



## B. Business Impact

### How to create sustainable value?

### Some learnings from Interface Inc.'s 25-year journey

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Olivier Delbard  
ESCP Business School

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Olivier Delbard  
ESCP Business School

### **Abstract**

Based on the case of Interface Inc.'s unique 25-year journey to sustainability, this paper explores the key features of this journey with a focus on the sustainable value creation process. Building on the current sustainable business model and innovation literature, the paper addresses the issues of stakeholder value creation and sustainability-oriented innovation, and provides key learnings on how to engage in sustainable value creation.

Keywords: sustainability, sustainability-oriented innovation, sustainable business model, sustainable value creation, stakeholder value

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# How to create sustainable value?

## Some learnings from *Interface Inc.*'s 25-year journey

### Introduction

In the concluding part of their paper, Lüdecke *et al* (2020) state that sustainable value creation requires five distinct features: “(i) an explicit sustainability orientation, integrating ecological, social and economic concerns, (ii) an extended notion of value creation, questioning traditional definitions of value and success, (iii) an extended notion of value capture in terms of those for whom value is created, (iv) an explicit emphasis on the need to consider stakeholders and not just customers, and (v) an extended perspective on the wider system in which an SBM is embedded”.

The aim of this paper is to show to what extent the U.S. carpet manufacturer Interface Inc. has managed to comply with the five dimensions underlined above. Unknown to the general public (95% of its operations are in B2B) and based in Atlanta, Georgia, Interface was founded in the 1970s. The inventor of the carpet tile, it is the world leader in modular flooring. It is a relatively small multinational listed on the NASDAQ stock market, with 3,300 employees, operating in 110 countries with five production facilities in Europe, the U.S., Thailand and Australia and an annual turnover of around 1.2 billion U.S. dollars.

The case of Interface is quite unique since the company, which at first had no connection whatsoever with sustainability, has become a worldwide benchmark with over 25 years of experience in sustainability embeddedness. Indeed, the firm’s “sustainability journey” as it was dubbed by its founder Ray Anderson, started in 1994. Originally a petroleum-based business, the company aimed first at doing no harm, then later on at becoming a *restorative* company for the environment.<sup>1</sup> Regarding the latter commitment, Interface launched its first climate-negative carpet tiles<sup>2</sup> a few months ago.

This paper intends to examine the journey the Interface company has gone through over the last 25 years by focusing on how the company created sustainable value for its stakeholders while radically rethinking and redesigning its business model. Indeed, as a pioneer in the field of corporate sustainability, Interface provides great learnings and inspiration to anyone wishing to engage in the sustainability transition.<sup>3</sup>

### 1) A charismatic CEO with a vision

#### ***From revelation to integrative values and a normative orientation***<sup>4</sup>

In 1994, the CEO, Ray Anderson, was asked by some customers to deliver a speech on what Interface was doing for the environment. As Anderson explained later on, he realized his company was doing nothing at all, apart from being compliant with the law. Anderson then was given the chance to read Paul Hawken’s book, *The Ecology of Commerce*. Reading this book was what he described as an “*epiphany*”, a “*total change of mindset*”, a “*change in paradigm*”, a true *revelation* which would push him to embark his company on a radical

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<sup>1</sup> See Delbard, 2020, especially pp.129-136.

<sup>2</sup>[https://interfaceinc.scene7.com/is/content/InterfaceInc/Interface/Americas/WebsiteContentAssets/Documents/Sustainability%20Carbon%20Negative%20FAQ/wc\\_amcarbonnegativefaqfinal.pdf](https://interfaceinc.scene7.com/is/content/InterfaceInc/Interface/Americas/WebsiteContentAssets/Documents/Sustainability%20Carbon%20Negative%20FAQ/wc_amcarbonnegativefaqfinal.pdf)

<sup>3</sup> The author discovered the company in 1996 and has since closely followed its evolution. We are indebted to the following people who provided us with great insights over the years: Laure Rondeau-Desroches, Miriam Turner, Charlotte Extercatte, Geanne van Arkel, Eric Rempelberg, Mickael Cornou, Fernando Gabirondo, Laetitia Boucher. We also had the chance to meet and discuss with Ray Anderson in 2002 on the ESCP République campus.

