CHAPTER 1

What We Do For a Living

WE ARE ALL STILL in the earliest stages of learning how what we do for a living both threatens nature and fails to meet our deepest human needs. The impoverishment of our world and the devaluing of the priceless undermine our physical and economic well-being.

Yet the depth and breadth of technological innovation of the past few decades shows that we have not lost our most useful gifts: humans are ingenious, adaptive, clever. We also have moral capacity, compassion for life, and an appetite for justice. We now need to more fully engage these gifts to make economic life more socially just and environmentally responsible, and less destructive to nature and the commons that sustain us.

This book aims to sketch, in light of our environmental crisis and economic sea change, the elements of business responsibility for our time, when everyone in business—at every level—has to deal with the unintended consequences of a 200-year-old industrial model that can no longer be sustained ecologically, socially, or financially.

The co-authors have been involved with Patagonia since its inception nearly forty years ago. But it is not the purpose of this book to retell our company's history in detail. That story may be found in Yvon's book, *Let My People Go* Surfing.

This book, though it draws on our experience at Patagonia, aims to be useful to all people who see the need for deep change in business practices and who work in companies quite unlike ours. Although we mostly address companies that make things, or like us, design things made by others, this book is germane to all businesses that offer a service or to nongovernmental organizations (NGOs) and nonprofits that want to treat their people well and reduce the environmental impact of their operations. This book is for anyone who works, not just business leaders and managers. It is also for business students and other young people who want to engage their best, deepest self in the working life that stretches ahead.

You should know that at its beginning Patagonia was meant to be not a risk-taking, environment-obsessed, navel-gazing company but an easy-to-milk cash cow. Yvon created Patagonia as an offshoot of the Chouinard Equipment Company, which made excellent mountain-climbing gear recognized as the best in the world, but very little money. Patagonia was intended to be a clean and easy company—desk jockey's work—in contrast to the ten hours a day sweat and toil of hammering out pitons with a coal-fired forge or drilling and cutting chocks from extruded aluminum. The clothing business required no expensive dies to amortize and had a much broader customer base than a few dirtbag climbers. Who knew then that cotton could be as dirty as coal?

At Chouinard Equipment we were used to a life-or-death standard of product quality: you did not sell an ice axe without checking it closely for a hairline fracture or any other fault. Although we applied the same standard to rugby shirts (they had to be thick and tough to survive the skin-shredding sport of rock climbing), we knew that seam failure was unlikely to kill anyone. Patagonia was to be our irresponsible company, bringing in easy money, a softer life, and enough profits to keep Chouinard Equipment in the black.

Our responsibilities as businesspeople came slowly and almost involuntarily to light while we focused on the "real" work of designing our clothes and getting them made and sold. In the chapters ahead, we'll describe a handful of moments that stunned us into consciousness (including the discovery that cotton, our most commonly used natural fiber, turned out to be the most toxic) to illustrate how one step makes the next step possible—a simple lesson but key.

We can't pose patagonia as the model of a responsible company. We don't do everything a responsible company can do, nor does anyone else we know. But we can illustrate how any group of people going about their business can come to realize their environmental and social responsibilities, then begin to act on them; how their realization is progressive: actions build on one another.

We used to think that because Patagonia grew out of a small band of climbers and surfers who have a special love for the natural world and a palpable need to be in it, feel a part of it, that we were somehow exceptional as a business. Twenty years ago, we didn't think we had much to say to the woman next to us on the plane who might wear a Chanel suit and pearls and fetch a copy of Fortune out of her Tod's handbag (we would have been accidentally upgraded to business class to be anywhere near her). Now, though, we can think of a number of topics we might have discussed, from design to inventory control to the implications of material shortages for long-term planning. We now know, from talking to all kinds of businesspeople, that Patagonia, if exceptional at all, is so only at the margins. As mice and men share 99 percent of their genes, so do Wal-Mart, BP, and Patagonia. Patagonia may seem different because its owners are committed to social and environmental change; and our company is privately held, not publicly traded, so we can take on greater risks. But our management requires the same sets of skills, pursues the same opportunities, and faces the same competition and constraints as any other business.

We started as climbers and surfers, so our direct engagement with nature may have allowed us to recognize the environmental crisis earlier than others and begin to act on it more quickly. But eventually the crisis would become apparent to everyone in business. Soon we would trade stories with other businesses that acted out of environmental and social concerns. In our earliest days, we talked with the founders of Ben & Jerry's, The Body Shop, and Smith & Hawken. Later, conversations with REI, The North Face, and other companies in the outdoor industry led to the creation of the Conservation Alliance, a nonprofit that protects wilderness as habitat and space for recreation.

When we finally turned a cold eye to our own wasteful and polluting industrial practices, or those done in our name by our suppliers, we sought out and found other concerned companies willing to offer advice and help. Often they were huge, and included Levi Strauss, Nike, Timberland, and The Gap. We spoke with others farther afield, like the courtly carpet-tile manufacturer Ray Anderson, founder of Interface, whose spiritual epiphany upon reading Paul Hawken's *The Ecology of Commerce* led him to become, as *The Economist* noted in his obituary, "America's greenest businessman." It turned out we were not unique in our desire to become a more responsible business.

When we wanted to improve our quality without increasing our costs, we shared notes with Jack Stack, who with other employees had bought back the failing Springfield Remanufacturing Company from International Harvester and had made it successful through innovations in participatory corporate control (i.e., listening to front-line employees) and open-book management. Jack taught us that any successful business strategy had to engage the intelligence of the people on the floor as much as of those at the top.

Along the way we've seen a tectonic shift in work culture in many businesses. During the past twenty years, Silicon Valley companies have turned old work rules on their head. Almost everyone is familiar with the free fitness rooms and free food. Fewer know that Google allows employees to spend 20 percent of their working time doing almost anything they like: We know, because some employees of Google Earth donate that time—and their technological expertise—to helping wildlands activists map migration corridors for large animals displaced by climate change and development.

We've seen the rise of specialty bakers and brewers, and of organic farms and farmers' markets, as well as the mainstreaming of what used to be called health foods. We've seen the introduction of Leadership in Energy and Environmental Design (LEED) standards revolutionize commercial construction by proving that greener building standards create healthier workspaces and that better-quality construction repays owners and investors over time.

There are many new businesses that are sensitive to their workers' needs and mindful of nature's vulnerability; and many older businesses have begun to come around. But none of us have done nearly enough.

Those who plan for the future of their businesses, in every industry, have to take into account the increasing scarcity of energy and water and their rising cost, as well as the rising cost of waste and its disposal. Every company—from Wal-Mart to the Cheese Board Collective, from BP to the makers of Fat Tire Ale, from Dow Chemical to Patagonia—is already at work, in some way, even inadvertently, to dismantle a creaky, polluting, wasteful, and increasingly expensive industrial system, and is struggling to create new, less life-draining ways to make things; we are all trying to get a new roof up over the economy before the old, sagging one caves in.

Every company faces questions from skeptical customers: Will your company's product or service hurt them or their children? Has your product hurt the workers who made it, or their community, or the ecology of the region where the product's components were drilled, mined, or farmed? Is your product worth its social and environmental cost? It may arguably have a social benefit that outweighs its cost; but everything we all do at work, unless you happen to sell organic seeds or night-soil compost, hurts the environment more than it gives back.

Your customer may not be eager to know what's wrong with your products, but if and when she finds out, she is likely to care. And she no longer has to tune into *60 Minutes* or subscribe to *Mother Jones* to find out who's dumping chemicals or mountaintops into the local creek. Any citizen with a cell-phone camera and access to a blog can now sound the neighborly alarm. And others can spread it—and will.

This is not news to the businesspeople at work on one or more of 400 new indexes to benchmark, and advance, their social and environmental practices in the outdoor, apparel, automobile, electronics, chemical, and other industries. No one wants to feel the heat of an unfavorable spotlight. Every company should be afraid, as is Wal-Mart, of teenagers, and what they will consider environmentally acceptable or socially cool as they come into adulthood. No one under forty has ever lived in a year without an Earth Day or thought the health of an ecosystem subordinate to the whims of a corporation.

Wal-Mart woke up after a survey by McKinsey & Company jarred then-CEO Lee Scott: 54 percent of customers thought Wal-Mart "too aggressive," 82 percent expected the company to be a "role model for other businesses," and 2 to 8 percent, as many as fourteen million people, had stopped shopping at Wal-Mart altogether because they were upset by things they had heard about the company.

Some companies begin to change their ways in order to protect their reputation. Others change to reduce their cost. Still others change because they see opportunities to create new markets, whether to satisfy customers who want healthy, organic food or purchasing agents for public institutions who have to meet new environmental mandates for everything from vehicles to cafeteria napkins.

Every company faces competitors who, through their own efforts to thrive, become more adaptive, nimble, and efficient, as well as less wasteful and harmful. A company that can make environmental improvements will attract more customers. Companies that do business globally have to choose whether to adopt the toughest European standards or divide up their production and make lower-quality goods for the rest of the world. The choice they make will not go unnoticed by the watchful eyes of NGOs and competitors.

Investors, especially large institutional investors like pension funds and universities, now allocate more of their portfolios to socially and environmentally responsible mutual funds, not just to pay ethical lip service or ward off demonstrations on campus. For all investors, including individuals who rely on 401 (k) accounts to fund their retirement, faith in the Modern Portfolio Theory (MPT) of diversified investment to minimize risk has been sorely tested by gyrations of the past fifteen years. According to a new Harvard Business School study, socially responsible investments, which once underperformed more enticing opportunities like subprime mortgages, now over the long term outperform the market as a whole.

No company has to rely solely on its own resources to attract responsibly minded employees, customers, and investors. Every company can work with other companies, often under the auspices of a trade association, to co-develop more responsible business standards, practices, and benchmarks: then share information to help everyone reduce industrial harm and waste. That levels the playing field on which companies can then compete in good faith.

Every company that thinks it’s a good guy or wants to be—Patagonia, Interface, Stonyfield Farms, etc.—has to make room in our little clubhouse for old villains who now don a white hat for at least part of the working day. They are legion. Nike, stung by public disgust over child labor in its contract factories, has become a global leader in the effort to improve workplace conditions throughout the supply chain and create at least minimally fair labor practices around the world.

After being criticized for polluting groundwater and sucking wells dry in India, Coca-Cola has committed to return its wastewater to the environment clean enough “to support aquatic life and agriculture.”

Dow Chemical, former maker of napalm, has committed to finding alternatives to petroleum as a source for its chemicals. Dow has recently teamed with The Nature Conservancy on a five-year, $10-million exploratory project to develop methodologies that can assign dollar values to ecosystems. These new tools will allow Dow to evaluate the ecological costs of every business decision it makes. Moreover, Dow was awarded an A+ from the Global Reporting Initiative (GRI) for its 2010 Annual Sustainability Report. Both Coca-Cola and Dow have teamed with Kellogg’s, DuPont, and others to develop “material-neutral” packaging (packaging is responsible for a third of all waste generated).

