5: Social Entrepreneurship

Kate Ter Haar (CC-BY 2.0, 2011) Figure 5.1 The proud owners of TOMS Shoes are often willing to help promote the brand.
Introduction

While there is no universally accepted definition of social entrepreneur, the term is typically applied to an individual who uses market-based ideas and practices to create “social value,” the enhanced well-being of individuals, communities, and the environment. Unlike ordinary business entrepreneurs who base their decisions solely on financial returns, social entrepreneurs incorporate the objective of creating social value into their founding business models. Social entrepreneurship has become exceedingly popular in recent years and a number of prestigious business schools have created specific academic programs in the field. It is often said that social entrepreneurs are changing the world. They are lauded for their ability to effect far-reaching social change through innovative solutions that disrupt existing patterns of production, distribution, and consumption. Prominent social entrepreneurs are celebrated on magazine covers, praised at the World Economic Forum in Davos, and awarded millions of dollars in seed money from “angel” investors, and and applauded as “harbingers of new ways of doing business.” Social entrepreneurs are thus often hailed as heroes—but are they actually affecting positive social change?

Undeniably, social entrepreneurship can arouse a striking level of enthusiasm among consumers. Blake Mycoskie, social entrepreneur and founder of TOMS Shoes, tells the story of a young woman who accosted him in an airport, pointing at her pair of TOMS while yelling, “This is the most amazing company in the world!” Founded in 2006, TOMS Shoes immediately attracted a devoted following with its innovative use of the so-called One for One business model, in which each purchase of a pair of shoes by a consumer triggers the gift of a free pair of shoes to an impoverished child in a developing country.

The enthusiasm associated with social entrepreneurship is perhaps emblematic of increased global social awareness, which is evidenced by increased charitable giving worldwide. A 2012 study showed that 83% of Americans wish brands would support causes; 41% have bought a product because it was associated with a cause (a figure that has doubled since 1993); 94% said that given same price and quality, they were likely to switch brands to one that represented a cause; and more than 90% think companies should consider giving in the communities in which they do business.

Despite the eager reception from consumers, critics of social entrepreneurship have raised concerns about the creation of social value in a for-profit context. Thus, TOMS is sometimes mistaken for a charity because it donates shoes to children in developing countries, yet it is also in business to sell shoes. The company earns an estimated $300 million a year and has made Mr. Mycoskie a wealthy man. While companies are starting to look more like charities, nonprofits are also increasingly relying on business principles to survive an uncertain economy in which donors expect to see tangible results from their charitable contributions.

Our understanding of social entrepreneurship is complicated by the absence of any consensus on ways to measure social outcomes. As a result, there is little concrete statistical data available on the impact of social entrepreneurship. Indeed, there is not much agreement on a precise definition of social entrepreneurship, so it becomes difficult to say to what extent any given company is an example of social entrepreneurship. TOMS’ Chief Giving Officer, Sebastian Fries, recently told the New York Times that the company is “not in the business of poverty alleviation.” Does this mean that increased social value is merely a happy externality of the business of selling shoes? If so, what makes Blake Mycoskie a social entrepreneur?

Some critics go so far as to suggest that social entrepreneurs are merely using public relations tactics to engage in...
social or environmental greenwashing—taking advantage of consumers’ desire to do good. In some cases, it has been argued, social entrepreneurs can even do more harm than good (as we will see, this criticism has even been leveled at TOMS). Lacking a full understanding of the socioeconomic and cultural dynamic of the developing countries in which they intervene, social enterprises can undermine fragile local markets and foster dependence on foreign assistance.

In our chapter-ending debate, we will put ourselves in the position of a startup company that is inspired by the example of TOMS Shoes. The company is considering adopting a one-for-one model and you will be asked whether it should. To arrive at an informed answer to this question, we must first address two related questions: (1) Do social entrepreneurs create social value to the same degree as a traditional nonprofit or charity? (2) Does the blurring of distinctions between charity and business dupe consumers into believing that consumption equals caring? Given the mixture of enthusiasm and ambivalence aroused by social entrepreneurship, our first task is to understand it.

### The Growth of Social Entrepreneurship

In 1974, a Bangladeshi economics professor named Muhammad Yunus visited a small rural village in Bangladesh in an effort to connect the economic theories he was teaching with the reality of poverty in his native country. Amidst the tragedy of rural poverty, Yunus believed he saw an opportunity to transform perceptions of poverty relief. Yunus felt that, although rural people were skilled and hardworking, they were unable to obtain loans from banks primarily due to a lack of collateral. Yunus’s innovation was to seek to alleviate poverty directly by establishing a bank for the poor. This bank would make microloans (very small loans, often less than $100) with low interest rates to enable small entrepreneurs to slowly build up their capital to reinvest, grow their businesses, and rise from poverty.