<sup>4</sup> On this point, see pp. 142-144 in Breuer & Lüdecke-Freund, *Values-Based Innovation Management*, Palgrave, 2017

turnaround with sustainability embedded at its core. This radical shift led to the following vision, in Anderson's own words: "*I visualize an organization of people committed to a purpose, and the purpose is doing no harm to the environment.... It is our plan, it remains our plan*"<sup>5</sup>.

To make his *plan* become effective, Anderson first needed to work "horizontally" at the management level to convince his colleagues and establish the normative orientation. This was followed by vertical integration at the 1) strategic and 2) instrumental levels (Breuer & Lüdecke-Freund, 2017). Regarding strategy, seven fronts were identified<sup>6</sup> leading to the *Mission Zero*® program aiming at "No negative impact on the environment by 2020". At the instrumental level, an impact assessment was carried out through a Life Cycle Assessment and eco-metrics were put in place for each of these fronts as early as 1996.

Ray Anderson and his colleagues realized from the very beginning that collaborating with some of the world's cutting-edge environmental experts<sup>7</sup> of the time was a prerequisite to any long-term strategy for sustainability. The so-called "eco dream team" played a decisive role in designing the company's long-term vision and strategy and this input from science was a guarantee of data reliability and long-term resilience. This is certainly a learning to remember as more and more companies are striving to design long-term sustainability strategies.

### ***Involving and creating value for stakeholders***

A key element of the new strategy was the priority given to value creation for the stakeholders. Ray Anderson identified the 2 most critical stakeholders prior to any further move: these were the employees and the shareholders (Havey, 2020). Regarding the employees, Anderson intuitively knew that his vision would never materialize if not all employees were involved in the process. He expressed it quite clearly in his book: "*The desire to climb Mount Sustainability is not limited to the corner office; it is not just another management thing... the person closest to the problem – whether they're on the factory floor or the loading dock, or in an office ordering supplies – will be your best source of ideas*"<sup>8</sup>.

Interface thus decided to create a unique program called QUEST (Quality Utilizing Employees' Suggestions and Teamwork), in which employees working in cross-functional teams were incentivized to find pragmatic solutions to cutting waste. Their bonuses were tied to sustainability metrics and each team was encouraged to cut waste by 10% every year. This resulted in massive cuts in waste, substantial economies as well as the "rooting" of the workforce in the sustainability mission. It also created economic value both for the company and for the employees. Key learning: bring your employees on board as early as possible!

Regarding the shareholders, Anderson knew he would face some difficulties given the radical turn he wanted his company to take. Unsurprisingly, the stock price plummeted after the company's public announcement. Interface then decided to sell off its flooring products deemed unsustainable and to concentrate on the production of carpet tiles. In doing so, it attracted new investors who believed in the opportunity of reaping the benefits of a brand-new innovation-based positioning. And this proved true within a few months, since the

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<sup>5</sup> Taken from *The Corporation*, a documentary released in 2003 by M. Achbar & J. Abbott. Retrieved from <https://www.youtube.com/watch?v=D9hetZuPzS4>

<sup>6</sup> Elimination of waste, benign emissions, renewable energy, closing the loop, resource efficient transportation, sensitization of stakeholders, and redesigning of commerce.

<sup>7</sup> Among whom Natural Capitalism advocate Paul Hawken, biomimicry expert Janine Benyus, "Cradle-to-cradle" theoretician William McDonough and the Swedish NGO *The Natural Step*.

<sup>8</sup> Anderson, 2010, p. 56.

stock price reached an all-time high in August 2015.<sup>9</sup> Key learning: shareholders tend to be overlooked whereas they are key stakeholders as well.

One of the key findings of the life cycle assessment performed in 1996 was that 63% of the carpet tile's impact on the environment actually occurred before the manufacturing stage, due to the raw materials employed (yarn from nylon, oil-derived product, tar for the backing). So logically, Interface asked its main yarn suppliers if they would agree to work with them to find sustainable solutions (nylon was not recyclable at the time). Italian yarn manufacturer Aquafil agreed to cooperate. To cut a long story short, by 2010 Aquafil started selling 100% recycled nylon, and today it is world-renowned for its Econyl® line sold to top fashion luxury brands. Needless to say, for Aquafil, the creation of value has been quite impressive. This unique collaboration underlines the need to involve key suppliers in the sustainable value creation process: unfortunately, this still remains easier said than done.