And Wal-Mart, the world’s largest company, formerly committed to an exclusive strategy of low prices, regardless of environmental cost, has committed to use 100 percent renewable energy, create zero waste, and to “sell products that sustain our resources and environment.”

Consumers, both individual and institutional, have become and will continue to be more demanding. Individual consumers are famously powerful for controlling two-thirds of the U. S. economy. For local, state, and national governments and public institutions, who all buy “in bulk,” the Prius is succeeding the late Crown Victoria as the emblematic tax-exempt fleet vehicle (although the NYPD prefers the hybrid Nissan Altima).

Whole industries are changing. The conservative but troubled U.S. dairy industry is now engaged in large-scale projects to increase the productivity and shelf life of milk without resorting to destructive factory-farm practices; to change cattle feed to reduce methane “burps” (a significant contributor to greenhouse gases); and to harvest cow patties for use as organic fertilizer.

The commercial construction industry ten years ago was no bastion of green: its old, fixed-budget business model, based on the low bid, drove down quality at every stage of design and construction. Every builder had requirements to build to code but no incentives to build in resource-saving systems that might cut the building owner's cost in the long run but not the short. Enter the LEED certification system for building to energy-efficient standards with less environmental harm. At the time it was introduced in 2000, only 635 buildings worldwide could comply. As of 2012, more than 40,000 LEED-certified projects have been built or are in the works.

LEED has educated building owners and managers to the longterm high cost of cheap heating and air conditioning (and of cleaning a building with high levels of indoor pollution), as well as to the savings inherent in new materials and design. An initial 2 percent increase in the cost of a new LEED-certified project incurs savings of ten times that amount over the life of the building. A LEED retrofit saves owners an annual 90 cents a square foot; they make their investment back in two years. LEED is becoming the standard for commercial properties and, in the process, changing the urban landscape. In big cities, for instance, look for more roofs planted with shrubs and herbs, which insulate, filter the air, reduce heating and cooling needs, and provide a garden haven for workers taking a break. Look for more of the kind of low-income housing built by developer Jonathan Rose, with more under-the-roof residential services and a lot more light: the gym of his new South Bronx project is located not in the basement but on the top floor.

Our own outdoor industry is changing as well. Its trade group, the Outdoor Industry Association (OIA), is developing an assessment tool called the Eco Index, for use by manufacturers to measure the social and environmental impact of every one of their products. Patagonia's Jill Dumain has been part of a working group of twenty companies that for two years met weekly by conference call to develop the relevant criteria. They benefited from participation by Nike, which had invested seven years of work and $6 million to create its Environmental Apparel Design Tool (which, for internal use, grades the impact of the company's products as bronze, silver, or gold).

The Eco Index measures impacts of manufacturing, packaging, and shipping, as well as customer care and use, recycled content, and recyclability. It allows a company to manage its entire supply chain to improve water use and quality, lower greenhouse gas emissions, and reduce toxic chemical use and waste, as well as monitor and improve pay and working conditions on the mill or factory floor.

The OIA group decided to adopt a policy of full transparency and created an advisory council that voted on all decisions. OIA also hired a consultancy firm called Zero Waste Alliance to form a collaborative framework and methodology that would work for a broad range of participating companies—some small, others quite large (among them REI and Timberland, in addition to Nike).

OIA's Eco Index council is now at work on the second stage, which will allow more than 100 companies to provide open-source tools to benchmark their practices and measure improvements through their business reporting systems. Our hope is that within five years the Eco Index will become consumer-facing (as is Berkeley professor Dara O'Rourke's Good Guide rating system), so that a customer can scan a Quick Response code on a pair of jeans to see ratings of that product's social and environmental impact.

OIA has made the Eco Index both transparent and scaleable. As a result, the much larger Sustainable Apparel Coalition, whose members produce more than 30 percent of the clothing and footwear sold globally, will benefit from the OIA's work, shaving much time from the development of its own assessment tool.

Patagonia owes its role in the larger coalition to our relationship with Wal-Mart over the past several years. When their executives first approached us to learn more about our environmental practices, we were, from the owners to the rank and file, skeptical and bemused. How could we help them or they help us, when our two companies were so vastly different? There was the question of scale: we grossed $400 million a year, while they grossed $400 billion. There was the question of business culture: Southern California versus rural Arkansas; high quality and strong aesthetics versus rock-bottom prices and pallet racks. There was the question of values. We knew ours; what did Wal-Mart value?

By the time they approached us, in 2008, Wal-Mart had gone through a gradual environmental awakening. Shaken by its declining reputation, and a historic volume of lawsuits aimed at a single company, Wal-Mart at first adopted some basic environmental improvements of the sort corporations usually have their PR departments tout to the press. But removing excess packaging from deodorant sticks, concentrating laundry detergent in small bottles, and installing auxiliary power units in their trucks to reduce idling time turned out to save them millions of dollars. The more material they shaved from packaging, the less energy they used, the more money they made. The more carbon they removed from their operations, the less money they wasted. The word "sustainable," at first the province of the PR staff, became a business by-word.

Wal-Mart's currently low-idling truck fleet is the world's largest. If Wal-Mart were an economy, it would be bigger than Switzerland. Because its material needs—for operations but especially for products—are so great, and because it runs stores around the world, in China, India, and Brazil, as well as in Europe, Wal-Mart is in a position to understand the resource restraints to be faced over the next decade. The company understands how essential it is to reduce its environmental impact if it is to continue to do business on a habitable planet.

Patagonia's talks with Wal-Mart led to a shared David and Goliath enterprise. Yvon and John Fleming, Wal-Mart's Chief Merchandising Officer, co-signed an invitation written on joint letterhead to attend the "21st Century Apparel Leadership Consortium" to be held in New York three months hence. They sent it to sixteen of the world's largest apparel companies. One sentence on the invitation, printed in boldface, read like the crack of a ruler on a wrist:

> During the course of one half day session, we expect to achieve consensus on the need for a universally accepted approach for measuring apparel sector sustainability, and to establish a strategy for ongoing collaboration to create and implement that standard.

The invitation's final sentences, printed in italic, laid out its raison d'être:

Creating a sustainability standard will improve the welfare of our workers, communities, consumers, and environment far more effectively than the fragmented, incremental approaches that characterize existing efforts. Together we are better. We hope you will join us.

Join us they did. The invitees, during their meeting in New York, agreed to become the Sustainable Apparel Coalition. The coalition members, working by consensus, drew on the work of OIA's Eco Index to define its social and environmental benchmarks. The Coalition has now launched into development of an open-source assessment tool to be shared by participants. It is our hope that this index, like OIA's, can be converted eventually into a consumer-facing rating that will allow a customer to hold a smart phone to a QR code to read an individual rating—and compare the impact of one pair of jeans to another.

Similar efforts are underway in other industries, with over 400 indexes in effect or being considered that measure the impacts of everything from appliances (Energy Star ratings) to electronics (EPEAT) to automobiles. It's too early to tell, but these indexes could create a revolution in the way we buy: they certainly give us the information we need to be good citizens as well as informed buyers.

Every company has business partners—suppliers, dealers—with a stake in its success. These partners have also begun to adopt and develop, voluntarily or not, a more responsible business model for their own companies. Companies, suppliers, and retailers all need to help each other. As your company is responsible for everything done in its name, so are your partners responsible for your part of their social and ecological footprint. As Patagonia is responsible for the labor practices of Maxport, the factory in Hanoi that sews our Super Alpine Jacket, so REI is responsible for the environmental footprint of the Patagonia jackets it sells in its stores. How so? REI can't tell Patagonia how to make jackets, but it doesn't have to buy from us either. If it cares about reducing the environmental footprint of the jackets sold on its floor, REI can influence us to improve our practices or buy from someone else who will. And they should. As Wal-Mart has discovered, 90 percent of a product's environmental impact is determined at the design stage; it is the designer in Los Angeles who determines most of the harm to be done in Guangdong.

Every company now has to work to win the minds and hearts of its employees; to earn their trust, loyalty, and commitment, and to engage their intelligence to help figure out, before the old economy caves, how to put up that new roof (built out of renewable or recycled materials, to LEED standards, with a garden to reduce energy costs). To earn employee commitment and trust begs more of a company than providing competitive pay and benefits and enacting humane employment policies. Employees who grew up in the 1980s or later view it as their birthright to make the best use of their intelligence and creativity, not always for the highest pay.

Not everyone can satisfy his heart's desire working for your company, but everyone does want to feel useful at or, better yet, enlivened by what they do all day long. No one wants to be ashamed to name the company he works for. No one wants to leave her values at home when she leaves for work in the morning.

People will argue over what makes the world a better place to live (and for whom), and over what each of us would like to see more and less of in the world. It is hard to imagine anyone rejoicing over the generally accepted landscape of only a decade ago: a suburban monoculture of tilt-up malls, cracker-crumb housing, pandemic obesity, cheap distractions, and expensive services—all at the expense of nature and not much good for us as people who are part of nature. It's as though we'd handed Satan a hard hat and asked him to refashion our earth according to his plan.

A word about a word we've chosen to use as little as possible: *sustainability*. It's a legitimate term that calls us not to take more from nature than we can give back. But we do take back more than we give, we do harm nature more than we help it. We have no business applying the word sustainable to business activity until we learn to house, feed, clothe and enjoy ourselves—and fuel the effort—without interfering with nature's capacity to regenerate itself and support a rich variety of life.

We are a long, long way from doing sustainable business on a planet that now numbers seven billion human beings, including growing, appetitive (though often socially and environmentally conscious) middle classes emerging in China, India, Mexico, Brazil, and Russia. Everything we make does some damage. To produce enough gold to make a wedding band, for instance, generates 20 tons of mine waste.

Closer to home: a Patagonia polo shirt is made of organic cotton from an irrigated field, whose cultivation requires nearly 2,700 liters of water, enough to meet the daily needs (three liters a day) of 900 people. Each polo shirt, in its journey from the cotton field to our Reno warehouse, generates nearly 21 pounds of carbon dioxide, 30 times the weight of the finished product. Along the line, it generates three times its weight in waste.

No human economic activity is yet sustainable.

Twenty years ago, we at Patagonia felt compelled to include in our mission statement an industrial equivalent of the Hippocratic oath, “cause no unnecessary harm.” There are degrees of harm. Our polo shirt harms less than one made of chemical-intensive, conventionally farmed cotton, which may be no cleaner than coal. Our polo would be more sustainable if it were made, as are our jeans, from less thirsty, dry-farmed cotton. But even that polo would take its toll on the natural world, through its use of energy, its carbon emissions, and its waste scrap.

Still, it makes a difference to do less harm, and lessening harm makes it possible to begin to imagine restorative and even, through biomimicry, regenerative practices for the future. It makes a difference, where harm is done on an industrial scale, to make improvements on an industrial scale. It makes a difference for businesses, as well as consumers, to use fewer materials and less energy and water, and generate less waste. To make the difference we need to restore the planet to health, or to allow the planet to restore itself to health, we need to make big changes and make them fast. But it would irresponsible not to pursue every improvement, to take action, where we can.