Yunus was able to launch this idea in 1976 in the form of Grameen Bank, which began operations by making a small number of loans to members of a local village. The business grew quickly, with an extraordinarily high loan repayment rate of 99%. The explosion of cellular access served as a catalyst for the microfinance market. Through their mobile phones, rural entrepreneurs had access to a global network of investors and business tools, where traditionally they might have had to travel hundreds of miles to a city to borrow money or buy goods and services.

By 2005, the Grameen Bank had more than 1,500 branches in nearly 50,000 villages, covering about 70% of India, with approximately five million borrowers and annual revenues of about $80 million. The success of the Grameen experiment fostered the modern microfinance industry, which connects thousands of entrepreneurs to donors all over the world, through sites like Kiva, GiveDirectly, Accion USA, and the Grameen Foundation. In 2006, Yunus won the Nobel Peace Prize, which recognized him as a pioneer in microfinance. The social entrepreneurship revolution was underway.

While Yunus focused on microfinance, other thinkers and social activists developed alternative methods for using entrepreneurial techniques to foster social change. In 1981, Bill Drayton, a former EPA administrator and management consultant, formed Ashoka, the first organization specifically devoted to promoting and supporting social entrepreneurs. Ashoka invests in promising social entrepreneurs, providing them with start-up financing, professional support services, and connections to a global network of business and social sector players. Today, Ashoka funds nearly 3,000 Fellows in 70 countries.

Since Ashoka was launched, scores of other organizations all over the world have formed to support social entrepreneurship. According to a 2012 study,^{4} there are more than 60 national or international social entrepreneur
networks worldwide, with an average of four to five new networks being set up every year.\(^5\)

Governments have hopped aboard the social entrepreneurship bandwagon. In 2011, the European Union established social entrepreneurship as one of the 12 pillars of its policy for growth and social progress. France appointed a Minister for Social and Cooperative Economy, and in 2012, the European Commission launched a call for proposals to produce and collect statistics on social entrepreneurship in the EU, under the Initiative for Social Entrepreneurship.

In the United States, new legal corporate forms have emerged that allow for the inclusion of social value objectives in a company’s articles of incorporation. In 15 states, companies can legally incorporate as a benefit corporation (B Corp), a new class of corporation that by definition must (1) create a materially positive impact on society and the environment; (2) expand fiduciary duty to require consideration of non-financial interests when making decisions; and (3) report on its overall social and environmental performance using recognized third-party standards. B Corps allow directors and officers to consider non-financial decisions in reporting to multiple stakeholders. Today, there are more than 520 certified B Corps across 60 different industries representing $3 billion in revenues. Patagonia was the first company to take advantage of the new law, officially becoming a B Corp in California in 2012.

Similar to the B Corp is the flexible purpose corporation (FPC), a designation that allows a corporation to select at least one specific mission to pursue in addition to profit-making. A low-profit limited liability company (L3C) is a for-profit social enterprise that has a stated goal of performing a socially beneficial purpose rather than maximizing income. It is a hybrid structure that combines the legal and tax flexibility of a traditional limited liability corporation (LLC) with the social benefits of a nonprofit organization, and the branding and market positioning advantages of a social enterprise. The L3C is designed to make it easier for socially oriented businesses to attract investments from foundations and private investors.

Some social entrepreneurs have sought to enhance their fundraising capacity by creating a hybrid model—a commercial enterprise linked to a nonprofit subsidiary, or vice versa. The nonprofit side is tax exempt and can apply for grants and accept donations, while the for-profit side can enlist investors and leverage debt.

An example of this form is Mozilla, the company that makes the web browser Firefox. In response to the explosive growth of Firefox, the nonprofit Mozilla Foundation formed a for-profit subsidiary in 2005, the Mozilla Corporation. The for-profit makes about $104 million a year from revenue sharing agreements with search partners such as Google and Yahoo. Meanwhile, the Mozilla Foundation, which is the corporation’s sole shareholder, handles the development of open-source software and brings in just over $222,000 in charitable donations per year.

