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Purpose is essential for business (but you can't count on it)

PUCKER

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Ken Pucker served as Chief Operating Officer at footwear and apparel brand Timberland when its CEO, Jeff Swartz, decided to elevate "justice" to the heart of the company's mission. How? By making environmental stewardship, citizen service and human rights part of its business model. Patagonia, another outdoor apparel and equipment brand, had similar aspirations from its earliest days. In 2022 its founder, Yvon Chouinard, decided to channel the company's profits to a non-governmental organisation that funds environmental causes.

How did Swartz and Chouinard make their visions a reality? How do ideas such as stakeholder capitalism, impact-weighted accounting, the triple bottom line, and degrowth – ideas for new forms of capitalism which are now being debated in classrooms, civil society forums, and perhaps even a few boardrooms – shape not just our collective aspirations but also hard commercial realities in the world today? How can companies be encouraged to operate within planetary boundaries?

Ken Pucker's experience is equal parts inspiring and cautionary. We cannot rely on "rare birds", he says, but we can push others in the same direction.

Today, Ken is a writer and professor of practice at Tuft University's Fletcher School. He also works on sustainability in the fashion industry, advises the private equity firm Berkshire Partners, is an investor and board member at fashion label Rag & Bone and merchandise platform Nexite, and serves on several other boards.

Let's start at the beginning. What happened at Timberland? How did justice enter the conversation at the company?

I was a bit player in the Timberland story – which is fascinating. The company was publicly-traded but family-controlled, by the Swartz family. The first generation of the family came to the United States in the early 1900s, fleeing pogroms in Russia and religious persecution. The founder, Nathan Swartz, opened a women's private label shoe factory in Roxbury, Massachusetts, making goods for discount department stores. Nathan passed the company to his two sons: Herman and Sidney. Herman was an accountant. Sidney gambled away tuition money at the University of Maine, sophomore year, hitchhiked home, where his dad then gave him a broom. They worked together for years, creating a brand out of the ether, called Timberland, in 1973. In 1985, VF Corporation came to the brothers and offered to buy the brand for $60 million. Herman, the accountant, said, okay, I can do that math; 60 divided by two is 30 each, I'm done. But Sidney wanted to continue to build the brand and business. And so, the company went public in 1986 to buy out Herman. Sidney stayed. Sidney was my first boss at Timberland when I joined in 1992, and by then Timberland was already a $180 million company, growing very fast, not making much money, and pretty out of control.

Saleem Vaillencourt

Ken Pucker

Sounds like the family had a long apprenticeship.

Sidney was a courageous visionary. He did not focus on financial statements – he just wanted to grow. He retired when he turned 60 and turned the keys to his office over to his son. Jeff and I were about the same age. He was different from his grandfather and father – an overeducated polymath who spoke five languages. He went to Brown pre-med, then to Dartmouth's Tuck Business School. By the time he ascended to CEO, he was less inspired by traditional business budget meetings, product meetings, and marketing meetings, so he decided that what would most engage him was to create a business model that could be a paragon for others to follow. He called the model: commerce and justice. "Justice" is not a word, even today, that you hear used in a business context. People would say: Huh? Purpose, maybe, but justice? What are you talking about?

Yes – perhaps it is unexpected. Jeff Swartz must have understood that there are many forms of justice that can be pursued.

"Justice" at Timberland comprised three components: environmental stewardship, citizen service and global human rights. And all three were funded internally through our budget process. Timberland became recognised for its approach. We were chosen as a Fortune Top 100 Best Place to Work for eight consecutive years, we won Business Ethics magazines' top honour year after year and were awarded the Presidential Award for Civic Service. We were also the first publicly traded company to pay employees to engage in 40 hours of community service and were the first publicly traded company to issue quarterly corporate social responsibility reports. We powered our factories with renewable energy and installed one of the largest solar arrays in the state of California. All a tribute to Jeff.

What did this experience teach you? How did justice affect the company's performance and its wider social or environmental footprint?

