their employees, their suppliers, the communities where they operate and the natural environment (Kanter, 2011).

Modern communications systems, such as social networks – Facebook and Twitter – and on-line media offer people the opportunity to have access to more information faster than they did in the past. Companies, therefore, cannot hide their activities anymore and, for this reason, over the last 15 years an incredible number of disasters and unauthorized activities have come to public

DOI: 10.4018/978-1-4666-7476-9.ch016

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light, mostly caused by the unethical behavior of business organizations. Here are some dramatic examples:

- Top managers of Bear Stearns and Lehman Brothers earned a shocking \$1.4 billion and \$1 billion in emoluments and bonuses respectively in the eight years preceding the bankruptcy of their companies (Bebchuk, Cohen, & Spamann, 2009). Were they maximizing value for their shareholders or for their own personal interests?
- In China 14 workers making Apple products committed suicide. As a consequence, instead of increasing the quality of working conditions, Cupertino's company obliged their subcontractors to make their employees sign a pledge to not commit suicide (Chamberlain, 2011).
- According to a survey conducted by Trucost on behalf of the United Nations, in 2008 the world's biggest companies polluted or caused damage to the environment amounting to \$2.2 trillion (Young, 2010).
- On April 20, 2010, an explosion destroyed the Deepwater Horizon causing the death of eleven workers and the release of 4,9 millions of barrels of oil into the Gulf of Mexico. The well was eventually capped on July 15. The total damages to BP, the environment and the U.S. Gulf Coast economy are estimated to be \$36.9 billion (Smith et al., 2011).
- On March 2011 a huge earthquake and tsunami struck the Fukushima Daiichi nuclear power station. The nuclear bars in the reactors' cores overheated causing the explosion in the reactors. "Radioactive material released into the atmosphere produced extremely high radiation dose rates near the plant and left large areas of land uninhabitable, especially to the northwest

of the plant. Contaminated water from the plant was discharged into the sea, creating international controversy" (Holt, Campbell & Nikitin, 2012).

All of this has been creating a growing mood of protest among ordinary citizens. Many non-governmental organizations (NGO) are actively lobbying governments to increase the level of environmental accountability for business organizations and national and local governments are also trying to carry out a difficult mediation between business organizations and communities. The promoters of these protest movements, among them the famous "We are the 99%", maintain that the world of business and finance are only interested in short-term profits, while completely neglecting problems regarding the environment and sustainability.

The moral case for social responsibility boils down to a simple concept: It's the right thing to do. Until recently, business organizations have been asked to change their economic policies by leveraging themes such as "responsibility", "ethics" and "environment". Needless to say, these requests have mostly been ignored, as shown in the previous examples. Companies often only partially recognized the benefits that these changes could bring with them. However, a business case for social responsibility is slowly but steadily taking shape showing that it is more and more in the enlightened self-interest of companies to be good citizens and devote some of their energies and resources to the betterment of such stakeholders as employees, the communities in which they operate, and society in general (Kakabadse, Rozuel, & Lee-Davies, 2005). Public pressure has also dramatically increased, leading companies to start integrating sustainability into their way of doing business.

In 2010 United Nations Global Compact and Accenture carried out an important study on

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