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Social Entrepreneurship and Global Philanthropy

Is social entrepreneurship a form of philanthropy? Given that both concepts are rooted in the creation of positive social value, it makes sense to consider the strong relationship between the two fields. Indeed, policy makers have cited social entrepreneurship as a powerful ally for philanthropy, and perhaps even as its successor. Increasingly, many donors see themselves as investors rather than as providers of charity. Such donors, who have been dubbed “philanthro-capitalists,” expect measurable social returns on their investments. They tend to view the for-profit social enterprise model as an efficient, innovative, and scalable method of creating social value in markets where nonprofits and governments have seemingly failed.
Bill Gates, former Microsoft CEO and one of the world’s wealthiest individuals, has attained leadership status in the global philanthropic community as the head of the world’s largest charitable institution, the Gates Foundation. At the World Economic Forum in 2008, Gates called for a new form of “creative capitalism,” which “matches business expertise with needs in the developing world to find markets that are already there, but are untapped.” Gates pointed out that “sometimes market forces fail to make an impact in developing countries not because there’s no demand, or even because money is lacking, but because we don’t spend enough time studying the needs and requirements of that market.”

Gates cited economist C.K. Prahalad’s bottom of the pyramid (BoP) approach to eradicating poverty, which postulates that the billions of people in the world who live on less than $2 a day represent the “unserved and underserved.” Prahalad argues that collectively the BoP has immense buying power. By selling products and services to this segment, companies both profit and serve the needs of the poor. The Gates/Prahalad approach was seconded in a 2011 speech by World Bank President Robert Zoellick, who postulated that the time had come to move “beyond aid” to a system in which “assistance would be integrated with—and connected to—global growth strategies, fundamentally driven by private investment and entrepreneurship. The goal would not be charity, but a mutual interest in building more poles of growth.”

Zoellick called for entrepreneurship and innovation to create expanded markets, acknowledging that “new players and new donors are already transforming the aid world as we know it.” This new multilateral system would be rooted in “a notion of stakeholder responsibility, more connected to private sector and civil society networks, more committed to practical problem solving and innovation.”

The call by Gates and Zoellick to develop new forms of private entrepreneurial support for global aid reflects the reality that the private sector has become a much bigger factor than government aid in international development. In 2010, global private philanthropy totaled $575 billion. U.S. giving from foundations, corporations, private and voluntary organizations (PVOs), individual volunteers, religious organizations, and academic institutions totaled $39 billion. Corporations and private and voluntary organizations (PVOs) accounted for the largest portion of U.S. philanthropy, making up more than half the total.

While these figures offer a fair estimate of philanthropic activity worldwide, they likely under-report the total amount of money donated to developing nations each year. Financial reporting is typically done voluntarily by PVOs, corporations, foundations, and religious groups in developing countries. In the United States, organizations with less than $5,000 in annual revenue are not required to register with the IRS. The Urban Institute estimates that, of the approximately 1.1 million public charities in the United States, only 366,000 report data to the IRS each year.

Social Value: Measuring the Impact of Entrepreneurship and Philanthropy

While it is clear that global philanthropic activity is generally increasing, measurement of its impact on social value and aid effectiveness has only recently become a priority. Increased demands for transparency and accountability from donors and governments have resulted in hundreds of competing methods of measuring social value. Foreign aid is predominantly measured in terms of total capital investment, not by how many people are actually helped. Historically,
reports of aid effectiveness have frequently consisted of unreliable individual anecdotes and testimonials.

Without accurate financial and impact data, it is difficult to tell exactly where donor dollars are going. This information is unfortunately quite complicated and costly to acquire. Not only must the concepts of benefit or value be quantified, but external factors affecting research validity must be ruled out. While many donors demand to know how their money is spent, most of them do not like the idea of paying for the administrative costs associated with producing such statistics. Most aid organizations want to see their money going toward groundwork, not paperwork.

The Organization for Economic Cooperation and Development (OECD) is the main international body that collects and evaluates data on aid effectiveness. A coalition of 34 countries dedicated to stimulating world economic growth and international trade, the OECD, through its Development Assistance Committee (DAC), coordinates agreements between donor countries, developing nations, and private interests to help developing country governments. Based on “trade, not aid” principles, the DAC is ultimately geared toward improving local systems so that developing countries are able to manage economic growth without depending on foreign aid. Much of the DAC’s data suggests that aid works best when it is properly directed and managed. By some estimates, it costs a nonprofit an average of $33 to raise $100 in the United States and up to 80% of a nonprofit’s time and energy is devoted to raising funds.