Many companies are doing something to behave more responsibly to the earth and the commons. And every company that learns to take a responsible step without faltering gains confidence to take the next. “Responsible” seems to us the apt, more modest, word to use while we

CHAPTER 3

The Responsible Company in Our Time

THAT MANY COMPANIES now act on some recently recognized responsibilities to nature and the commons does not mean that they are delighted to do so. Nor does it mean that a new, happier age of more responsible capitalism is at hand. Nothing is certain, except that the shift to more conscious, cooperative business practices will be hard, and that whatever you do, for good or ill, will matter, wherever you work.

How is a company responsible? Should it profit its shareholders, provide for the well-being of its employees, make excellent products, be a good force in the community, and protect nature? We think that a responsible company bears all these obligations. But getting into the details of how business might deal with the environmental crisis and social storms we face, it would help to better understand how a company's responsibilities differ today from 50 or 150 years ago.

The responsible company of 1860 was one that paid a return to its shareholders, honored its commitments, and kept honest books. A hundred years later the picture had become far more complex. In 1860, only 5 percent of all work was done by machine; 95 percent was done by humans and animals. By 1960, the figure reversed; 95 percent of all work was performed by machines. It would take, if it were possible, the muscle power of 700,000 people to power the flight of a jet. Machines made us capable of doing far more work than we and our animals could ever have done on our own.

In the century between 1860 and 1960, limited liability for corporations became law in order to protect shareholders and officers from imprisonment or personal bankruptcy when their companies committed damage or fraud or failed to pay their bills. But companies took on new obligations to workers as well, thanks to the growing legitimacy and power of unions and progressive political movements in industrial countries. Corporations became liable for the health and safety of the workplace. Laws enacted, if not always enforced, during the late nineteenth and early twentieth centuries limited working hours, particularly for women and children, in the U.S. and Europe, and later throughout most the world.

The big, responsible company of 1960 (in the U.S., examples included IBM, 3M, Bell & Howell, Cummins Engine, Johnson & Johnson) was rich and international, and going global. It kept honest books, hated to bribe officials, and paid its people decently (more decently its men, the better to support nonworking wives and children). It maintained substantial training and education programs and promoted from within; operated programs to increase safety in the workplace; and supported community hospitals, schools, and nonprofessional sports activities.

The big, responsible company in those days had a fixed and clear hierarchy; men were at the top and, in the U.S. and Europe, were white. The management philosophy in such a company derived from the West's earliest models for organizing large numbers of people through command and control: the military and the Roman Catholic Church, with new contributions from manufacturer Henry Ford and efficiency consultant Frederick Winslow Taylor. As they do now, the company's top executives took time out from their careers to serve in government. The company's board members also might have served on the boards of its major suppliers, customers, and banks. The company had sometimes adversarial, sometimes cooperative relationships with its unions.

The standard of living for less well-educated, lower-salaried and wage-earning employees was higher than now, relative to their bosses, and a substantial number of employees could look forward confidently to a company pension as well as a check from Social Security or, in other countries, its equivalent. A big company was likely to be industrial, not financial; U.S. commercial banks, after New Deal reforms, could not operate across state lines, own nonbanking operations, or combine with investment banks. Big business was smaller and not as rich or powerful as now. The Dow Jones average on the last day of 1960 stood at 615.

Over the past fifty years, big business faced new regulations to prevent discrimination on the basis of race, gender, or age. In the U.S., Europe, and Japan, new environmental laws restricted air and water pollution. Technology advanced rapidly, which increased productivity, put an end to many kinds of jobs, and made many workers redundant. In the U.S., according to one researcher, five out of six lost manufacturing jobs could be attributed to increased productivity (with the remaining one out of six jobs lost to offshoring and other causes).

While the Dow grew from 1,000 in 1982 to 14,000 in 2007, this fabulous twenty-five year increase in wealth rewarded the top 10 percent of earners far more than the middle class. This was especially true in the U.S. and Britain. Although middle-class real earnings did not grow, net worth did for those with 401 (k) accounts and real estate holdings. As incomes plateaued, the two-worker family became the norm, though the two-parent family became less so. Social safety nets began to fray throughout the most industrially advanced countries, especially in Europe and Japan, as fewer workers paid taxes to support a growing number of retirees.

As noted in the previous chapter, increased economic activity has come with incredible environmental cost, in loss of biodiversity, global deforestation, ocean pollution, and desertification. By the most visible measures—cleanliness of the air and water—the environment has improved in our country since the passage of major environmental laws in the 1970s. Angelenos can now see the San Gabriel Mountains on a summer day. The Cuyahoga River no longer catches fire. Anadromous fish return to the Hudson and Kennebec Rivers (though you are warned not to eat them).

But the less visible, less stinky problems have grown worse in the form of greenhouse gases and increased carbon dioxide levels, the overfishing of increasingly acidified oceans and loss of coral that supports marine life, the drawing down of fossil-water aquifers that will take centuries to replenish, and in the failure of rivers—in Asia, lifelines for the population—to meet the sea. More than a billion people now live in areas threatened by desertification.

As of this writing, two-thirds of the U.S. economy relies on consumer spending. Editorial pundits from the center left of the *The New York Times* to the hard right of *The Wall Street Journal* pay obeisance to the god of consumer spending and its gospel of 3 percent minimum growth. This cannot be sustained. Poke your nose into any store in the mall and look around. Much of what we produce to sell to each other to earn our living is crap, either ever more luxurious, specialized goods like electronic temple massagers and personal oxygen bars, or cheap salty junk food and disposable clothing. Every piece of crap, because it was manufactured, contains within it something of the priceless: applied human intelligence, for one, natural capital for another—something taken from the forest or a river or the soil that cannot be replaced faster than we deplete it. We're wasting our brains *and* our only world on the design, production, and consumption of things we don't need and that aren't good for us.

Everything manufactured comes with a cost that exceeds its price.

Because resources continue to grow scarcer, while the world population still grows and becomes more urban, and consumes more, it seems to us that the days left to the consumer society as we know it are few in number. We are in transition to a post-consumerist society, and toward the recovery of our collective senses—of time, of public space, of proportion.

In a post-consumerist world, goods are likely to become more expensive, to reflect their true social and environmental cost, prompting us to shop less as a form of entertainment. That's not so bad. We'll be able to recover time for satisfying pleasures that derive from pursuing our deepest interests; we'll have more time with our friends and family, and more time for meaningful work.

Of course, there are other, more dystopian possibilities for an economy in which fewer and fewer people make more and more things until we run out of resources to make them and customers with enough money to buy them. Manufacturing has seen an astonishing gain in productivity (output per worker) during the past fifty years; not so the service sector now responsible for most employment. Increasingly, companies seek, when not sending jobs offshore, to ratchet up productivity through the introduction of automated systems that make nonmanufacturing jobs more factorylike (e.g., counting calls per hour and sales per call in service centers). Pressures for a more intensive, and longer, workday for white-collar jobs are likely to increase until employees resist, or workforce-squeezing companies begin to lose business to more humanly responsive companies due to poor customer service. More people, especially those without advanced, specialized education, are likely to suffer longer periods of unemployment, and hard falls through the frayed social net. It doesn't take total social and environmental breakdown to create conditions none of us would wish on our children and grandchildren.

Dystopia is not inevitable. But it will take all the intelligence and navigational skill we can muster to collectively rebuild the ship as we sail it. It will require all the heart we have in us to care for each other as we move from an economy that worked well for many of us—and for some of us splendidly—to one where no twelve-year-old works a sewing machine and lives on a bowl of rice a day, and where no Asian river flows to the sea dyed indigo, as a waste product from jeans.

Companies, large and small, will be useful to a post-consumerist society. We will continue to need food, clothing, and shelter, as well as fun and games, and to organize ourselves to provide it. We will need energy to stay warm in cold weather and cool in hot. But we are beginning to understand the true cost—human, ecological, economic—of everything we make. We need to make less, and whatever we make should be of high quality and long-lasting to better offset its social and environmental price.

In this light, a responsible company owes a return not only to stockholders but to something that has come to be called stakeholders, entities dependent on or beholden to the company, but also on which the company depends. In addition to stockholders, there are four key stakeholders: employees, customers, communities, and nature.

Stockholders still get first dibs and last, but their return relies on the cooperative productivity of the other groups.

The responsible company owes its *employees* light-handed, attentive management; openness about the numbers; encouragement to co-operate, across divisional lines when necessary, and to continuously improve processes; freedom to organize workflow with minimal delays or interference from higher-ups; and a penalty-free whistle to blow against wrongdoing.

The responsible company owes its *customers* safe, high-quality products and services; this applies to both basics and high-end goods. Goods should be well made, durable, and easily repaired. Whatever comes to the end of its useful life needs to be recycled or repurposed into something new. Marketing claims, especially those of health and environmental benefits, should be made responsibly

The *community* includes suppliers, who have now become critical to reducing the social and environmental impacts of products. It is challenging for companies, with subcontracting so prevalent, to know, much less understand, their supply chain and its workings. But to know who does what and where enables a company to work with its suppliers more intelligently and productively—and to improve the working conditions and environmental stewardship that underlie its products.

Community also includes, of course, locality Your company needs to take responsibility for wherever your people gather for work, including satellite locations where you have stores, warehouses, or factories. Obligation to the community includes paying a fair share of taxes and a healthy dose of philanthropy, in money and in-kind contributions of product or services. Many companies now allow their local units a say in local giving.

Community also includes trade associations, nongovernmental organizations (NGOs), standards-setting organizations, nonprofits, and other citizens' organizations that may have an interest or something to say about what your company does. Advocacy groups like Greenpeace and PETA may confront you about your practices, as may individual citizen activists through social media like Facebook and Twitter. Friendly or not, those who engage with you are part of your community in its broadest sense and deserve your attention.

Nature decides our fate but has no voice of her own, or not one that we can hear. We can't sit with her at the table and ask her what she needs to get her work done or what she cares about most. In the face of nature's silence, we have to honor the Precautionary Principle, now embedded into law in the European Union and other countries, that in the absence of scientific certainty, the burden of proof that a new product or technology is safe now falls on business. The Precautionary Principle requires us to reverse our habit, prevalent since the Industrial Revolution, to act now and deal with the consequences later.

Here are the key issues that face the responsible company in relation to its stakeholders during the next fifty years.

Stockholders: Accounting will become more complex. As ever, companies will do whatever they have to do to maintain financial health, cut the owners their checks, and meet payroll. Increasingly however, companies will also have to measure and assign value to our social and environmental impacts or face the cruel surprise of a sudden rise in the price of carbon or drop in the availability of fresh water. As noted, The Nature Conservancy is working with Dow Chemical to assign value to what ecosystems contribute to the economy. In 2011, moreover, Puma commissioned PriceWaterhouseCoopers to help develop an "Environmental Profit and Loss" statement to account for the full impact of the brand on ecosystems. The consultancy firm hopes to create a model robust enough to be adopted by other companies.