One could also mention the fact that Interface was eager to partner with national and international institutions to help it achieve its goals. From UN partnerships to Ray Anderson serving as co-chair on Clinton's Council for the Environment to E.U.-level lobbying for more stringent environmental norms,<sup>10</sup> Interface has been aware of the need to engage public actors in its search for sustainable value creation. The company is also very much involved in professional and multi-stakeholder partnerships around sustainability and manufacturing.

As stressed above, Interface aimed to address several key stakeholders such as employees, shareholders, suppliers, public actors, etc. What about its own customers then? It is clear that the journey undertaken by the company was primarily a response to their demands and expectations. From the start, Interface aimed at aligning the development of sustainable carpets with value creation for its customers, which translated into the constant search for value for money, excellent intrinsic qualities, eco-performance, and innovative design. This leads us to the second key aspect of the sustainable value creation process in this case, namely the culture of innovation which made the whole transformation possible.

## **2) The journey towards sustainability: From eco-innovation to triple-bottom-line systems building**

Even before the journey to sustainability started, Interface was known for its technical innovations and the high-end performance of its products. Quite strikingly, the search for sustainable value creation boosted the innovation and entrepreneurial culture which was already present in the company.

### **Capitalizing on the “transformational power of *Intra-organizational entrepreneurship*” (Breuer & Lüdecke, 2017)**

Whereas Interface is a global company with over 3,000 employees, what is initially the most striking is the culture that prevails within the company. As observed by Luqmani *et al* (2017), Interface is noteworthy for its fairly horizontal entrepreneurial culture. First, the QUEST program triggered a dynamic of participation in the company. More generally speaking, encouraging the multiplication of internal entrepreneurs, the company boosted creativity,

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<sup>9</sup><https://www.macrotrends.net/stocks/charts/TILE/interface/stock-price-history>

<sup>10</sup> For example, to have third-party-verified environmental production declarations (EPDs).

collaborative breakthroughs, and the constant search for innovative responses to the sustainability challenge.

On the one hand, the related organizational slack allowed for iterative processes, creating a “safe failure space” (Luqmani et al, 2017), and as we will see below, failures were important learnings for the company. On the other hand, there were inherent limits to this, such as variable degrees of employee involvement and a somewhat chaotic journey.

At all events, the entrepreneurial culture that prevails at Interface is definitely a key dimension of its successful journey. It has also made the company a very attractive employer...

### ***The innovation path: eco-innovation and “successful failures”***

If we refer to the three sustainability-oriented innovation stages identified by Adams et al (2015), Interface’s sustainability journey led it to shift up from stage 1, *operational optimization*, to stage 2, that of *organizational transformation*. Indeed, the mission zero objective and the search for stakeholder value creation pushed the company to fully redesign its business model, from a linear to a circular one (Delbard, 2020). At this stage, Interface fully embraced an eco-innovation approach, leading to new value capture as we saw it. It favoured open innovation and consequently stakeholder value creation.

As previously mentioned, the prevailing culture at Interface made a “failure space” possible, and this is no doubt one of the drivers which enabled the company to keep moving forward, always searching for solutions. As one of the company mantras goes, “there is always a way”. Indeed, Interface encountered several major failures, from which they were able to learn and move ahead.

Among these failures, two were quite significant and helped the company move forward. The first one is the *EverGreen Lease™* program Interface launched in 1995, making it a pioneer in the “product-as-a-service” approach with a view to transitioning to a functional service economy. In this model, Interface retains the ownership of the carpet and is thus able to control recycling while offering long-term repair and maintenance solutions. Even though the program still exists, it never took off: most studies point to bureaucratic obstacles such as shifting from a capital expenditure approach to a user licence-based model (Oliva & Quinn, 2003, Luqmani et al, 2017). This prompted the company not to rely on end-of-life carpet recycling to achieve their goal but rather on the search for re-entry of already discarded waste along with new alternative bio-based sources.

In 2008, Interface launched the *Fair-Works™* program, a range of eco-friendly grass and bamboo woven floor tiles sourced from artisanal weavers in India. This program was initiated to develop the social dimension of the sustainability journey and help Interface contribute to inclusive solutions: indeed, as we saw, the journey had been environmentally driven so far. Unfortunately, customers did not respond positively, fearing that the carpets may have been of a lesser quality and seeing them as decorative items rather than functional flooring devices. It was abandoned in 2012.