Purpose is essential for business. If you want to attract and retain great employees, it's incumbent on companies to stand for more than making money. Great employees have choices. And so, purpose matters. Timberland did a lot of things aligned with purpose well before the wider conversation started. I believe that it ultimately was beneficial in terms of profitability – because we were able to attract and retain amazing talent – because those employees wanted to be affiliated with the company. But we weren't great communicators of what we were doing on the justice side, with consumers, and it could come across as preachy when we tried. And so we focused on trying to communicate to

investors. When you're a public company, you speak to investors and Wall Street every 90 days. Jeff, the CEO, reserved a third of his prepared remarks for the justice agenda. In the 28 quarters (seven years) that I sat next to him, he never got a single question, not one, about that work. As a result, he stopped going to semi-annual analyst meetings and would send me, because he didn't think Wall Street analysts appreciated what he was doing. If his investors didn't care, and we didn't communicate to consumers, why did we seek to deliver commerce and justice? First of all, because it was fundamental to Jeff's beliefs; but, also, from a business perspective, we were able to hire and attract talent two or three levels above what a billion-and-a-half dollar footwear company should have been able to attract. Were you to examine the trajectory of the 30 highest-ranking employees at the time that I left the company, and look at what they're doing now, you'd say "Wow".

And what about Timberland? What is the company itself doing now?

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Jeff Swartz later sold Timberland because he was not comfortable entrusting an outsider with running the company. In 2011, it was sold to VF, the same company that had offered to buy Timberland in 1985, but this time the price exceeded $2 billion. It's a wonderful affirmation of the work that Timberland did to demonstrate that a different model could prevail. Now that VF owns Timberland, much of the "justice" agenda endures, but not all. I'll give you an example. Jeff came to work one day with a bottle of Russian salad dressing. He put it on the table in front of us, maybe six of us, and said, "You see this nutrition label that's mandated by the Food and Drug Administration on the back? I want one of these labels on all 30 million pairs of Timberland footwear. You have six months." He wanted us to show the environmental and social "health" of our boots, how they were made, the materials they used, and so on. Eighteen months later, we were able to put a label on a small selection of our line. But a couple of years after that, we did put it on all 30 million pairs of boots, and you can find a lot of press about that, the so-called Timberland "ingredient label" or the "eco label" or the "green label". But it was removed when VF bought the company. I don't think they were wrong to do it, by the way, because no one understood it. If you looked at the ingredients label on the back of a boot and it gave you a rating of eight, you'd have to ask "What is an eight? What does eight compare to? How is the rating measured?"

Do you think we have become more conscious of the way consumer products are made, since Covid and the global supply chain disruptions, as well as conversations over the past 20 years around sweatshops, conflict minerals, and so on, and the way values or a lack of values are expressed in our supply chains?

I would say yes, and no. Consumers would like to be more conscious of the social and environmental impacts in global supply chains. But supply chains for fashion, for instance, are opaque, distributed and complicated. If I ask you to tell me about the social and environmental contents of the shirt you are now wearing, it would take oodles of research. You would have to find out where the thread was made, where the zipper was made, where it was dyed, knitted and transported, what distribution centre it came from, do they have audits in the factories? You would need a year of your life to figure it out for that one shirt. Complexity is the enemy of transparency.

Jeff Swartz was obviously unique. But he pioneered a way of working that many people want to see become more prevalent across business. Should we have to demonstrate the value of it through empirical evidence? Or should we make an argument for it on the basis of values? And argue that we should try to do what Jeff did without needing to know that it can lead to a stronger bottom line?