Governments are also changing what they count. The United Nations has endorsed the principles of the "triple bottom line," or 3P (profit, people, planet), for government accounting. In 2010, Robert Zoellick, president of the World Bank, announced a major project to work with emerging and developing countries to quantify their natural capital, roughly estimated at a value of $44 trillion worldwide.

Public companies that work hard and effectively to improve their social and environmental performance will need to be protected by new laws that forbid attack by minority stockholders, who in most jurisdictions have the right to sue a company for investing in social and environmental performance at the short-term expense of stock value. At present, environmental and social improvements may be scrapped easily when a company, public or private, is sold or inherited.

Several states, including California, have created a new legal class called the "benefit corporation" that allows companies to have a social or environmental mission written into their charter. Benefit-corporation status also gives a company the legal right to pursue high social and environmental standards that can benefit the company in the long term but reduce short-term earnings. An organization called B Labs grants “B Corporation” accreditation to companies that meet its standards as well as works to expand legal recognition.

Employees: There has been a fifty-year trend toward automation, moving jobs offshore, improvement in wages in developing countries, and a flattening of wages in advanced countries. The next fifty years will be marked by pressure to restore the living wage. It was assumed as late as the 1960s that the annual pay of one wage earner (usually male) should support his family. The new, more modest, goal has a worker paid one-half of what it takes to support a family of four.

To meet this goal will require further increases in productivity, most of which will come from automation, which further depresses employment rates. More workers will be better paid, yet more people will be out of work, unless there is a corresponding rise in labor-intensive, local jobs in agriculture and boutique, handicraft industries, or a shorter work week.

Finally, more companies are likely to follow entrepreneur Jack Stack’s advice to offer equity to a broad base of employees to increase their engagement with their jobs.

Customers: As everything becomes more expensive, customers will become choosier and buy less. They will increasingly demand to know whether products qualify as healthy and humane. And broad, innovative applications of those 400-plus social and environmental indexes will help customers choose products made by companies that pay fairly and work to tangibly reduce their environmental damage.

Communities: As travel and shipping become more expensive over the next fifty years, we are likely to see at least the partial restoration of a company’s sense of locality. This can help make local communities stronger and more resilient, and more active in the effort to attract and keep beneficial employers.

Responsible businesses will have to work more closely with NGOs and interest groups to reduce environmental harm and improve working conditions throughout the supply chain. Trade associations and third-party verification organizations will become more important as more companies benchmark their social and environmental standards, work to raise the bar, and have their efforts to meet them monitored and verified by independent parties. Above all, companies will have to work as true partners with their suppliers, in a climate of trust. Profit will come not from taking advantage of one another, but from efficiencies gained by understanding each other's problems and meeting each other's needs.

Nature: As customers learn more about the consequences of ravaging the natural world at our current pace, they will pressure companies to do far more, more quickly, to reduce the damage they cause. Rising cost will constitute its own pressure on companies to adopt more responsible practices. Expenses will rise for natural resources (especially energy and water) and for waste disposal. Companies, not individuals, generate 75 percent of the trash that reaches the landfill or incinerator. Packaging, for which the producer is responsible, is disposed of almost instantly by the consumer and comprises a third of all waste.

The need to use less energy and generate less waste will in turn require companies to conduct life-cycle analyses (LCA) of their products. The LCA teaches a company how to reduce the environmental impact of its products from their origins as raw materials (derived from water, the soil, or underground) through their manufacture, useful life, and eventual disposal. Finally, companies will have to track environmental performance through all business reporting systems.

It is essential to decouple the definition of economic health from economic growth in the use of materials and energy. It is not pie in the sky to say so. Germany, Japan, and China, among other governments, have announced their intention to create "circular economies" that promote reduction, reuse, and recycling of materials. Japan passed a law in 2000 to increase resource productivity by 60 percent, increase recycling by 40 to 50 percent, and reduce waste disposal by 60 percent by 2010. As of 2008, it was on track, according to World Watch's 2011 report.

The U.S. needs to follow suit and create its own circular economy. This would require eliminating government subsidies and tax breaks for industrial agriculture, oil and gas production, and other nonrenewable resources, so that prices would reflect true costs. The U.S. Treasury, for example, pays $2 billion a year to support the price of chemically intensive conventional cotton grown in California and Texas.

In a post-consumerist society, it's critical that we stop using the gross domestic product (GDP) as a barometer of social health. As economist Joseph Stiglitz puts it, we need to expand the idea of GDP to include noneconomic factors. In October 2010, the U.K., following the lead of Bhutan, Canada, and France, adopted (with some nervousness on the part of its Conservative government) a "happiness index" that defines quality of life more broadly than does GDP. The U.K. index includes metrics on job satisfaction and economic security, satisfying relations with friends and relatives, having a say on local and national issues, health, education, environmental health, personal security, and volunteer activities.

Were we to grow less distracted by our consumerism and consumption, and to spend more time with friends and family, or work with people we want to help, or learn something we have always wanted to be able to do, wouldn't that make up for missing yet another sale at the mall? The pursuit of national wealth through trade of increasingly useless things has for a few decades kept us in more clothes than we need, but has nothing to do with the pursuit of happiness. And it simply no longer works.

It is financially unsustainable for the world economy to require 3 percent annual growth, which corresponds to the 3 percent growth a company must now maintain to outpace inflation and prevent job loss. Yet the economy in advanced societies no longer creates sufficient well-paid jobs; the speed of automation outpaces that of job creation. All rich countries face high levels of debt because fewer well-paid workers pay the taxes to sustain outlays for health care, education, and the military.

Can a company do many things right and be *irresponsible*? Imagine a business that returns a tidy profit, treats its employees well, makes the best-quality product possible, gives generously to the community, rebuilds its headquarters to LEED standards and throws in a rooftop garden—but makes land mines. Not in the U.S., where it has been illegal to make land mines since 1997, but offshore, through its supply chain. Land mines hurt mostly civilians: 158 countries (the U.S. not included) have called for an international ban.

Many companies, some of them highly admired in the pages of business journals and on Wall Street, do make, in this country, things like cigarettes, the extra-large version of the Cadillac Escalade, Lucky Charms, hollow-point bullets, baby toys containing endocrine-disrupting phthalates, and lead-containing lipstick. Companies that behave responsibly in some important way may also hire teams of lobbyists to discredit worthy but unfavorable science, or export to developing countries harmful or dirty products banned in the U.S., Europe, and Japan. It isn't enough for companies to argue that they're simply meeting customer demand: to make a bad product is to do bad business.

In the coming decades, as customers become more insistent, environmental laws become more restrictive, resources become less plentiful and more costly, and investors more demanding, every company will face competitors who embrace all the elements of business responsibility—not always because it's the right thing to do, but because it is essential to being successful. To compete, a company will have to be at least as responsible as its competitors.

More than thirty-five years ago, the authors of this book had lunch together at Myrt's Cottage Café, a greasy spoon a block away run by beehived waitresses who had for decades dished out biscuits and gravy and grilled cheese sandwiches to workers in the oil fields up the street: Johnny Cash may have had coffee and a smoke at Myrt's at some point during the mid-fifties, when he played the honkytonk across the street.

At the time of our workingman's lunch, Yvon was paying himself $800 a month, and Vincent, because he didn't surf and hung around to answer the phones, had recently been promoted to sales manager, with a raise to $3 an hour. The two of us talked about doing what people were telling us we had to do to become more of a real business—hire reps, get out a new catalog, exhibit at a trade show, maybe take out a couple of ads.

At one point Yvon turned to Vincent and said, "If I did everything right, did everything the experts say I *have* to do to succeed in business, I'd go broke."

We also remember a legend an old garmento told us around the same time about how to make money in clothing: Remove the paper pattern, called the marker, that lies on top of a fabric stack to guide the cutter, crumple or "shrink" the marker, place it back on the fabric, then run the blade. That half of one percent of fabric you save becomes your profit.

Those stories come back to us now as we discuss what a responsible company does or doesn't do. The term itself is necessary shorthand; there is no responsible company, only responsible companies of varying degrees, who act strategically to do less harm while improving, not sacrificing, the health of the business.

Can we boil this down?

Science journalist Daniel Goleman in *Ecological Intelligence* offered three simple, yet remarkably comprehensive rules for reducing environmental harm: "Know your impacts, favor improvement, share what you learn." This applies to us all, in large and small companies, as we begin or continue to act.

CHAPTER 5

The Elements of Business Responsibility

WE'VE COME TO the heart of our book, which is to lay out the elements of business responsibility, as we see them, to five key stakeholders: owners, workers, customers, communities, and nature. For each element we will provide, in an appendix, a related checklist of things companies can do to become more socially and environmentally responsible while strengthening their business health.

We have made the checklists available as a free download on Patagonia.com, in the form of an Excel sheet that you can edit and sort as appropriate to your own business and priorities. If you find our lists insufficient, search the internet for "Environmental Business Checklists," available from an array of local governments, NGOs and trade groups.

Two checklists we know and respect (and have used to help create our own) are: B Corporation's B Impact Assessment Tool (www.bcorporation.net) and Napa Green's (www.napagreen.org/downloads/ABAG_checklist.pdf) for wineries.

Where to start?

The answer depends on your role in your company. If you're not the CEO or don't have the power to establish a "corporate sustainability program," you can start anywhere. Check over the lists to see what you, in your particular company role, can do. It is a myth that taking better care of people and nature is at odds with business excellence. But what if your boss believes that? Concentrate on money-saving steps. No boss worth her stock options will stop you from saving the company money.

Or say you are a CEO. You want to go green. At least get greener. But as CEO you don't have the power this book's other readers might think you have. You have a board to answer to, nervous stockholders whose politics and level of environmental knowledge vary, a business climate that befuddles every tealeaf used in forecasting. You may rely on a CFO or COO who is convinced that climate change is a hoax, or damn well should be. How do you get him or her going? How do you bring along your people?

The best answer is to follow Daniel Goleman's creed: Know your impacts, favor improvement, share what you learn. As a method, these work in sequence: You have to know impacts before you can favor improvements before you can share what you've learned.

You can undertake your greening in three steps.

First, engage your team, with as broad participation as possible, to find out the worst things your company does, what costs you the most in reputation and profit, and what will be the easiest to correct. The easiest problems for *your* company to correct may seem complex and difficult to another, depending on the company's values and traits, and whether its cultural bias is for innovation or safety.

Address first what you suspect you know already; tease it out. What nags at you most whenever you hear about it (or see its consequences)? What is it you think you can do something about—that your company will be good at getting done? Ask your team to ask themselves the same questions.

