1 *Introduction*

On a Monday morning in June 2009, Timberland CEO Jeff Swartz woke up to find his inbox jammed with emails accusing Timberland of destroying Amazon rainforests and exacerbating global warming by using leather allegedly sourced from cattle that were being grazed on cleared rainforest land. Over the next few weeks, the emails totaled 65,000. His company had become a target of a campaign organized by Greenpeace, an environmental activist organization with a strong history of exposing companies' environmental negligence. As Swartz recounted, "I figured if that many people were taking the time to send an email, there must be at least half a million not sending emails … That's a big number. Our brand's reputation was at stake" (Swartz 2010: 39).

At that moment, the environment was a strategic issue for Timberland. Sustainability had always been important to its brand – its logo was a tree, after all – and for decades, Timberland had company programs for its employees to contribute to its corporate social responsibility (CSR) and sustainability initiatives. How Timberland responded to the Greenpeace challenge would have a material impact on the future of its business.

Timberland needed an environmental strategy.

Timberland is not alone. These days, virtually every company confronts environmental sustainability as a strategic challenge. All companies have some impact on the natural environment. A company's potential for environmental impacts exists across the life cycles of its products, from the production of raw materials, through manufacturing and distribution, use, and disposal. The environmental impact of an automobile starts with the extraction of natural resources, continues through the manufacturing process and the distribution of the finished product, extends as the automobile is used, and often ends with disposal of the automobile in a wrecker's yard. Even companies that don't produce material products have environmental impacts.

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Management consultants travel for business on airlines that consume fossil fuels and work from offices that are typically heated, cooled, and electrically powered by more fossil fuels, all of which emit greenhouse gasses.

1.1 Environmental Impacts as Opportunities

Every environmental impact is, of course, an opportunity for improvement. A company might offer products with environmentally beneficial features, improve efficiency in its production processes, reduce the risk of environmental spills or mishaps, or implement programs to engage its workforce in sustainability programs, to name only a few.

Environmental impacts also mean that a company may face demands from stakeholders who want to see improvements in environmental performance. Until the last few decades, people did not expect companies to do more than make profits and comply with government laws and regulations. Some companies might produce more environmental goods than regulations required, perhaps by planting some trees in a park or even keeping their smokestacks cleaner, motivated by the same sense of community commitment that led them to sponsor Little League teams or donate emergency supplies in times of civic crisis. Through the 1980s, a few large companies, usually closely owned businesses like Patagonia or Ben & Jerry's, started practicing sustainability on broader, more systematic scales. In 1985, Patagonia pledged to contribute 1 percent of its sales to environmental causes. In 1988, Ben & Jerry's offered ice cream flavors such as "Rainforest Crunch," which touted the company's environmental initiatives. For most companies, however, managing environmental impacts did not extent beyond complying with government regulations.

These days, a clean record of regulatory compliance is no longer sufficient in the arena of public expectations. Consider some examples:

> Consumers increasingly weigh companies' environmental practices in their purchasing decisions. Nearly every imaginable product or service available to consumers has a "green" or sustainable purchasing option. People can have their teeth cared for by a "green" dentist, duly certified by the Eco-Dentistry Association. They can use environmentally friendly cleaning products or hire a green home-cleaning service. When they buy a home, they can do so with the guidance of a certified sustainable real-estate agent.

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> Environmental groups today represent just about every cause one can imagine. Some groups focus on motivating activists for campaigns and protests and are searching for their next company targets for a campaign. Other groups are looking for opportunities to cooperate with companies in next-generation sustainability practices.

> Companies' environmental and social performance has become a larger focus among investors. The number of funds that incorporate environmental, social, and governance factors in their investments has grown from 55 funds investing $639 billion in 1995 to 1,204 funds investing $17.1 trillion in 2020. (US SIF 2020)

> Employees want to work for companies that go beyond the requirements of government regulations to produce environmental and social value. A 2016 survey reported that 75% of the Millennial generation (roughly, those born between 1982 and 1996) would take a pay cut to work for a socially responsible company. (Cone Communications 2016)

Investors are weighing environmental performance into their financial evaluations of companies. According to a survey by the consulting company McKinsey (2020), most senior executives said they would be willing to pay 10 percent more to acquire a company with a positive record of environmental, social, and governance performance compared to a company with a negative one.

