

# **The Venture Development Processes of “Sustainable” Entrepreneurs**

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## **ABSTRACT**

This paper examines the venture development processes of “sustainable” entrepreneurs, i.e., entrepreneurs who create and build profitable companies that also pursue environmental or social causes. We identified 21 successful sustainable entrepreneurs in various industries ranging from food, apparel to biotechnology and analyzed their strategies and decisions in key stages of their companies’ development. Our research finds that sustainable entrepreneurs approach business differently, from venture initiation through their eventual exit. We learn that most of our sustainable entrepreneurs are an unusual breed with unconventional backgrounds, strategically obtain financing from non-professional sources and employ unorthodox, yet sound human resource management practices. They are also shrewd in their marketing strategies and effective in running efficient, environmentally sound operations. Finally, we observe that our sustainable entrepreneurs steadily find innovative means for balancing their financial goals against their objectives of making a difference in their environment and society.

## **INTRODUCTION**

This study examines the venture development processes of “sustainable” entrepreneurs, i.e., entrepreneurs renowned for their efforts and achievements toward “sustainability”. Sustainable development was initially defined as “development that meets the needs of the present without compromising the ability of the future generation to meet their needs” (World Commission on Environment and Development, 1987). Over time, sustainability, as it has come to be called, has become a multidimensional concept that encompasses not just environmental protection but also extends to economic development and social equity (Gladwin, et. al., 1995). In our view, successful sustainable entrepreneurs not only create profitable enterprises but also achieve certain social and/or environmental objectives. They balance multiple objectives effectively and are successful in meeting the “triple bottom-line”, i.e., their economic, environmental and social objectives.

Most academics and practioners would suggest that balancing multiple objectives is forbiddingly difficult because of the harsh realities of the marketplace. Evidence shows otherwise. We have identified 21 such high-profiled entrepreneurs in various industries, ranging from food and personal products to biotechnology, who had delivered strong triple bottom-line results year after year. These include such reputable companies such as Patagonia, The Body Shop, Stonyfield Farm, Interface Carpets, and many other entities illustrated in this research. They show that it is possible to meet multiple objectives simultaneously when they employ the right strategies and processes. In some cases, sustainable identity provided companies with a competitive advantage.

Very little formal research has been conducted in the area of sustainable entrepreneurship. One exception is the area of “social entrepreneurship”, being examined in the non-profit management or public sector management publications. Most of this literature, however, deals with the initiation of non-profit organizations and agencies to handle the problems of social welfare. Exceptions are some case studies and books on a particular entrepreneur or entrepreneurial business. These include Cohen, Greenfield and Maran (1997) who write about their own venture Ben & Jerry’s and Roddick (2001) who wrote about her entrepreneurial experiences with The Body Shop. We are only aware of Gray & Balmer (2004) that attempts to generalize findings from multiple entrepreneurs. It identifies 12 commonalities from an examination of 5 sustainable companies.

Our research brings to light the accomplishments of numerous sustainable entrepreneurs who offer a different model of entrepreneurial pursuits. We develop useful insights into their venture development process by rigorously studying the methods by which the founders initiated, grew and built their companies. We specifically examine how they:

- Identified and evaluated their business opportunities
- Arranged the financing of their unconventional ventures
- Launched and grew their businesses in the face of harsh market realities
- Established cultures that reflected their values and strengthened their organizations
- Leveraged their social identity to create a strong brand and a profitable operation
- Balanced their idealism with issues of growth (and other business requirements)
- Harvested their successes in financial and social terms

## **METHODOLOGY**

Through various literature searches and personal referrals, we were able to collect a list of small and large companies that were exemplary in their pursuit for sustainability. These were companies that were effective or showed significant progress toward meeting *triple* (economic, environment, and social) or at least *dual* (economic and environment, or economic and social) bottom-lines.

Specifically, we looked for companies that were

- Profitable or had several years of profitability
- Effective in making progress toward their social or environmental causes
- Founded and operated by entrepreneurs who either had sustainable values from the very beginning or adopted them while being leaders of their companies
- Diverse, i.e., different in size, stage of development, and nature of business (industry)

We narrowed down our list to 21 entrepreneurial companies that were effective in their pursuit for sustainability. Our list shown in Table 1 includes some of the most widely recognized companies, such as The Body Shop, as well as other smaller but equally innovative ventures, e.g., Chris King Precision Components and Iggy’s Bread of the World. Our list is by no means comprehensive. We have attempted to collect a diverse group of interesting companies that we could learn from.