Step two: Get together with your people to name your priorities for improvement, then winnow the list. Decide what you'll do first, how much time and money you'll spend on it, and how many people will be involved. Define what initial success will look like. Write that down on one page you can circulate among your team. Once you've figured out what improvements you want to make, where you can draw on your company's greatest strengths, take the fewest risks, save the most money, and create the most opportunity, go for it.

As you learn, share what you learn with as many people as possible in your organization, even if you don't think you (or they) have the time. Then share what you learn with stakeholders: suppliers, your trade association, key customers, even the key competitors you call on when you need to form a united front to get something done. Take advantage of the trust you earn, and you will earn more of it, especially if you are credible and tell the truth about your mistakes and failures; get going a little snowball of support.

Finally, using the trust you've deepened, the knowledge you've gained, and the confidence and pride that have built throughout the organization and among stakeholders, ask yourself: What does your company now know that enables you to take a next step that may have been out of reach before but suddenly lies within sight?

Keep going. Here's what will happen.

The company will get smarter, and more people will start to care deeply about creating a better-quality business through improving its social and environmental performance. In so doing, your people will *have* to pay better attention to all the business fundamentals—and this boost in applied intelligence will result in a more fluid, less wasteful organization. You will spot money leaks you could not see before, and you will gain the confidence to recognize and go after opportunities that a company bound by traditional corporate see-no-evil politesse cannot begin to address. Success motivates people, including your strays.

Doing good creates better business.

We know this from experience, both from our own years in business and from talking to others. Wal-Mart first had to learn how many millions of dollars it could save by eliminating unnecessary packaging for deodorant before it could adopt a long-term goal of zero waste. The company had to see how much environmental harm it could avoid and money it could save in single-stroke decisions before becoming more systematically responsible.

You may expect internal resistance at first, of course, depending on what you try to do, especially early on. The poet William Stafford once wrote that no poem should begin with a first line the reader can argue with. It distracts the person you want to reach. Get your people nodding in full agreement a few times before you say something that challenges the half-sleep of received wisdom.

A social and environmental initiative might start with something that unarguably needs doing. As they gain experience, your colleagues will become more aware of more nuanced, harder-to-spot social and environmental impacts, and of opportunities to reduce them. They will start to share a language and a cultural bias that favors improvement.

Once an apparel manager at Wal-Mart hears the buzz on how much money the company has saved by eliminating packaging in one department, and how much more can be saved by similar measures, she will feel implicit permission to devote some time from her busy day to minimize packaging in her own part of the business. Managers often cling to the safety of familiar practices until they see their colleagues (and competitors within the company) dare to imagine, then implement, better practices. Courage can be contagious. So is success.

You'll need the support, early on, of company heroes at various levels in the hierarchy who are held in respect for their wisdom or competence or both. These heroes may not be among the company's most predictable advocates for social and environmental improvement —the 20 percent of us who sing in that choir. Expect and embrace surprising sources of collaboration, especially from thoughtful, often religiously motivated or stewardship-inspired conservatives, and for the collaborative process to change the company and everyone involved.

We underscore how critical it is for you to share what you learn as often and with as many as you can. Transparent social and environmental improvements will gradually increase your base of committed support within the company, from the margins (or the heights) to the center; any entrenched traditionalists gradually shuffle to the side, go elsewhere, or retire.

As your company comes to know more, and becomes confident enough to work cooperatively with outside partners to reduce environmental and social impacts, it will adopt that work permanently *as a part of doing business*. It becomes irresistible.

So you're not a CEO. Most consultants and experts we know argue that any major social and environmental initiative has to come top down, from the leadership. And of course no formal company initiative can succeed without top-down support or at least the absence of interference. Nevertheless, most fundamental changes start at the margins and move toward the center. And as long as reducing environmental harm, in particular, presents so many opportunities for companies to save money, or make money, you can't go wrong pursuing improvements from the bottom up, even in the employ of an uncongenial or unaware company.

Element #1: Responsibility to the Health of the Business

A company that aims to be socially and environmentally responsible has the same primary duty as any other business to know its numbers and pay its bills on time. A business cannot honor its social and environmental responsibilities unless it meets its first responsibility: to stay financially healthy.

But the means of measuring true business health is in its infancy Accounting, as practiced, still assumes that the benefits of nature and the commons are free and that spoiling them has no cost. And, it's true, their loss doesn't show up on the books. But the loss or spoiling of natural systems and the commons entails huge costs for which people outside the company pay or suffer. Who shall be held accountable?

A movement has been afoot for several decades to persuade companies to take into account the value of nature and the commons. In 1994, consultant John Elkington coined the phrase "triple bottom line" (TBL), which measures indicators of social health (defined as human capital) and the planet (natural capital), as well as profit (capital). In 2007, the United Nations ratified TBL as a standard for public-sector accounting, as a means to measure the true cost of government subsidies to industry.

Two NGOs, The Nature Conservancy and Conservation International, are working with the accounting firm PriceWaterhouseCoopers to develop new methodologies to valuate ecosystems. As we mentioned in the first chapter, Dow Chemical has committed to invest $10 million over five years in partnership with The Nature Conservancy to develop strategies to price nature's unpaid work as a provider of biodiversity and "ecosystem services;" one-third of global food production, for example, relies on insect and animal pollination. Dow will use that information as a basis to evaluate the ecological costs of every business decision.

There also needs to be a better way to account for GDP that takes into account the resources of nature and the commons. New forms of social and environmental accounting may help discipline business away from our worst practices.

This is the idea behind a budding movement called Creating Shared Value (CSV). CSV argues for the interdependence of corporate success and the common good. It states that sustainable resources, educated workers, and consumers keep everything humming; they create wealth and pay taxes. Social responsibility should be integral to business strategy; the "value proposition" includes a social value proposition.

Hard to quarrel with that, or with Robert Zoellick, the president of the World Bank, who is starting a project to assign a dollar value to the natural capital of emerging and developing nations, because "the natural wealth of nations should be a capital asset, valued in combination with its financial capital, manufactured capital, and human capital." But note how chilling the language, and beware when everything under the sun folds inside the economic and political system and its powers. Assigning value to the priceless or quantifying the numberless presents risks of its own, similar to that of determining the quality of an education on the basis of test scores exclusively.

When money becomes the measure—as well as the means—of all things, the potential for economic and political mischief grows; there are no longer "externalities" outside the system to be left uncounted or ignored and let be. What are we to do, once we do these calculations, with wilderness? Wilderness doesn't really exist except as an idea—and, now, as a longing. We don't think a speech from John Muir on the need for ecosystem services would have swayed Teddy Roosevelt to preserve Yosemite Park nearly as much as a night in the redwoods under the stars.

What citizens hold in common can not be free for the taking when there's no giving back. But not everything should have a price.

Element #2: Responsibility to the Workers

The Industrial Revolution, which has now extended its reach and introduced its system to most of the world, famously abstracts labor: the worker no longer owns his tools or her machines or bears full responsibility for the final product or necessarily knows the face of the man or woman who pays him and takes a share of his or her gain. And increasingly, companies rely less on people and more on robots to engage in large-scale manufacturing.

But by any standard, a company should do what it can to reward and care for the people who make its products and provide its services. All companies seeking to boost productivity need the loyalty, dedication, and creativity of their employees. The company's responsibility then extends to everyone in the supply chain who helps make or sell its product.

To fully engage the minds and hearts of employees, and minimize both the balk and bulk associated with bureaucracy, larger companies have to figure out how to best organize productive working groups of different sizes for different ends. Twelve is a good number for a small group to bond and work in concert to achieve a specific task with minimum hierarchy (think of a jury, a tribal hunting party, or an army squad). Anthropologist Robin Dunbar cites 150 as the magic number for community cohesion, based on the number of human relationships the human brain can handle. When it builds a new plant, the manufacturer W. L. Gore puts in 150 parking spaces. When the plant exceeds that capacity, the company builds a new one. Microsoft and Intel also limit the number of employees per building to 150, though they both run plants with multiple buildings. Hutterites form a new community when they reach that number. Along the same lines, a military company comprises between 80 and 225 people.

At Patagonia we've noticed changes in cohesion when we move different departments to different floors and buildings. Adjacency and proximity matter: to have our environmental team next door to the CEO engendered a certain dynamic; the CEO at the time became an environmental enthusiast. When the enviros moved to Marketing, they found new allies through daily contact with the people who tell the company's stories.

A department can have only so many immediate neighbors at one time. people at patagonia form important cross-departmental friendships and garner cross-departmental intelligence in our café, on lunchtime runs, and among fellow parents of kids in childcare. It's important to create comfortable spaces throughout the plant for employees to gather in small groups of two and three, as well as more formal meeting rooms.

Chouinard Equipment, Patagonia's predecessor, was, as we mentioned, curiously pre-Industrial Revolution. Our tin sheds held equipment: a drop-hammer forge, an anvil, a coal forge, jigs for drilling aluminum chocks, but no time clocks or assembly lines. Everyone was poor and most lived marginal, if well-traveled, lives. For a while we paid a 10 percent bonus to anyone who had the initiative to work forty hours a week, a practice that turned out to be illegal; we were busted and required to stop. We partied heartily; the sheds faced a courtyard where we celebrated almost any event with an asado of barbecued lamb and a keg.

When we became a clothing company, and as sales increased, we had to become more professional, a process that at first consisted of throwing bright, inexperienced young people into new jobs to see if they could learn what we needed to know how to do.

We paid fairly well, considering the inexperience of our employees. Early on we provided health care, although we did not have to. We have told the story of how we introduced childcare and parental leave. We never made anyone "dress" for work (though those coming into the company from the workaday world had to re-learn how to dress casually in order to fit in). People were free to take a long break midday to go surf or run, with the understanding that they came in early or stayed late—at any rate, got the work done.

Our worst day as an employer came in 1991, when we laid off 150 employees. For two years we had managed the company too carelessly, bought too much inventory, sold too little of it, hired too many people, and salted away too little money to pay for an expansion that our bank cheerfully financed until they got into troubles of their own and pulled the plug. Costs had to go down and fast. After weeks of considering alternatives (like a shorter work week, combined with a cut in pay), we decided to let go of 20 percent of our people—and all on the same morning to reduce the duration of the toxic atmosphere that persists when layoffs are expected. A consultant advised us how to handle the logistics: all day long employees watched their colleagues get called out for a talk and return without a job. By ten o'clock, employees had started to recoil, to roll back in their chairs, at the sight of a manager re-entering the room to approach the desk of yet another fellow worker.

Our emergency plan for a downturn of any magnitude now is to cut the fat, freeze hiring, reduce travel, and trim every type of expense except salaries and wages. We've done this for short periods several times—once right after 9/11. If things get worse, eliminate bonuses, which we once did. We paid them retroactively the following year, when the picture got brighter. Worse still, and decisions get tougher. Half of our expenses are labor. Before we would cut anyone else's pay, we would reduce the salaries of managers, directors, vice-presidents, and the top executives, including the owners. Then we would shorten the work week and reduce pay accordingly. Only as a last resort, if we were in the deepest sort of trouble, would we again downsize the company with a general layoff.