You're right that Jeff was unique, and Patagonia's Yvon Chouinard is also a rare bird, and we can't count on finding lots more of them. Their nobility and courage is not transferable. Chouinard is the real deal and Jeff is also very authentic. Investments like the ones they made don't often have demonstrable payback because much of it is based on intangible factors that cannot be easily quantified, such as brand reputation, supply chain compliance, recruitment and retention. Should we expect leaders to adopt strategies like Jeff's or Yvon's because the climate is warming, and biodiversity is at risk? The answer is, we can hope for it, but in my view, it isn't going to happen at scale. The reason is not because executives are bad or good, it's because the systems, structure and incentives don't push executives to do such things. I'm a big believer in the thinking of Donella Meadows, an environmental scientist who passed away years ago, who wrote a book called Thinking in Systems. Amazing person. Her contention was that behaviour is a function of systems, structure and incentives. For example, imagine that you're a CEO of a publicly traded company. You get on the phone at the end of the quarter and say: "We have great news to share. This quarter, our revenues declined by 12%, but our water usage declined by 22%, and our carbon emissions declined by 17%. On an intensity basis, on all environmental metrics, we are killing it." You

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laugh because you can't imagine that scenario. But that is what you're asking, essentially; can we end up with equal rewards for purpose-oriented environmental and social good? And with most of these externalities, like carbon emissions, it's easier not to pay for carbon than to pay for it. And if you do pay for it, and your peers don't, you're at a competitive disadvantage.

Patagonia's founder, Yvon Chouinard, made headlines in 2022 when he transferred Patagonia to the Patagonia Purpose Trust, and the Holdfast Collective, which will invest the company's profits in perpetuity to address the climate crisis. And that was after decades of building its values into the way the company operated. Chouinard also ran that famous New York Times ad in 2011, on Black Friday, in which he said "Don't buy this fleece."

Patagonia's anti-consumerist messaging only resulted in them selling more stuff. When the company hit $200 million some years ago, Chouinard said that he didn't need to grow any more, the world doesn't need another fleece. The company's sales are now well over a billion dollars. You have to ask yourself: what is it about our system of capitalism that engenders this pressure for growth? Growth is oxygen for a business. No one wants to work for a company that says: "We're committed to stability, and you're coming in as a junior analyst, and 20 years from now, you can still be a junior analyst." Growth helps people build their careers, it builds wealth, it creates excitement and hope. If Yvon Chouinard and Patagonia couldn't resist the urge to grow, no company is going to be able to resist. Credit to him, he came up with a different construct to pursue his vision, one where Patagonia's profits go to a non-governmental organisation that's administered by the family and allocated to environmental causes. Chouinard and his family have decided that, instead of focusing on measuring the triple bottom line, they're just going to take the profits at the end of each year and allocate them towards the environment. Is it effective? If every company did it, it would be wonderful, the huge amount of capital available to help us transition. I love and I applaud the courage, generosity, and courage of Yvon Chouinard. I think it's awesome. But it's unreasonable to expect everyone to be that noble.

Do you think ideas like the triple bottom line, or impact-weighted accounting, can help give businesses a new perspective? How do these ideas work?

The idea of the triple bottom line was invented by a sustainability expert named John Elkington, about 20 years ago, and it was an attempt to elevate social and environmental issues to the same level as economic issues. According to its proponents, companies should measure more than just profit, or economic value added, but also social and environmental value. It's a bit of a holy grail that has remained unfulfilled – notwithstanding a lot of hype. In fact, if you go and look at Harvard Business Review last year, maybe a year and a half ago, John Elkington wrote an article "recalling" the concept. I've never seen an idea recalled by its architect, but it certainly hasn't gained enough traction. But there are many attempts being made to resurrect some form of balance in reporting on social and environmental impacts. There's a movement, mostly in Europe, looking at impact accounting. It's a way to formalise what Elkington wanted to do but with a twist. Its pioneer, its principal benefactor is Sir Ronald Cohen, the founder of Apax, a London-based private equity firm, who is also considered the father of the venture capital business in Europe. He sponsored a group at Harvard called the Impact Weighted Accounts Group, and it's been working for a couple of years, trying to dollarise the idea of multi-capital reporting. It's an attractive idea because, as its proponents say, it is vital that we speak the language of business to get executives to behave differently. Executives understand what a billion dollars of profit is. But what if they also understood that they were causing two billion dollars of environmental harm and a billion dollars of net positive impact socially, through paying taxes, pay and training, and things like that?

Why is this "holy grail" unfulfilled? Measuring every negative externality, every social or environmental cost of doing business, could help us understand more about our products and the consequences of our way of life.