Trends like these are not confined to the United States and the financially well-off countries in western Europe. Around the world, consumer demand for green products is on the rise. Activist protests are becoming more common, even in the developing world. In 2021 in Gujarat, India, hundreds of people protested against Suzlon, an Indian wind turbine manufacturer. Suzlon had proposed a wind energy project in Sangnara village, which protestors believed would endanger the local forest, long held sacred by the community (Bavadam 2021). Citizen demand for improved environmental conditions is likewise growing across China, even resulting in citizen protests (Khanna 2020).

Even if a company's local surroundings are quiet, it may still experience strong demands for environmental performance through its positioning in global supply chains, as Timberland's Jeff Swartz experienced through Greenpeace's Amazon campaign. Companies are increasingly expecting their suppliers to have stronger sustainability programs. Only 27 of the 1,832 European Union (EU) companies surveyed by the International Trade Centre in 2019 reported that sustainability was not a consideration when considering input sourcing.

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For companies around the world, these stakeholder voices – from diverse sources, on diverse issues, and with varying tone and intensity – present both opportunities and threats. The opportunities are to implement environmental improvements that stakeholders demand. Gratified stakeholders may then bestow value on companies who produce the environmental improvements they want: consumers may pay higher prices for environmental products; employees may stay in their jobs longer; insurers may offer better terms. The threat can be the loss of competitive advantage when a company fails to meet stakeholder expectations. Just as stakeholders can bestow value, they can also act in ways that reduce the value a company receives. Stakeholders' protests can damage a company's brand and hurt its product sales. Stakeholders can deny access to key strategic resources, such as material inputs, the license to produce and operate, and access to markets to sell products and services.

More than twenty-five years after Patagonia and Ben & Jerry's made sustainability core to their business, sustainability as a core business practice has become mainstream. Over half the Fortune 500 companies have published annual corporate sustainability reports. Most large companies have a C-suite-level corporate sustainability executive and a department staffed with personnel whose job is to improve the company's environmental performance. By 2022, 622 out of the 2,000 largest publicly traded companies in the world had committed to a strategy to reach net-zero climate emissions (CRE Finance Council 2021). Yet popularity does not always mean success. All too often, companies' sustainability efforts fall short of their goals, leaving managers questioning whether their investments were worthwhile and the public skeptical of companies' sustainability claims.

An environmental strategy serves to guide a company to make choices about how it interacts with the environment, its stakeholders, and various forms of institutions, such as governments, industry associations, and multisector collaborations. An environmental strategy is an integrated set of choices about how a company should interact with the natural environment. It includes deciding which resources and material it uses, where it should source them, how it should handle those that do not end up in products (e.g., waste, by-products, or pollution), and how the company communicates its environmental efforts to its stakeholders. It also includes deciding when and how to engage with others to influence government regulations and nongovernmental

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institutions so that the company can better achieve its environmental goals. An environmental strategy addresses how a company can enhance its long-term financial returns by improving its environmental performance, mitigating risk, and/or identifying and capturing new sources of value.

The promise of an effective environmental strategy is realized when companies develop, implement, and execute environmental programs that deliver value for itself, its stakeholders, and the environment (what some commentators call the "triple bottom line"): companies earn higher profits, the environment becomes cleaner, and companies have more positive relations with happier stakeholders. As we will see in Chapter 8, Timberland's Jeff Swartz developed an environmental strategy that transformed the threats of Greenpeace's campaign into an opportunity to achieve a leadership position in the eyes of consumers and stakeholders who cared about the Amazon's plight. Nearly two months after Greenpeace's email deluge, Swartz announced that the company and its supplier were moving toward a moratorium against deforestation in the Amazon biome, while at the same time praising Greenpeace's activism for bringing the issue to light. A few days later, Greenpeace issued a statement praising Timberland's leadership on the matter. The Amazon ecosystem benefited from better management practices, Greenpeace benefited by displaying its leadership to its members, and Timberland benefited from a better public image.

1.2 A Framework for Environmental Strategy

No company can make every environmental improvement available to it – environmental improvements are costly and a company will always make an environmental impact of one kind or another, no matter how well it is managing its operations. Environmental strategy is about making choices. Which impacts should a company improve? Stakeholder voices can help guide these choices, but they are not a panacea: a company cannot respond to every stakeholder demand for environmental improvements. Which stakeholders should matter?

