Why do companies as diverse as oil producers and retailers enter moral markets?

What do Tesla and British Petroleum have in common? And how are Walmart and Patagonia similar? On most dimensions, these pairs of firms have little in common with one another—Tesla is widely recognised as a pioneering sustainability company, while BP has long been a target of environmental activism. Yet both companies have had a strong presence in the solar energy business. Similarly, Patagonia, the darling of the environmental movement, and Walmart, a frequent target of anti-corporate protests, have both entered the organic food market.

The markets these four firms have entered, solar energy and organic food, are two instances of what are known as moral markets—markets that exist not just to create economic value, but to explicitly create social value. Other examples of moral markets include fair trade goods, wind energy, green buildings, and socially responsible investment, to name a few. Carefully examining the firms that offer goods and services in these markets, one quickly realises there is a vast range of firms that operate in moral markets. But why do companies as diverse as Walmart and Patagonia decide to enter moral markets in the first place?

Our recent paper attempts to answer this question. Conventional wisdom emanating from classic strategy texts and consultants suggests that companies enter new markets where they can leverage existing resources to gain an advantage. For instance, when fast moving consumer goods giant Unilever acquired the Vegetarian Butcher in 2018, it could build on its extensive knowledge in marketing V-label (vegan and vegetarian) products across Europe. But when it comes to entry in moral markets, a company's resources tell only part of the story.

Take the case of Patagonia, the outdoor clothing retailer that entered the organic food market with its Patagonia Provisions line. When this was announced back in 2012, many were surprised by the move. What business does a clothing company have in the food industry? Patagonia's founder, Yvon Chouinard, later clarified that this move was not about reusing or exploiting the company's existing resources. Rather, the company saw the need to offer organic and sustainable food choices as a partial solution to the environmental crisis.

With or without related resources, however, it is clear that both Unilever and Patagonia saw entry in a moral market as an opportunity to realise their corporate identity. Often reflected in companies' mission and purpose statement, identity constitutes the essence of the organisation: what are its central attributes; why it exists in the first place. With Unilever aiming to "make sustainable living commonplace", and Patagonia being "in business to save our home planet", these companies' identities are consistent with the goals of the sustainable food market.

But as the opening examples show, companies whose identity is in conflict with moral markets also enter. Oil companies such as BP or Total, for example, have spent considerable amounts of money in manufacturing solar panels, despite the fact that the oil industry relies on a fundamentally different technology and knowledge base compared to the solar business. Why is this the case? To resolve this paradox, we have to look not only within but also outside these organisations.

It turns out that social movements can prompt firms with conflicting identities to enter moral markets. Via consumer education campaigns, lobbying efforts that influence public policy, or other tactics supporting these markets, activists can make moral markets more attractive. At the same time, they also engage in protests that single out the 'bad guys'–those companies responsible for creating the problem in the first place. This forces such companies to deliberate on how best to respond to such protests and may actually motivate them to enter the market, either to reap the benefits sown by the more committed early movers or to forestall criticism that they are the source of the problem. In the end, while companies with an unrelated identity may not consider or not even notice these opportunities, both companies with a consistent identity and those with a conflicting identity are more likely to enter moral markets.

Whether the presence of consistent and conflicting identity companies is good or bad for the development of moral markets is an open question. On the one hand, such diversity is beneficial because diverse companies contribute varied resources to building the market. On the other hand, it is dangerous because the presence of the 'bad' guys can lead to mission drift or discourage companies from working together to promote the market. Most moral markets are quite young, and how players' identities will affect market trajectories remains to be seen. But given the critical role that business can play in addressing sustainability challenges, we predict that more and more companies will enter and shape moral markets.

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Notes:

- *This blog post is based on "Toward a theory of entry in moral markets: The role of social movements and organizational identity", Strategic Organization (2020).*
- *The post expresses the views of its author(s), not the position of LSE Business Review or the London School of Economics.*
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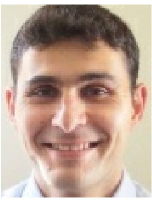

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