I wrote an article with a colleague about why impact accounting is a perilous idea. I think it's intellectually attractive; but it is very, very complicated to look at marginal effects. If, for example, you look at the example of a non-renewable natural gas peaker plant, which is a type of power plant that can turn on and off quickly, to meet spikes in demand, it can have a positive or negative environmental effect depending on where it's installed. If you put the facility in New England, the natural gas can be used to augment renewables and you might displace dirty coal. But if the same plant was placed in Iceland, where there is a constant geothermal supply of energy, then using the non-renewable natural gas peaker plant would generate more carbon emissions. And yet it's the same plant. Context matters. In addition, to implement a dollarised impact accounting system, one would have to decide who prices externalities and what values to ascribe to each. How do you value, for example, the externalities of an Oreo cookie? To do that, one would have to look at calories, trans fats, sugar, obesity and more. It is wildly complicated.

You also mentioned systems, structures and incentives. How do we change our economic systems, social structures and commercial incentives, to move away from profit and consumption to something more sustainable?

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There's momentum growing behind an idea called degrowth. It's a terrible name, but a good idea, or it's an interesting idea. Jason Hickel is one of the movement's thought leaders – and a lot of people are starting to talk about degrowth. At present, humanity is consuming resources at a rate equal to 1.75 Earths per year – and that's only the renewable resources. Non-renewables, such as tin, copper, oil, are limited and when they're done, they are done. Renewable resources, by contrast, such as clean air, water, fish, all these kinds of things, they renew. We have this gift from God. But we're using 1.75 Earths a year of renewable resources. It's the equivalent of you starting with a savings account of $10,000 and spending, you know, $1,000 more than you earn on those savings each year. We're dwindling down our savings account faster than it renews. Degrowth thinking recognises that there are planetary limits and that it is unfair to ask a Bangladeshi not to want to have what a New Yorker has – so New Yorkers are going to have to be satisfied with less of some things. And maybe more of others, maybe more leisure time, but fewer SUVs, to create space for the rest of the world to grow and let humanity live in harmony with planetary boundaries. There is a debate between green techno optimists – people who say that we can grow our way out of this, we always have, technology will save the day – and degrowthers who insist it's not working.

But now we seem almost out of options. You say we can't count on business to make people like Jeff Swartz or Yvon Chouinard the norm. We can't measure the social and environmental bottom line, alongside the economic one, in a reliable way. And degrowthers say technology alone can't build a sustainable way to grow. Do we just give up?

Many other constituencies are also engaged in this discussion. There's NGOs, there's media, consumers, investors, companies, and suppliers. The four most influential are companies, regulators, (which are connected to governments), investors and consumers. Of those four, the one that I believe is most important is government, via policy. As one example, I am working on a piece of legislation called the New York Fashion Act, an initiative led by an NGO called the New Standard Institute. This legislation says,

if you're a brand that has revenues in excess of $100 million globally, and you choose to sell in the state of New York, you have to perform due diligence practices established by the Organisation for Economic Cooperation and Development on your factories, you have to report on your water usage, the percentage of recycled materials, carbon emissions, and the whereabouts of the four tiers (suppliers and their subcontractors) of your supply chain. In addition, you have to sign up to science-based targets, which is an international initiative led by five NGOs, which compels companies to lower their carbon emissions by 4-5% a year, independent of growth. Any company that does adhere to the provisions of the legislation, can be fined up to 2% of global revenue by the Attorney General. Timberland, for example, would get fined around $38 million if they didn't comply. We obviously have an uphill battle to get this legislation passed. Progressive companies, Patagonia, Eileen Fisher, Stella McCartney, all support the Act. But most brands think the terms are too draconian. I don't know if the bill will pass this legislative term: it might not. We may have to go at it again next year. But it's already become a conversation in industry because they know it's ultimately going to happen. If not in New York, it'll be in California, if it's not in California, it'll be another jurisdiction. The template that we've created will have a profound effect – more so than you as a consumer saying that you wished you knew more about your shirt or investors saying it would be nice to use less water. Policy is the most effective lever.