Yet, even though the *Fair-Works* program failed, it confirmed the fact that Interface needed to move from an eco-innovation mindset to a comprehensive triple-bottom-line innovation approach (Elkington, 1994), including the social dimension which had been neglected so far. In this respect, a major turning point came when the company set up a co-innovation team whose role was to develop such “broader impact” innovations.

## **The next step: Aiming at Triple-Bottom-Line Systems Building**

Referring back to the features pertaining to sustainable value creation (Lüdecke et al, 2020), Interface clearly aligned with features (ii), (iii) and (iv). Yet, regarding feature (i), the social concern was not fully explicit, even though the company cared very much about its employees and their families. As for feature (v), it was clearly missing. In other words, what remained for Interface to fully embody sustainable value creation was to achieve the triple bottom line while further displaying “*an extended perspective on the wider system in which an SBM is embedded*”. As per Adams et al (2015), the objective was to move to stage 3 in sustainability-oriented innovation, that of “*systems building*”.

This was the agenda for the co-innovation team which was set up in 2011, and it led to the launch of the Net-Works™ program which provided substantial breakthroughs regarding sustainable value creation while capitalizing on the Fair-Works and EverGreen Lease “successful” failures.

In a nutshell, the Net-Works program was first set up in the Philippines in partnership with conservation expert ZSL (Zoological Society of London) and yarn supplier Aquafil. By having impoverished coastal communities collect discarded fishing nets, the program provided a triple benefit: 1) feeding the supply chain by having nylon waste re-enter into production, 2) providing impoverished communities with supplementary income and longer term investment capacity through savings in a local community bank, and 3) contributing to marine ecosystem preservation and fish stock replenishment.

Over the years, the program has been scaled out to Cameroon while scaling up its impact: it is currently diversifying in the Philippines with the collection of carrageenan (seaweed extract) which is then sold to cosmetics, food or hygiene brands. Regarding the fishing nets, the results show a 55% decrease in CO2 for yarn, translating into a 25% decrease for the final product.

This program represents a unique achievement for Interface since it provides a textbook example of triple-bottom-line sustainability-oriented innovation. In a way, it brings together several key learnings by the company over the years. It combines eco-innovation and social innovation<sup>11</sup> while providing value to the whole set of key stakeholders. It is a successful multi-stakeholder initiative backed up by strong academic expertise (ZSL). It is clearly pushing Interface beyond its boundaries by having a systemic impact. Having been hailed by the international community as a true success story for sustainability, it has triggered a wave of similar programs around the world, involving more and more brands engaged in plastic waste recovery and circular model developments.

## **Conclusion**

As we have seen, the Interface journey towards sustainability provides many learnings about how to create stakeholder value and strike the balance between economic, social and environmental benefits. The decisive role played by leadership and entrepreneurial/innovation culture needs to be emphasized once more, as well as learning from your mistakes, partnering with multiple actors, and sustaining the vision.

It goes without saying that Interface has been and is facing constant challenges and limits, among which a constantly growing business and take-over bid attempts on NASDAQ. Yet, it keeps moving forward.

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<sup>11</sup> For example, a mechanical baling system has been invented for the local populations which does not require the use of electricity (Luqmani et al, 2017).

Today, Interface is engaged in a new strategy, Climate Take Back®, with the overarching goal of becoming a carbon negative company by 2040. The company presents its strategy as follows:

*“Climate Take Back is anything but business as usual. It’s our total commitment to running our business in a way that creates a climate fit for life. Our mission is to overcome the biggest challenge facing humanity and reverse global warming. It’s no longer enough to limit the damage we do, but to think about reversing it. We want to restore our planet and leave a positive impact”.*

The above statement tellingly shows the ever-growing scope and ambition of the mission. More than ever, it will definitely require a systemic approach and disruptive innovations.

As already outlined, the Interface case provides great insights. Yet, while the company’s journey has had a significant impact on the carpet manufacturing industry as a whole, we believe it could and should inspire many more businesses and entrepreneurs wishing to contribute to a more sustainable world.

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