We should note the bracing fact that in 1991, after the layoffs, morale improved among the workers still with us. The hovering axe had fallen; those of us left still had our necks. We were a much soberer lot, absent the intoxication of growth, and more focused. We knew what we had to do to bring the business back to financial health, and we did.

Element #3: Responsibility to Your Customers

How to gain a customer and keep one? First, make something or offer a service someone can use, for which satisfaction endures. Second, your company should romance, but not bullshit, the people whose business it solicits.

Paul Hawken, when he was still running his Smith & Hawken gardening supplies company, told us that he didn't like to advertise because he didn't want that kind of relationship with his customers. He was referring to the alternate-reality environment of the magazine ad, wherein a business bullhorns its message in the same space as other unrelated voices all barking their own individual messages—like a bazaar but without the smell of spices or the dance of a charmed snake.

Since the mid-1980s, when Hawken made his comment, commercial space has much expanded and grown ever more noisy. More products have become more disposable; more customers experience more frustration when a flimsy product fails, and they have to deal with the customer-service person on the scratchy line from the offshore call center, who has no authority to correct a problem and, instead, didactically repeats the company's rules.

If the chase for cheaper labor is playing out to its conclusion, so is the race to attract customers on price alone, when the product in question won't last and the service won't deliver. Any customer can go online and find the cheapest price for anything, anywhere in the world. And any customer dissatisfied with a product or service can post it to a blog. So can any customer who questions the way a chicken has been raised or a sweatshirt sewn.

The strongest thing your company can do is something no one else will do, or do well.

To turn for a moment to romance: Selling and marketing seek to incite desire, but a company has to love to sell something its customer loves to buy. For both ethical and practical reasons, the selling story, to paraphrase Mark Twain, has to be mostly true. A company needs to present itself well to the customer; it may even preen a little, the way a lover might take care to dress for a date. A life story, or product story, told just this side of myth-making is okay when it fairly represents the real. But beware of conjuring a false image of your company's goods or services. Mystification will no longer work in a world where stage fog can be quickly dispersed by a competitor, activist, or regulator.

If you are responsible for a company's advertising and marketing, be truthful. The anonymous, sonorous talking head doesn't really represent your brand or product. Neither does Tiger Woods. Most people under forty don't watch the ads placed on TV at such great expense; they fast-forward through the boring bits when they watch the show after airtime on a laptop. They get their news from Jon Stewart and then Twitter it to their friends. And they have been raised to be concerned about the fate of the planet and want to support companies that are responsible.

Customers are expensive to find and to replace; they will become more so. The responsible company has to treat the customer as, if not a friend, a neighbor or colleague who shares a love of what the company offers, say a particular kind of clothing, food, shelter, education, art, sport, or entertainment. The wooing of customers can be assigned a cost per thousand exposures, scaled, tested, subjected to strategy. But the relationship, once sealed, is intimate and cannot be abstracted or reduced to a transaction. Someone will be happy to get your company's email or he may wince; she will order from your catalog or use it as kindling.

The duration of the relationship is contingent on the company's ability to provide more things the customer needs and on the customer's continued confidence in the company. The responsible company has to continue to state its case: provide the best information it can on why its products or services meet a need, how those products are made, how long they'll last, what the customer has to do to make them last longer with less environmental impact and, finally, what to do with them when they reach the end of their useful life.

A business has a responsibility to inform the customer of the environmental and social choices embodied in a product or service, from the time of purchase forward.

Element #4: Responsibility to the Community

Every company has a responsibility to its community, which includes the neighborhoods and cities in which we operate, its varied communities of interest, and the virtual community of blogs and social media.

Responsible companies have long supported their communities' hospitals, schools, and arts organizations. The best companies have also recognized their significance to the economic health of their communities and have avoided closing plants when possible, or have helped soften the impact of a closing by phasing out rather than shutting down production, offering generous severance pay to laid-off workers, and supporting the community institutions that aid the unemployed.

For 200 years, cities and neighborhoods have been vulnerable to the instabilities of capitalism. Its siren songs lure the peasantry from the countryside with a promise of wealth, but deliver instead, especially for that first generation off the farm, hard urban poverty. A rise in the standard of living for one generation is no guarantee for the next.

The rising tide may lift boats, but it can also flood neighborhoods, leaving hardship in its wake. The current sinking of the middle class, especially in the United States, where the social safety net has been knit more loosely than in Europe and Japan, is strikingly evident in the landscape. In the United States of 2012, as this book is being written, we have two extremes with little in between: there are nearly abandoned Midwestern towns and dilapidated American city centers on the one hand and, on the other, zip codes where the restaurant with a hot new chef offers thousand-dollar wines and families of four live in houses big enough for twenty. *The Wall Street Journal* has reported that income disparity in the United States now approaches that of Mexico or the Philippines. Procter & Gamble, one of the last mass marketers, now has to pitch its products high or low; not enough people are left in the middle to matter.

What businesses do to their communities matters. Citizens from Palo Alto or Greenwich to Detroit or Smyrna, Tennessee, are directly hurt or helped by the decision made by companies with a local presence to put down roots or pull out. (We were not popular in Bozeman, Montana, when we pulled up stakes to move our call center to Reno.)

Every company needs to ask itself: If you do business around the world, where are you local? And what are your obligations to those places you call home?

Home is wherever you have a concentration of employees, as we do in Ventura, Reno, Kamakura (Japan) and Annecy (France) and, to a lesser extent, wherever we have stores. We help make each store local in part by giving it an annual budget for grants to local environmental groups, with recipients determined by employee vote. Although we are not a significant employer for any community, except perhaps Ventura (workforce, 350; county population, 825,000), we are mindful of how what we do affects local housing, traffic, infrastructure, and habitat. As well as maintaining relationships with local environmental groups, we participate in beach and creek cleanups and habitat restoration.

Reducing travel is an environmental necessity that, in the long run, will affect business communities. At Patagonia we rely on extensive business travel to maintain our relationships with satellite operations, suppliers, and customers, as well as the industry organizations with whom we work to reduce our environmental impact. Our business assumes, and depends on, the mobility of our customer base. But air travel will become increasingly expensive, as it should; for while it conserves time, or used to, it wastes an astonishing amount of fuel on a passenger-per-mile basis. One solution is to cluster operations geographically, wherever possible. Companies need to undertake separate manufacturing steps in geographically proximate factories, and to ship from a port as close as possible to the final assembly point. Note that travel by rail or cargo ship is relatively environmentally benign on a per-product basis. We cause more environmental harm trucking a jacket on the short, final leg from the port in L.A. to the warehouse in Reno than we do shipping the same product across the breadth of the Pacific.

The task for all of us during the next half-century will be to scale the industrial model down rather than up. There are strong reasons to decentralize the energy grid so that when a crow fries a transformer in Alberta it doesn't silence a sound stage in L.A. There is no reason to believe that the monoculture created by business activity is any healthier for economic life than agricultural monoculture is for the health of ecosystems.

Element #5: Responsibility to Nature

The business world needs to see the economic and environmental equivalent of the astronomic truth that the earth rotates around a sun, and that the universe does not radiate out in a flat plane from the earth. That truth is this: Our economy depends on nature, not the other way around, and companies will destroy the economy if they destroy nature.

We know that we are not superior to nature, but our language says otherwise. We refer to nature as “resources,” as though nature were here to be at our disposal. We refer to nature as our “environment,” as though nature were here to wrap itself around us. We refer to ourselves as “stewards,” as though God had ordained us to be nature’s keeper, a big key dangling from our neck, a white towel slung over the arm.

Our first responsibility is to be more humble, and yet also more confident. We are a part of nature; we *can* learn to live on our planet without spoiling it.

Our second responsibility is to, whenever and wherever we can, leave nature be. We all know when we see a patch of land that should be left wild or a stretch of water that should be freed from the chokehold of a dam that has outlived its purpose. We need to restore the natural systems with which we’ve tampered. Nature has immense restorative powers, once the sources of assault are removed.

Our third responsibility, as we have argued throughout this book, is to reduce the harm we do in the course of ordinary business and take birth-to-rebirth responsibility for what we make or bears our name.

A few quick, practical tips before you consult our five checklists in the appendix:

Remember that 90 percent of a product’s environmental impact is determined at the design stage. Life-cycle analysis, the most critical tool for learning everything that goes into making your product, is expensive and time consuming, especially for smaller companies with limited resources. Therefore, it’s best to measure what is most important and what you can do something about: the 80/20 rule applies. If 20 percent of your products generate 80 percent of your sales, analyze those products to gauge the lion’s share of your impact. Moreover, if possible, work with an industry organization with a sharable methodology, database, and software that enable you to capture the necessary social and environmental data as part of your ordinary reporting systems.

We intend our checklists as points of departure. They give you an idea of the range of what can be done to make a difference—from removing the water pipe of a urinal to using recycled wallboard to taking back your used-up products to be recycled. Start with some kind of assessment of what you presently do to minimize your energy and water use and waste. Adapt the checklists to your priorities. Figure out what can be done most easily and least expensively (or to produce the most savings), and with the least resistance.

But it’s also worthwhile to look at what seems most difficult and far-fetched. What seems hardest to do, or boldest, may be precisely what you need to do to motivate others, including customers and competitors, as well as suppliers, to join you in your efforts. Checking off the easy stuff gives us experience and builds confidence. Tackling the big stuff, and surviving setbacks and failures, makes us smarter, stronger, and more useful to others. Doing both can lead to environmental and social gains of the sort we need: some wildly imaginative, some quietly effective, some both. It will take all kinds of work to repair the damage.

We are all *consumers*, who can choose what we buy and, in aggregate, change the way corporations and ultimately governments behave.

We are also, in our working lives, *producers*. This is our most active public role. We have less control over what we do at work than in our personal lives and in the voting booth, but it is as producers that we make the biggest difference. Ninety percent of a product's environmental impact is committed at the design stage; two-thirds of waste is generated by industry, not households—so what we do at work has far greater consequence than going out on a Saturday morning to trade in the Hummer for a Prius. What we do at work every day matters.

Meaningful work: what is it exactly? Regardless of our talent or education; our preference for working with words, numbers, or our hands; our ability to cut a pattern, lay out an ad, or negotiate with a supplier, we have meaningful work at Patagonia because our company does its best to be responsible to nature and people. Our daily gestures —on the one hand, mundane and often tedious—are, on the other hand, infused with the effort to give something useful and enjoyable to society without bringing undue harm to nature, the commons, or other workers. Tedium is easier to take when it has meaning. To take one step toward responsibility, learn something, take another step, and let self-examination build on itself has engaged everyone at Patagonia. Many of our suppliers and customers are equally invested in this process of improvement. What engages us most deeply enlivens us. Lively, gratified workers make good business possible—make it thrive.