The goal in this book is to present an environmental strategy framework that helps companies make choices about which environmental performance improvements to target and how to implement improvements. The framework identifies the important choices facing a company and how it can identify and analyze opportunities for improvement:

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Identifying which dimensions of environmental performance improvements can create business value. What environmental improvements can a company implement at a relatively low cost that deliver value to its environmental stakeholders? This means assessing the company's environmental impacts, opportunities for improvements, and the different types of stakeholders and how they value its environmental improvements.

Ensuring channel for value transfer. Just because companies can satisfy stakeholder demand for environmental improvements does not necessarily mean they will receive value for making these improvements. A channel helps stakeholders transfer value to the company that produces the environmental improvement. Sometimes, the channels transfer financial value, such as through consumer purchasing. Often, the value is nonfinancial, such as when an environmental group endorses a company's environmental practices.

Ensuring credibility. Companies need to communicate the value of environmental improvements to stakeholders and ensure confidence that the terms of the exchange will be met. Very rarely are stakeholders able to assess the quality of a company's environmental improvements. Effective communication strategies, such as certifications, company brands, and endorsements, can help a company communicate the integrity of their environmental improvements to their stakeholders. Formal and informal contract terms can ensure that the company and its stakeholders will uphold their side of the exchange.

Capturing sustainable value from environmental improvements. Companies need to ensure that this environmental improvement contributes to a strategic competitive advantage. An environmental strategy can extend existing competitive advantages, or, in rarer cases, an environmental strategy can create new sources of competitive advantage.

Engaging environmental institutions. A company can have opportunities to engage its institutional environment and change how institutions facilitate or impede its ability to achieve its environmental goals. Such engagement requires understanding how institutions influence the distribution of costs and benefits from environmental improvements and other stakeholders' incentives for pursuing institutional change.

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An important insight from this book is that a successful environmental strategy needs to be tailored to the unique circumstances of the company implementing it (Starik & Marcus 2000; Starik & Rands 1995). These can include differences in consumers' willingness to pay for different types of environmental products, environmental nongovernmental organizations' (NGOs) ability to stage protests, and communities' capacity to organize themselves for collective action. These conditions vary within countries and across countries around the world (Rivera 2010). Environmental strategy is also shaped by institutions. Institutions include government regulations and the agencies that enforce them, certification programs managed by industry associations and environmental NGOs, and multisector collaborations among NGOs, governments, and other businesses. These institutions can shape the costs and benefits of a company's environmental improvements.

An environmental strategy can identify opportunities for companies to advance their environmental objectives by engaging with the institutions in their environment. Changing institutions can alter the distribution of environmental improvements' costs and benefits, creating new opportunities and challenges for environmental strategy. A company's environmental strategy might look to lobby governments to increase the stringency of environmental regulations. While stringent regulations may raise a company's costs, it can gain a competitive advantage if the company's competitors face yet higher costs to comply with the same regulations.

An environmental strategy also depends on how the company conducts its business. Companies can have different opportunities for environmental improvements because they make different products, with different production processes, and with different inputs. They may have different (though often overlapping) stakeholders, with different levels of demand for different environmental improvements. Companies can have unique sources of competitive advantage based on their own market and nonmarket strategies and their strategic resources.

What also makes companies different are the people who own them and work for them. Led by its visionary founder, Yvon Chouinard, Patagonia has an impressive history of being at the forefront of business sustainability practices. Ben & Jerry's environmental and social programs reflected the values of the company's founders Ben Cohen

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and Jerry Greenfield. When Paul Polman became CEO of Unilever in 2009, he touted the company's growing CSR initiatives for their contributions to Unilever's long-term financial goals. Polman said in 2020, "[b]usinesses thrive when they serve all their stakeholders: citizens, employees, suppliers, partners, those who make up the extended value chain. When you make your business relevant to the needs of the communities and societies you serve, then everyone benefits, including shareholders" (Butler 2020).

This book's strategic framework helps companies make choices about how and when to improve their environmental performance. The efficacy of an environmental improvement is likely to depend on circumstances in the company's external environment (its market and nonmarket environment and stakeholders) and characteristics within the company (its competitive strategy, resources, and capabilities). The success of an environmental improvement is also contingent on the company's social context, the behavior of others, and the actors' resources, capabilities, and objectives. An environmental strategy acknowledges trade-offs – no environmental strategy can satisfy all stakeholders while also leaving the company financially viable. At the same time, environmental strategy is an opportunity for finding synergies that enhance the value of the company and its stakeholders.