TABLE 1: SUSTAINABLE COMPANIES

Company	Main Business Area	HQ Location
AgraQuest	Natural pest management	CA
Ben & Jerry’s	Ice cream	VT
The Body Shop	Natural skin care product	UK
Berkeley Mills	Furniture	CA
Chris King	Bicycle components	OR
Eileen Fisher Clothing	Comfortable clothing	NY
Explore Inc.	After-school day care	MD
Green Mountain Energy	Cleaner energy	VT
Iggy’s Bread of the World	Bakery	MA
Interface Carpets	Floor covering	GA
Just Desserts	Desserts	CA
Magic Johnson Enterprises	Real estate	CA
Migros	Food retail	CH
Newman’s Own	Salad dressing	CT
Patagonia	Outdoor clothing	CA
Rhythm & Hues	Entertainment (Special effects)	CA
Seventh Generation	Household products	VT
Stonyfield Farm	Organic yogurt	NH
Tom’s of Maine	Personal care products	ME
White Dog Cafe	Restaurant	PA

In an effort to understand how our sustainable entrepreneurs initiated, grew and built their companies, we examined their key decisions and activities in their “entrepreneurial processes”, as described in Baron & Shane (2003) and Morris et al. (2001). We customized the framework slightly to better address the special nature of sustainable ventures. As shown in Figure 1, we organized the entrepreneurial processes in 5 major stages (and 11 activities, e.g., financing), starting with Recognition of an Opportunity and ending with Harvesting the Business.

We collected most of the relevant information from published materials such as printed case studies and books on the companies in addition to newspaper articles and company websites. A number of the case studies had been developed by the authors for use in their courses. Whenever feasible, we interviewed the entrepreneurs and their employees to supplement our research. The next section summarizes our findings for each of the 5 major stages.

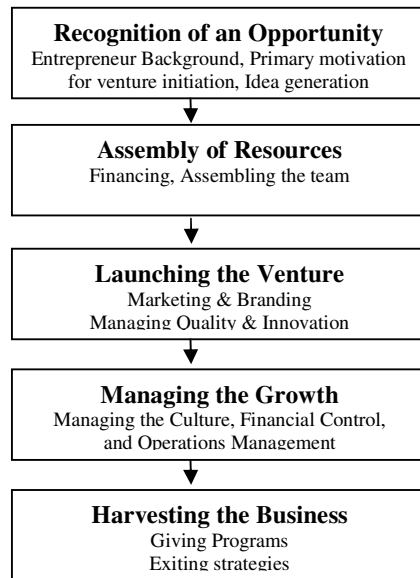


Figure 1. Venture Development Process (Entrepreneurial Process)

## RESULTS

In this abbreviated version, we discuss several of the most interesting commonalities only.

### *A. Recognition of an Opportunity*

Backgrounds of entrepreneurs: Table 2 describes the backgrounds of several entrepreneurs representative of our larger sample. We find that most entrepreneurs in our sample had little relevant business experience or formal business education. Paul Newman, whose company Newman’s Own now has annual revenues over \$100 million, was an (Oscar-winning) actor. Gary Hirschberg of Stonyfield Farm with over \$50 million annual revenue was an educator and environmental activist before founding his company. Anita Roddick of The Body Shop had no business or cosmetics experience before founding The Body Shop. Most, though not all, exhibited some sense of social or environmental consciousness before pursuing their entrepreneurial business careers. Anita Roddick had been interested in issues of Third World women’s rights and had worked for the United Nations International Labor Organization. Elliot Hoffman and Gail Horvath of Just Desserts were self-claimed hippies.

TABLE 2: SAMPLE BACKGROUNDS OF ENTREPRENEURS

Company	Backgrounds			Professional Backgrounds
	Business	Activist	Other	
Ben & Jerry’s (Ben Cohen, Jerry Greenfield)			X	Potter (Ben), medical doctor drop-out (Jerry)
The Body Shop (Anita Roddick)		X	X	Library researcher, housewife
Just Desserts (Elliot Hoffman, Gail Horvath)		x	x	Hippies from the Haight-Ashbury Scene
Magic Johnson Enterprises (Earvin Johnson)			X	Professional basketball player
Newman’s Own (Paul Newman)		x	X	Actor , racer

Stoneyfield Farm (Gary Hirshberg)	X	Environmental activist
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X: Strong background x: some background

Primary reason for venture initiation: For the majority of our sustainable entrepreneurs the primary motivation for starting their companies was rather modest – to make a living – not necessarily to generate great wealth or change the world. As described in Table 3, Anita Roddick started her retail shop after her husband decided to travel across the Americas on a horse back. Pamela Marrone of Agraquest found herself without a job when her employer was acquired, which motivated her to consider entrepreneurship. Judy Wicks started her restaurant out of her home primarily to make a living after the restaurant she worked for had closed.