CHAPTER 5
The Elements of Business Responsibility

WE'VE COME TO the heart of our book, which is to lay out the elements of business responsibility, as we see them, to five key stakeholders: owners, workers, customers, communities, and nature. For each element we will provide, in an appendix, a related checklist of things companies can do to become more socially and environmentally responsible while strengthening their business health.

We have made the checklists available as a free download on Patagonia.com, in the form of an Excel sheet that you can edit and sort as appropriate to your own business and priorities. If you find our lists insufficient, search the internet for "Environmental Business Checklists," available from an array of local governments, NGOs and trade groups.

Two checklists we know and respect (and have used to help create our own) are: B Corporation's B Impact Assessment Tool (www.bcorporation.net) and Napa Green's (www.napagreen.org/downloads/ABAG_checklist.pdf) for wineries.

Where to start?

The answer depends on your role in your company. If you're not the CEO or don't have the power to establish a "corporate sustainability program," you can start anywhere. Check over the lists to see what you, in your particular company role, can do. It is a myth that taking better care of people and nature is at odds with business excellence. But what if your boss believes that? Concentrate on money-saving steps. No boss worth her stock options will stop you from saving the company money.

Or say you are a CEO. You want to go green. At least get greener. But as CEO you don't have the power this book's other readers might think you have. You have a board to answer to, nervous stockholders whose politics and level of environmental knowledge vary, a business climate that befuddles every tealeaf used in forecasting. You may rely on a CFO or COO who is convinced that climate change is a hoax, or damn well should be. How do you get him or her going? How do you bring along your people?

The best answer is to follow Daniel Goleman's creed: Know your impacts, favor improvement, share what you learn. As a method, these work in sequence: You have to know impacts before you can favor improvements before you can share what you've learned.

You can undertake your greening in three steps.

First, engage your team, with as broad participation as possible, to find out the worst things your company does, what costs you the most in reputation and profit, and what will be the easiest to correct. The easiest problems for *your* company to correct may seem complex and difficult to another, depending on the company's values and traits, and whether its cultural bias is for innovation or safety.

Address first what you suspect you know already; tease it out. What nags at you most whenever you hear about it (or see its consequences)? What is it you think you can do something about—that your company will be good at getting done? Ask your team to ask themselves the same questions.

Step two: Get together with your people to name your priorities for improvement, then winnow the list. Decide what you'll do first, how much time and money you'll spend on it, and how many people will be involved. Define what initial success will look like. Write that down on one page you can circulate among your team. Once you've figured out what improvements you want to make, where you can draw on your company's greatest strengths, take the fewest risks, save the most money, and create the most opportunity, go for it.

As you learn, share what you learn with as many people as possible in your organization, even if you don't think you (or they) have the time. Then share what you learn with stakeholders: suppliers, your trade association, key customers, even the key competitors you call on when you need to form a united front to get something done. Take advantage of the trust you earn, and you will earn more of it, especially if you are credible and tell the truth about your mistakes and failures; get going a little snowball of support.

Finally, using the trust you've deepened, the knowledge you've gained, and the confidence and pride that have built throughout the organization and among stakeholders, ask yourself: What does your company now know that enables you to take a next step that may have been out of reach before but suddenly lies within sight?

Keep going. Here's what will happen.

The company will get smarter, and more people will start to care deeply about creating a better-quality business through improving its social and environmental performance. In so doing, your people will *have* to pay better attention to all the business fundamentals—and this boost in applied intelligence will result in a more fluid, less wasteful organization. You will spot money leaks you could not see before, and you will gain the confidence to recognize and go after opportunities that a company bound by traditional corporate see-no-evil politesse cannot begin to address. Success motivates people, including your strays.

Doing good creates better business.

We know this from experience, both from our own years in business and from talking to others. Wal-Mart first had to learn how many millions of dollars it could save by eliminating unnecessary packaging for deodorant before it could adopt a long-term goal of zero waste. The company had to see how much environmental harm it could avoid and money it could save in single-stroke decisions before becoming more systematically responsible.

You may expect internal resistance at first, of course, depending on what you try to do, especially early on. The poet William Stafford once wrote that no poem should begin with a first line the reader can argue with. It distracts the person you want to reach. Get your people nodding in full agreement a few times before you say something that challenges the half-sleep of received wisdom.

A social and environmental initiative might start with something that unarguably needs doing. As they gain experience, your colleagues will become more aware of more nuanced, harder-to-spot social and environmental impacts, and of opportunities to reduce them. They will start to share a language and a cultural bias that favors improvement.

Once an apparel manager at Wal-Mart hears the buzz on how much money the company has saved by eliminating packaging in one department, and how much more can be saved by similar measures, she will feel implicit permission to devote some time from her busy day to minimize packaging in her own part of the business. Managers often cling to the safety of familiar practices until they see their colleagues (and competitors within the company) dare to imagine, then implement, better practices. Courage can be contagious. So is success.

You'll need the support, early on, of company heroes at various levels in the hierarchy who are held in respect for their wisdom or competence or both. These heroes may not be among the company's most predictable advocates for social and environmental improvement —the 20 percent of us who sing in that choir. Expect and embrace surprising sources of collaboration, especially from thoughtful, often religiously motivated or stewardship-inspired conservatives, and for the collaborative process to change the company and everyone involved.

We underscore how critical it is for you to share what you learn as often and with as many as you can. Transparent social and environmental improvements will gradually increase your base of committed support within the company, from the margins (or the heights) to the center; any entrenched traditionalists gradually shuffle to the side, go elsewhere, or retire.

As your company comes to know more, and becomes confident enough to work cooperatively with outside partners to reduce environmental and social impacts, it will adopt that work permanently *as a part of doing business*. It becomes irresistible.

So you're not a CEO. Most consultants and experts we know argue that any major social and environmental initiative has to come top down, from the leadership. And of course no formal company initiative can succeed without top-down support or at least the absence of interference. Nevertheless, most fundamental changes start at the margins and move toward the center. And as long as reducing environmental harm, in particular, presents so many opportunities for companies to save money, or make money, you can't go wrong pursuing improvements from the bottom up, even in the employ of an uncongenial or unaware company.

Element #1: Responsibility to the Health of the Business

A company that aims to be socially and environmentally responsible has the same primary duty as any other business to know its numbers and pay its bills on time. A business cannot honor its social and environmental responsibilities unless it meets its first responsibility: to stay financially healthy.

But the means of measuring true business health is in its infancy Accounting, as practiced, still assumes that the benefits of nature and the commons are free and that spoiling them has no cost. And, it's true, their loss doesn't show up on the books. But the loss or spoiling of natural systems and the commons entails huge costs for which people outside the company pay or suffer. Who shall be held accountable?

A movement has been afoot for several decades to persuade companies to take into account the value of nature and the commons. In 1994, consultant John Elkington coined the phrase "triple bottom line" (TBL), which measures indicators of social health (defined as human capital) and the planet (natural capital), as well as profit (capital). In 2007, the United Nations ratified TBL as a standard for public-sector accounting, as a means to measure the true cost of government subsidies to industry.

Two NGOs, The Nature Conservancy and Conservation International, are working with the accounting firm PriceWaterhouseCoopers to develop new methodologies to valuate ecosystems. As we mentioned in the first chapter, Dow Chemical has committed to invest $10 million over five years in partnership with The Nature Conservancy to develop strategies to price nature's unpaid work as a provider of biodiversity and "ecosystem services;" one-third of global food production, for example, relies on insect and animal pollination. Dow will use that information as a basis to evaluate the ecological costs of every business decision.

There also needs to be a better way to account for GDP that takes into account the resources of nature and the commons. New forms of social and environmental accounting may help discipline business away from our worst practices.

This is the idea behind a budding movement called Creating Shared Value (CSV). CSV argues for the interdependence of corporate success and the common good. It states that sustainable resources, educated workers, and consumers keep everything humming; they create wealth and pay taxes. Social responsibility should be integral to business strategy; the "value proposition" includes a social value proposition.

Hard to quarrel with that, or with Robert Zoellick, the president of the World Bank, who is starting a project to assign a dollar value to the natural capital of emerging and developing nations, because "the natural wealth of nations should be a capital asset, valued in combination with its financial capital, manufactured capital, and human capital." But note how chilling the language, and beware when everything under the sun folds inside the economic and political system and its powers. Assigning value to the priceless or quantifying the numberless presents risks of its own, similar to that of determining the quality of an education on the basis of test scores exclusively.

When money becomes the measure—as well as the means—of all things, the potential for economic and political mischief grows; there are no longer "externalities" outside the system to be left uncounted or ignored and let be. What are we to do, once we do these calculations, with wilderness? Wilderness doesn't really exist except as an idea—and, now, as a longing. We don't think a speech from John Muir on the need for ecosystem services would have swayed Teddy Roosevelt to preserve Yosemite Park nearly as much as a night in the redwoods under the stars.

What citizens hold in common can not be free for the taking when there's no giving back. But not everything should have a price.

Element #2: Responsibility to the Workers

The Industrial Revolution, which has now extended its reach and introduced its system to most of the world, famously abstracts labor: the worker no longer owns his tools or her machines or bears full responsibility for the final product or necessarily knows the face of the man or woman who pays him and takes a share of his or her gain. And increasingly, companies rely less on people and more on robots to engage in large-scale manufacturing.

But by any standard, a company should do what it can to reward and care for the people who make its products and provide its services. All companies seeking to boost productivity need the loyalty, dedication, and creativity of their employees. The company's responsibility then extends to everyone in the supply chain who helps make or sell its product.

To fully engage the minds and hearts of employees, and minimize both the balk and bulk associated with bureaucracy, larger companies have to figure out how to best organize productive working groups of different sizes for different ends. Twelve is a good number for a small group to bond and work in concert to achieve a specific task with minimum hierarchy (think of a jury, a tribal hunting party, or an army squad). Anthropologist Robin Dunbar cites 150 as the magic number for community cohesion, based on the number of human relationships the human brain can handle. When it builds a new plant, the manufacturer W. L. Gore puts in 150 parking spaces. When the plant exceeds that capacity, the company builds a new one. Microsoft and Intel also limit the number of employees per building to 150, though they both run plants with multiple buildings. Hutterites form a new community when they reach that number. Along the same lines, a military company comprises between 80 and 225 people.

At Patagonia we've noticed changes in cohesion when we move different departments to different floors and buildings. Adjacency and proximity matter: to have our environmental team next door to the CEO engendered a certain dynamic; the CEO at the time became an environmental enthusiast. When the enviros moved to Marketing, they found new allies through daily contact with the people who tell the company's stories.

A department can have only so many immediate neighbors at one time. people at patagonia form important cross-departmental friendships and garner cross-departmental intelligence in our café, on lunchtime runs, and among fellow parents of kids in childcare. It's important to create comfortable spaces throughout the plant for employees to gather in small groups of two and three, as well as more formal meeting rooms.