Social return on investment (SROI) is one method of impact measurement that has been gaining in popularity. SROI is basically a cost–benefit analysis that measures non-financial (social and/or environmental) value created relative to resources invested. This approach is sometimes accused of being simplistic: While “hard outcomes,” such as the number of children passing a literacy test, can be easily measured, “soft outcomes,” such as increased happiness, self-confidence, or communication skills, cannot be measured and weighed against dollar amounts. While SROI is usually applied to charities and NGOs, many believe that the method works best when applied to for-profit businesses, such as those created by social entrepreneurs. Proponents of SROI point out that it forces organizations to have meaningful discussions with their stakeholders.

Much of the impetus for improved measurement is driven by a widespread frustration with the perceived ineffectiveness of foreign aid. According to the World Bank, many forms of aid are ill-conceived and do not make optimal use of resources.11 Studies on the impact of development aid in the form of in-kind donations, or gifts of materials or goods rather than money, suggest that, while potentially benefiting recipients in the short term, in-kind donations have a negative impact on local markets in the long term. Thus, Oxfam International has argued that, while much foreign food aid helps to save lives in the immediate aftermath of natural disasters and conflict, in-kind food donations have often been a way for donor countries to dump their surplus production and promote exports.12 For example, in the aftermath of the 2010 Haiti earthquake, an influx of rice donations hurt local rice farmers’ livelihoods and threatened the local agricultural economy.13 A 2008 study from the University of Toronto compared in-kind clothing donations with food aid, stating that used clothing imports have a negative impact on apparel and textile production in Africa, resulting in a roughly 40% decline in African apparel production and a 50% decline in apparel employment.14

The Dark Side of Social Entrepreneurship

Critics of social entrepreneurship draw attention to its potential to encourage corporate and consumer hypocrisy. Social philosopher Slavoj Zizek observes that adherents of “conscious consumerism” often state that they are trying to address problems such as poverty, inequality, and environmental degradation, which are the principal negative externalities of a
capitalist economy. However, in Zizek’s view, it is an obvious self-contradiction to think that one can overcome the defects of capitalism by engaging in yet more capitalism. TOMS shoes, for example, are manufactured by poor people in overseas factories. When their famously flimsy design wears out, they are discarded into landfills.

There is evidence that conscious consumerism can generate surprisingly counterintuitive effects. A study released by the University of Toronto in 2010 found a negative connection between altruism and ethical behavior. Student volunteers were divided into groups and instructed to look at two online stores: one that offered mostly green products and another that carried mostly conventional products. Half the students in each group were asked to purchase products, and half were asked to simply rate them. Afterward, in a money-sharing game, the students who only rated the green products shared the most money, while the students who purchased green products shared the least. Furthermore, in a computer game that tempted the students to cheat, those who had purchased green products were not only more likely to cheat than the other groups, but they took extra money when asked to pay themselves from envelopes on their desks.

The researchers concluded that mere exposure to green products (experienced as an ethical act) encourages prosocial behavior, while engaging in ethical purchasing may decrease the likelihood of future ethical behavior. It appears that people may have a limited amount of ethical motivation, which can be used up. This tendency is referred to as the single-action bias and has been confirmed as a potential drain on charitable giving. A University of Michigan study found that if two consumers are given a chance to purchase the same product but one of them buys the product as a “cause-related” purchase, that consumer’s charitable giving will be lower than the other’s.

Critics of social entrepreneurship also cite the so-called halo effect, a cognitive bias in which we assume that because someone is good in one area, they will be good in other areas. The phrase was coined by psychologist Edward Thorndike in 1920 to describe the way commanding officers rated their soldiers as either good or bad across the board. Arguably, when consumers see a company as having a positive social impact via social entrepreneurship, we assume that it is ethical across the board, which may not be the case.

Case Study: TOMS Shoes

In 2006, Blake Mycoskie, a young entrepreneur from Arlington, Texas, started a shoe company with a simple premise: For every pair of shoes sold, the company would donate a similar pair to a child in need. Mycoskie, self-described Chief Shoe Giver of TOMS Shoes, is considered the pioneer of the one-for-one giving model, which has since been imitated by companies making everything from hospital scrubs to chewing gum.

Mycoskie claims that with TOMS he has created not just a business but a social movement that has fundamentally changed the way we consume products. He has trademarked the tagline, “One for One,” and plans to expand the model into many more product categories, a move that supports his view of giving as an across-the-board lifestyle choice. It’s also Core Value #8, according to an inspirational sign in the TOMS office space: “Giving is what fuels us. Giving is our future.”