TABLE 3: SAMPLE PRIMARY REASONS FOR VENTURE INITIATION

Company	Motivation			Description
	Income	Wealth	Cause	
Ben & Jerry's (Ben Cohen, Jerry Greenfield)	X		x	Being a potter had not worked out for Ben and being a doctor had not worked out for Jerry. So they wanted to go into a food business.
The Body Shop (Anita Roddick)	X		x	Opened retail shop to support the family while her husband went to ride a horse for 2 years.
Newman's Own (Paul Newman)			X	Wanted to sell a healthy product and give the entire profits to charity.
Stoneyfield Farm (Samuel Kaymen)	x		X	Began the company primarily as a vehicle to help fund Kaymen's Rural Education Center.
White Dog Café (Judy Wicks)	X			Started the business primarily to make a living after the restaurant she worked for had closed.

X: Strong motivation x: some motivation

It is noteworthy that some business ideas originated from the founders' drive to make a difference. The idea for Berkeley Mills began from a vision to forge a realistic harmony between a woodworker's livelihood and forest preservation. John Hughes founded Rhythm & Hues to offer a unique work environment for entertainment professionals – very unusual for a very harsh industry. Earvin Johnson wanted to revitalize the inner cities through his venture.

*B. Assembling the Resources - Financing sources:* We examine the means by which the sustainable entrepreneurs obtained their initial financial resources. The source or method of financing is particularly important for sustainable companies it can have a big impact on how the companies are managed and controlled. Table 4 describes the financing sources of a sample of our companies. We find that most of the companies bootstrapped, i.e., started with very little seed financing and managed through tight cost control. For example, Tom's of Maine started with a loan of \$5,000 from a friend, while Just Desserts founders sold off their VW Bug to purchase a mixer. Most obtained some financial assistance from family and friends, and very few received equity financing from professional investors.

TABLE 4: SAMPLE FINANCING SOURCES

Company	Sources				Description
	Boot-strap	Friend & Family	Bank	Investor	
The Body Shop	X		X		£ 4,000 loan from the bank.

Eileen Fisher Clothing	X	X	Borrowed from friends to buy fabric, often at 2% interest per month.
Encore, Inc.			X \$5 M from private individuals.
Just Desserts	X		Sold their VW Bug to buy a mixer.
Magic Johnson Enterprises			X Convinced Sony to co-invest.
Tom's of Maine	X	X	\$5,000 loan from a friend.
White Dog Cafe	X	X	\$75,000 loan from a friend.

*C. Launching the Venture - Marketing and branding:* From early on, our sustainable entrepreneurs developed a sound marketing strategy leveraging the high quality of their products and their stance on the environment and social issues. All of the companies in our list positioned themselves as producers of high quality products or services. Customers, however, bought the companies' products not only because of their quality, but also because they liked what the companies stood for. Newman's Own admitted to "shamelessly exploiting" their celebrity status and its social message for a greater good (Newman & Hotchner, 2003). White Dog Café also learned that combining entertainment with social message could be good business. Judy Wicks of White Dog Café noted, "The more I get into expressing what I believe in and care about, the more popular we have been" (Hollender & Fenichell, 2004). See Table 5 for sample marketing and branding strategies.

TABLE 5: SAMPLE MARKETING & BRANDING STRATEGIES

Companies	Marketing & Branding Strategies
Ben & Jerry's	Used their ice cream containers as protest ads against nuclear energy and the cold war.
Newman's Own	Decided to "shamelessly exploit" their celebrity status for a greater good.
Seventh Generation	Provided information for consumers to make informed choices. Packaging explained the difference between post and pre-consumer materials, e.g., why avoiding chlorine is critical etc.
Tom's of Maine	Always listed all ingredients on the packaging along with the source of the ingredients and an explanation of their purpose.
White Dog Cafe	Combined entertainment with a social message.