Chouinard Equipment, Patagonia's predecessor, was, as we mentioned, curiously pre-Industrial Revolution. Our tin sheds held equipment: a drop-hammer forge, an anvil, a coal forge, jigs for drilling aluminum chocks, but no time clocks or assembly lines. Everyone was poor and most lived marginal, if well-traveled, lives. For a while we paid a 10 percent bonus to anyone who had the initiative to work forty hours a week, a practice that turned out to be illegal; we were busted and required to stop. We partied heartily; the sheds faced a courtyard where we celebrated almost any event with an asado of barbecued lamb and a keg.

When we became a clothing company, and as sales increased, we had to become more professional, a process that at first consisted of throwing bright, inexperienced young people into new jobs to see if they could learn what we needed to know how to do.

We paid fairly well, considering the inexperience of our employees. Early on we provided health care, although we did not have to. We have told the story of how we introduced childcare and parental leave. We never made anyone "dress" for work (though those coming into the company from the workaday world had to re-learn how to dress casually in order to fit in). People were free to take a long break midday to go surf or run, with the understanding that they came in early or stayed late—at any rate, got the work done.

Our worst day as an employer came in 1991, when we laid off 150 employees. For two years we had managed the company too carelessly, bought too much inventory, sold too little of it, hired too many people, and salted away too little money to pay for an expansion that our bank cheerfully financed until they got into troubles of their own and pulled the plug. Costs had to go down and fast. After weeks of considering alternatives (like a shorter work week, combined with a cut in pay), we decided to let go of 20 percent of our people—and all on the same morning to reduce the duration of the toxic atmosphere that persists when layoffs are expected. A consultant advised us how to handle the logistics: all day long employees watched their colleagues get called out for a talk and return without a job. By ten o'clock, employees had started to recoil, to roll back in their chairs, at the sight of a manager re-entering the room to approach the desk of yet another fellow worker.

Our emergency plan for a downturn of any magnitude now is to cut the fat, freeze hiring, reduce travel, and trim every type of expense except salaries and wages. We've done this for short periods several times—once right after 9/11. If things get worse, eliminate bonuses, which we once did. We paid them retroactively the following year, when the picture got brighter. Worse still, and decisions get tougher. Half of our expenses are labor. Before we would cut anyone else's pay, we would reduce the salaries of managers, directors, vice-presidents, and the top executives, including the owners. Then we would shorten the work week and reduce pay accordingly. Only as a last resort, if we were in the deepest sort of trouble, would we again downsize the company with a general layoff.

We should note the bracing fact that in 1991, after the layoffs, morale improved among the workers still with us. The hovering axe had fallen; those of us left still had our necks. We were a much soberer lot, absent the intoxication of growth, and more focused. We knew what we had to do to bring the business back to financial health, and we did.

Element #3: Responsibility to Your Customers

How to gain a customer and keep one? First, make something or offer a service someone can use, for which satisfaction endures. Second, your company should romance, but not bullshit, the people whose business it solicits.

Paul Hawken, when he was still running his Smith & Hawken gardening supplies company, told us that he didn't like to advertise because he didn't want that kind of relationship with his customers. He was referring to the alternate-reality environment of the magazine ad, wherein a business bullhorns its message in the same space as other unrelated voices all barking their own individual messages—like a bazaar but without the smell of spices or the dance of a charmed snake.

Since the mid-1980s, when Hawken made his comment, commercial space has much expanded and grown ever more noisy. More products have become more disposable; more customers experience more frustration when a flimsy product fails, and they have to deal with the customer-service person on the scratchy line from the offshore call center, who has no authority to correct a problem and, instead, didactically repeats the company's rules.

If the chase for cheaper labor is playing out to its conclusion, so is the race to attract customers on price alone, when the product in question won't last and the service won't deliver. Any customer can go online and find the cheapest price for anything, anywhere in the world. And any customer dissatisfied with a product or service can post it to a blog. So can any customer who questions the way a chicken has been raised or a sweatshirt sewn.

The strongest thing your company can do is something no one else will do, or do well.

To turn for a moment to romance: Selling and marketing seek to incite desire, but a company has to love to sell something its customer loves to buy. For both ethical and practical reasons, the selling story, to paraphrase Mark Twain, has to be mostly true. A company needs to present itself well to the customer; it may even preen a little, the way a lover might take care to dress for a date. A life story, or product story, told just this side of myth-making is okay when it fairly represents the real. But beware of conjuring a false image of your company's goods or services. Mystification will no longer work in a world where stage fog can be quickly dispersed by a competitor, activist, or regulator.

If you are responsible for a company's advertising and marketing, be truthful. The anonymous, sonorous talking head doesn't really represent your brand or product. Neither does Tiger Woods. Most people under forty don't watch the ads placed on TV at such great expense; they fast-forward through the boring bits when they watch the show after airtime on a laptop. They get their news from Jon Stewart and then Twitter it to their friends. And they have been raised to be concerned about the fate of the planet and want to support companies that are responsible.

Customers are expensive to find and to replace; they will become more so. The responsible company has to treat the customer as, if not a friend, a neighbor or colleague who shares a love of what the company offers, say a particular kind of clothing, food, shelter, education, art, sport, or entertainment. The wooing of customers can be assigned a cost per thousand exposures, scaled, tested, subjected to strategy. But the relationship, once sealed, is intimate and cannot be abstracted or reduced to a transaction. Someone will be happy to get your company's email or he may wince; she will order from your catalog or use it as kindling.

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Responsible companies have long supported their communities' hospitals, schools, and arts organizations. The best companies have also recognized their significance to the economic health of their communities and have avoided closing plants when possible, or have helped soften the impact of a closing by phasing out rather than shutting down production, offering generous severance pay to laid-off workers, and supporting the community institutions that aid the unemployed.

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The rising tide may lift boats, but it can also flood neighborhoods, leaving hardship in its wake. The current sinking of the middle class, especially in the United States, where the social safety net has been knit more loosely than in Europe and Japan, is strikingly evident in the landscape. In the United States of 2012, as this book is being written, we have two extremes with little in between: there are nearly abandoned Midwestern towns and dilapidated American city centers on the one hand and, on the other, zip codes where the restaurant with a hot new chef offers thousand-dollar wines and families of four live in houses big enough for twenty. *The Wall Street Journal* has reported that income disparity in the United States now approaches that of Mexico or the Philippines. Procter & Gamble, one of the last mass marketers, now has to pitch its products high or low; not enough people are left in the middle to matter.

What businesses do to their communities matters. Citizens from Palo Alto or Greenwich to Detroit or Smyrna, Tennessee, are directly hurt or helped by the decision made by companies with a local presence to put down roots or pull out. (We were not popular in Bozeman, Montana, when we pulled up stakes to move our call center to Reno.)

Every company needs to ask itself: If you do business around the world, where are you local? And what are your obligations to those places you call home?

Home is wherever you have a concentration of employees, as we do in Ventura, Reno, Kamakura (Japan) and Annecy (France) and, to a lesser extent, wherever we have stores. We help make each store local in part by giving it an annual budget for grants to local environmental groups, with recipients determined by employee vote. Although we are not a significant employer for any community, except perhaps Ventura (workforce, 350; county population, 825,000), we are mindful of how what we do affects local housing, traffic, infrastructure, and habitat. As well as maintaining relationships with local environmental groups, we participate in beach and creek cleanups and habitat restoration.

Reducing travel is an environmental necessity that, in the long run, will affect business communities. At Patagonia we rely on extensive business travel to maintain our relationships with satellite operations, suppliers, and customers, as well as the industry organizations with whom we work to reduce our environmental impact. Our business assumes, and depends on, the mobility of our customer base. But air travel will become increasingly expensive, as it should; for while it conserves time, or used to, it wastes an astonishing amount of fuel on a passenger-per-mile basis. One solution is to cluster operations geographically, wherever possible. Companies need to undertake separate manufacturing steps in geographically proximate factories, and to ship from a port as close as possible to the final assembly point. Note that travel by rail or cargo ship is relatively environmentally benign on a per-product basis. We cause more environmental harm trucking a jacket on the short, final leg from the port in L.A. to the warehouse in Reno than we do shipping the same product across the breadth of the Pacific.

The task for all of us during the next half-century will be to scale the industrial model down rather than up. There are strong reasons to decentralize the energy grid so that when a crow fries a transformer in Alberta it doesn't silence a sound stage in L.A. There is no reason to believe that the monoculture created by business activity is any healthier for economic life than agricultural monoculture is for the health of ecosystems.

Element #5: Responsibility to Nature

The business world needs to see the economic and environmental equivalent of the astronomic truth that the earth rotates around a sun, and that the universe does not radiate out in a flat plane from the earth. That truth is this: Our economy depends on nature, not the other way around, and companies will destroy the economy if they destroy nature.

We know that we are not superior to nature, but our language says otherwise. We refer to nature as "resources," as though nature were here to be at our disposal. We refer to nature as our "environment," as though nature were here to wrap itself around us. We refer to ourselves as "stewards," as though God had ordained us to be nature's keeper, a big key dangling from our neck, a white towel slung over the arm.

Our first responsibility is to be more humble, and yet also more confident. We are a part of nature; we *can* learn to live on our planet without spoiling it.

Our second responsibility is to, whenever and wherever we can, leave nature be. We all know when we see a patch of land that should be left wild or a stretch of water that should be freed from the chokehold of a dam that has outlived its purpose. We need to restore the natural systems with which we've tampered. Nature has immense restorative powers, once the sources of assault are removed.

Our third responsibility, as we have argued throughout this book, is to reduce the harm we do in the course of ordinary business and take birth-to-rebirth responsibility for what we make or bears our name.

A few quick, practical tips before you consult our five checklists in the appendix:

Remember that 90 percent of a product's environmental impact is determined at the design stage. Life-cycle analysis, the most critical tool for learning everything that goes into making your product, is expensive and time consuming, especially for smaller companies with limited resources. Therefore, it's best to measure what is most important and what you can do something about: the 80/20 rule applies. If 20 percent of your products generate 80 percent of your sales, analyze those products to gauge the lion's share of your impact. Moreover, if possible, work with an industry organization with a sharable methodology, database, and software that enable you to capture the necessary social and environmental data as part of your ordinary reporting systems.

We intend our checklists as points of departure. They give you an idea of the range of what can be done to make a difference—from removing the water pipe of a urinal to using recycled wallboard to taking back your used-up products to be recycled. Start with some kind of assessment of what you presently do to minimize your energy and water use and waste. Adapt the checklists to your priorities. Figure out what can be done most easily and least expensively (or to produce the most savings), and with the least resistance.

But it's also worthwhile to look at what seems most difficult and far-fetched. What seems hardest to do, or boldest, may be precisely what you need to do to motivate others, including customers and competitors, as well as suppliers, to join you in your efforts. Checking off the easy stuff gives us experience and builds confidence. Tackling the big stuff, and surviving setbacks and failures, makes us smarter, stronger, and more useful to others. Doing both can lead to environmental and social gains of the sort we need: some wildly imaginative, some quietly effective, some both. It will take all kinds of work to repair the damage.