For scholars looking to answer questions about when companies' sustainability programs will be successful, the book looks to frame research around theoretically grounded research questions and concepts. Early on, central research questions in corporate sustainability focused on whether companies' environmental programs actually improved environmental conditions (Chrun et al. 2016; Starik & Marcus 2000) and whether they produced financial value for the companies enacting them (Barnett et al. 2020; Friede et al. 2015). After years of study, the consensus answer is that environmental programs can be financially beneficial – clearly, there are times when environmental improvements deliver on the promise of the triple bottom line, but this question of whether sustainability pays is misplaced. In fact, it is a somewhat odd question in the first place. In fields like marketing, management information systems, research and development, and operations, scholars rarely ask questions such as "does it pay to allocate resources in this area?" Instead, the important questions in these areas center on what companies must do under specific circumstances to be successful.

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Back in 1999, in laying the groundwork for sustainability as a business strategy problem, Forest Reinhardt wrote, "[i]nstead of asking whether it pays to be green, we ought to be asking about the circumstances under which it might pay" (Reinhardt 1999: 1). Later scholars aimed to build on Reinhardt's foundation to identify the drivers and opportunities for environmental strategy (Blackburn 2007; Esty & Winston 2009; Hoffman 2000). How and when should companies allocate resources for product research, marketing, supply chain management, or any other activity? Companies can misspend resources on marketing and operations, just as they can misspend resources on sustainability.

More recently, scholars and business leaders have begun to question whether an environmental strategy in which each company acts on its own can achieve progress, given the magnitude of environmental problems around the world (Geyer 2021). Some call for more collaborations among companies, NGOs, governments, and communities to create new institutions for shared value: the types that balance the costs and benefits of collective action and produce the social and environmental improvements that communities need (Kramer & Pfitzer 2016; Porter & Kramer 2019).

This book builds on insights such as these and aims to advance a comprehensive framework for how companies can design, develop, and implement an environmental strategy. The environmental strategy framework presented in this book allows classifying case studies and larger-sample empirical research into theoretical constructs, which can then lead to integrating findings into a broader, more coherent body of knowledge. The framework helps organize the field's diverse research streams around key questions and analytic dimensions that enhance the cross-fertilization of research findings across studies and disciplines.

A few caveats are in order about the scope of this book's topics. A first is that the book sidesteps the question of whether and how much companies have moral obligations toward the environment. Moral obligations for companies and individuals constitutes an important and complex topic. In 1970, economist Milton Friedman published a famous article in the *New York Times Magazine* titled "The Social Responsibility of Business Is to Increase Its Profits" (Friedman 1970). Some people today agree with Friedman that companies have few if any ethical obligations to do more than comply with the

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government's laws and regulations as they pursue profits, and some government regulations even impose a fiduciary duty for companies to maximize profits. Other academics and even some business executives argue that companies have a moral obligation to contribute to solving social and environmental problems, even if doing so comes at the expense of profits (Carroll 1999; Hsieh 2017). The ethical questions about whether and how much a company should sacrifice financial gain to produce social and environmental goods are beyond the scope of this book.

Relatedly, there is an open question about whether companies always and only maximize profits and are never willing to sacrifice financial gain on the altar of environmental improvements. In some jurisdictions, companies can be legally chartered as a benefit corporation, which allows them to include social and environmental objectives, along with profits, as their legally recognized goals (Gehman et al. 2019). Patagonia is now chartered as a benefit corporation. It may be true that benefit corporations, and perhaps other companies as well, are willing to accept lower profits in order to produce more environmental and social value. After all, people are sometimes willing to donate money for social and environmental causes, such as when they give money to charities.

This book's premise is that, whatever their moral obligations and however much companies' morals and ethics motivate them to pursue environmental improvements, companies will contribute more environmental goods when they have more incentives to do so. People give more to charity when they have more incentives to do so, whether in the form of tax deductions, social recognition, or other forms of value. This book's aim is to help companies achieve both environmental and financial goals, regardless of how they balance the two, by showing how to identify where companies have more incentives to improve environmental performance. An effective environmental strategy can advance both financial and sustainability objectives, and if a company is willing to sacrifice financial value for environmental gain, the environmental strategy can help identify environmental improvements with the lowest net cost.