*D. Managing the Growth- Building the culture:*

Most of the sustainable entrepreneurs we analyzed prided themselves for having created a strong organizational culture that in return supported the growth of their companies. Most organizations reflected the entrepreneurs' unconventionally strong, genuine concern for the well-being of their employees. Many offered employee benefits that far exceed their industry standard. Rhythm & Hues offered its artists 9 weeks of paid time off per year, unheard of in the entertainment industry. In a dramatic move, Chris King relocated his entire company from California to Portland, Oregon, when he realized that his employees could not afford to live near work and were driving long distances everyday. Its corporate cafeteria, staffed by a professional chef, offered some of the best food in the area, thereby encouraging employees to spend time together over meals (Choi, 2004a). Tom's of Maine eliminated elongated conference tables to emphasize equality and encourage everyone to contribute ideas. Table 6 lists several examples of such efforts.

TABLE 6: SAMPLE CULTURE BUILDING EFFORTS

Companies	Sample Practices for Building the Culture
Chris King	Relocated to Portland, Oregon so that its employees could afford housing. Offers café credit for every day they ride their bicycle, carpool or walk to work. The café serves some of the best food in the area, providing a chance for

	employees to all hang around together.
Iggy's Bread of the World	Offers English classes to foreign employees, free acupuncture for employees who quit smoking, and free massages to all employees. Brings workers together through soccer matches.
Patagonia	A pioneer in on-site childcare program, opening its Great Pacific Child Development Center in 1984.
Rhythm & Hues	Offers its artists 9 weeks of Paid Time Off per year. All employees are eligible for a 2 months sabbatical after 5 years of employment.

#### D. Harvesting the Business

**Exit Strategies:** Sustainable entrepreneurs employed a different thought process when it came to harvesting their businesses, as described in Table 7. They took into consideration not just their financial gain, but how their exit would impact their businesses, stakeholders, and their long-fought causes. Patagonia founder Yvon Chouinard considered selling the company and setting up a foundation to give away money to environmental causes (Gray, 2003b). After months of soul searching, he decided to keep running the company and not to exit. He concluded that the money barely made a dent in the world's problems and that the greatest good he could do was to develop Patagonia as an exemplar for other companies to emulate. Stonyfield Farm founders sold their business to Danone with the objective to "infect the conglomerate with organic bug".

TABLE 7: SAMPLE EXIT STRATEGIES

Company	Sample Exit Strategies
Ben & Jerry's	Sold to Unilever in 2000 with conditions of how the company would be operated.
Patagonia	Founder has retired from the company daily operations but still owns majority of the company.
Stonyfield Farm	Sold 40% to Danone, a socially responsible company, with the objective to infect Group Danone with the organic bug.
Tom's of Maine	Founders felt that they could not sell their business without compromising their own values.
Seventh Generation	IPO'd in 1994 and then became private in 1995.

**Giving Programs:** Another form of harvesting that sustainable companies engaged in was their institutional giving programs as shown in Table 8. As early as 1985, Ben & Jerry's established a foundation to formalize the company's donation processes; the firm's annual contribution to the foundation was 7.5% pre-tax profits. Stonyfield Farm created a "Profits for the Planet" program under which the company donated 10% of pretax profits annually to organizations and projects that served to protect and restore the environment. Newman's Own, organized as a non-profit company, has given away more than \$150 million. Magic Johnson Foundation raised more than \$20 million for charity and helped send more than 3,000 students to college.

TABLE 8: SAMPLE GIVING PROGRAMS

Companies	Description of Sample Giving Programs
Magic Johnson Enterprises	Has raised more than \$20 million for charity and helped send more than 3,000 students to college.
Newman's Own	Has given more than \$150 million to charities, such as the Cystic Fibrosis Foundation as well as many obscure little organizations.
Patagonia	Funds its programs through its "Earth Tax" a yearly levy of 1% on sales or 10% of pre-tax profit, whichever is greater.
Tom's of Maine	Gives 10% of its pre-tax to non-profit organizations. Awards 40-50 grants

## CONCLUSION

This research should demystify and educate aspiring entrepreneurs about how ventures can simultaneously meet economic, social and environmental objectives. The objective of our research is to inspire as well as provide useful management guidelines. Our hope is that more values-driven individuals in the future will choose entrepreneurship as a vehicle for self-expression and social contribution. We believe that our finding can serve as a preliminary model – that hopefully can be refined and improved – that aspiring sustainability-oriented entrepreneurs can use as a partial guide in the development of their companies.

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