The second caveat is that this book largely sidesteps the question of what actions actually improve the environment. Sometimes a practice has clear and unequivocal environmental improvements, such as removing lead from gasoline. Often, however, an environmental

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improvement comes with trade-offs among its environmental outcomes. Organic food production uses fewer pesticides but is often more resource intensive and thus places more demands on ecosystems. Even seemingly beneficial environmental activities, like recycling (Geyer et al. 2016; Zink & Geyer 2019) and the circular economy (Zink & Geyer 2017), have important trade-offs.

Evaluating environmental performance is important, of course, and there are useful methods for evaluating companies' sustainability practices (Palazzo et al. 2020), some of which are discussed in Chapter 5. For the most part, the discussions in this book assume that a company and its stakeholders hold accurate beliefs about the environmental benefits they are considering – that is, they have properly used the correct methods and reached accurate assessments of the need for environmental improvements, the improvements' trade-offs, and how they can be achieved. The premise in this book is that an environmental problem is "solved" if the problem's stakeholders are fully informed about environmental conditions and accept the status quo. Some might argue that stakeholder consensus does not mean that an environmental problem is truly solved. The solution may not be ecologically optimal or sustainable for the long term. The solution may not satisfy the precautionary principle or other ethical standards. The company may not have contributed its fair share to the improvement. Identifying the "right" levels of environmental improvements and how to achieve them requires bringing together insights from areas such as ecology, industrial ecology, engineering, and environmental ethics. Resolving these types of question requires expertise beyond what this author can offer.

The book is organized as follows. Chapter 2 presents some theoretical background for the book. It opens with a discussion of market failures and environmental problems as negative externalities. Companies' pollution emissions are externalities that damage ecosystems. Stakeholders value healthy ecosystems and want companies to reduce their pollution emissions. The chapter presents a theoretical framework proposed by the economist Ronald Coase. If transaction costs are sufficiently low, the externality producers and the stakeholders can agree to an exchange of value. The stakeholders can provide value to the producers in exchange for pollution reduction. The chapter concludes with a discussion of the transaction costs that can impede the exchanges between companies and their stakeholders.

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Chapters 3, 4, and 5 begin the discussion of environmental strategy by presenting a series of challenges to be solved for companies to implement environmental improvements and capture value from them, as discussed: identifying potential environmental improvements and their costs, assessing stakeholder demand, establishing a channel for capturing value from stakeholders, and ensuring the credibility of environmental communications and commitments. Chapter 3 focuses on market strategy and stakeholders and Chapter 4 focuses on nonmarket strategy, stakeholders, and institutions. Chapter 5 continues the discussion by examining the relationship between environmental strategy and companies' strategic resources and capabilities. Environmental improvements and activities can create new sources of competitive advantage or reinforce existing competitive advantages. The chapter concludes by discussing the organization of responsibilities for environmental improvements and environmental strategy within companies.

Chapters 6, 7, and 8 present the theory in specific areas. Each of these chapters opens with a brief case example that illustrates the challenges and potential solutions to win–win environmental improvements, using the framework presented in Chapters 3, 4, and 5. Chapter 6 covers market strategy with an analysis of how companies can successfully market green products. The case example is Stonyfield Farm, a small New England company that was a pioneer in the organic yogurt market and grew into one of the largest organic dairy product companies in the world. Chapter 7 covers employee engagement – how employees react to and engage in companies' environmental programs and initiatives. The case, TD Bank's employee engagement programs, as led by Diana Glassman, shows the challenges and promises of using environmental programs for employee engagement. Chapter 8 examines nonmarket strategy with a focus on how companies interact with environmental NGOs and environmental activists. The case study returns to examine more fully the case of Timberland CEO Jeff Swartz and his response to Greenpeace's Amazon rainforest campaign. Chapter 9 concludes the book with a final case analysis, Nike's "Considered" sustainability initiatives. While Nike's sustainable shoes did not gain transaction in consumer markets, its "Considered Design Principles" became influential in the shoe industry and helped Nike's relations with nonmarket stakeholders.

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