Mycoskie was vacationing in Argentina when he got the idea for TOMS (the name is a play on the phrase “Shoes for Tomorrow”). After meeting charity workers who were collecting used shoes to distribute to poor children in the local villages, he was struck by the fact that so many children go barefoot in the developing world, and resolved to find a more
sustainable alternative to straightforward donation. In his 2011 book, *Start Something That Matters*, Mycoskie reflects on his thought process: "Why not create a *for-profit* business to help provide shoes for these children? Why not come up with a solution that guaranteed a constant flow of shoes, rather than being dependent on kind people making donations? In other words, maybe the solution was in entrepreneurship, not charity." 17

Mycoskie's business model proved remarkably successful. TOMS experienced phenomenal growth in market penetration and consumer loyalty in a very short period of time. By 2013 the company had over 2 million social media followers and had given away more than 10 million pairs of new shoes to children in over 60 countries.

### Production

The majority of TOMS shoes are produced in China in order to keep manufacturing costs down, but a small number of the Giving Shoes are produced in Ethiopia, Kenya, and Argentina, where they can be distributed cheaply using local supply partners. The company plans to add shoe manufacturing in India and Haiti. By producing shoes in regions where they're donated, TOMS lowers its distribution costs. In the case of Ethiopia and Kenya, the company benefits from the open borders of the African Free Trade Zone.

The company has also suggested that it is evaluating approaches to increasing employment in “Giving” regions, while offering existing workers more benefits, such as higher wages, childcare, and financial education. "Within two years, we will produce one-third of our Giving Shoes in the regions where we give them. By producing more shoes locally, we will create and support jobs in places where they are needed. We are testing production in India and are looking to expand manufacturing in Africa and other regions." 18

Although TOMS does not own any factories, it has a strict code of conduct for its supply chain. The company assures its customers that supply, production, and labor comply with corporate responsibility standards and local laws, including the prevention of slavery and human trafficking.

### Product Mix

Mycoskie started TOMS with just one product: the *alpargata* shoe, a simple design that was popular with Argentinean laborers in the late nineteenth century and became an important part of the Argentine national identity. The shoes are inexpensive and lightweight, with canvas or fabric uppers and synthetic rubber soles.

TOMS gradually began to add more designs and, by 2013, featured additional categories such as ballet flats, lace-up boots, wedges, kids' shoes, wedge booties, and vegan shoes. The company regularly partners with celebrities, brands, and charities to create limited-edition collections; past collaborators have included Charlize Theron, Ben Affleck, Jonathan Adler, Sub Pop Records, The Row, the Movember Foundation, and the Haiti Artist Collective, a group of Haitian artists who customize Chinese-made TOMS for the U.S. market.

All of TOMS’s Giving Shoes are based on the original alpargata design, and usually come in black, red, or blue. A common criticism of the brand is that they do not always satisfy children’s basic environmental needs. The shoes have a very short lifespan in muddy, rough terrain, and do not offer insulation in colder climates. In response to these criticisms, TOMS is beginning to produce and distribute a winter boot in Afghanistan, India, Kyrgyzstan, Nepal, Pakistan, and Tajikistan.
In 2011, TOMS began selling sunglasses using the One for One model. Made in Italy, the $135 sunglasses come in three basic styles and a variety of colors; each consumer purchase pays for prescription glasses, eye surgery, and other sight-related procedures in developing countries. The eyewear line shows promise of becoming as successful as TOMS footwear, even though the connection between “buy one” and “give one” is less clear. TOMS has not released any sales data on its sunglasses, but claimed that, as of 2013, it had helped to deliver eye care to more than 150,000 people in 13 countries. Upon launching the new product line, Mycoskie announced, “From this day forward, TOMS will no longer just be a shoe company, it will be a one-for-one company.”

This strategy has allowed TOMS to position itself as a lifestyle brand that will eventually turn every purchase into a philanthropic opportunity. A search of the U.S. Trademark Electronic Search System (TESS) reveals that the company has also registered trademarks for numerous other product categories, including baby clothing, hats, pet accessories, water, coffee, tea, jewelry, and books (as of the publication date of this text, TOMS had already begun operations in the coffee sector).

Target Market

TOMS attracts a demographic of young men and women. These consumers tend to be creative, individualistic trendsetters who use multiple media and technology platforms; have progressive political, environmental, and social views; and prefer to shop at small, independent boutiques. In addition to perceived design and style, they are attracted to the emotional value of the buy-one-give-one model. They buy organic clothing, ask for charitable donations in lieu of gifts, and shop at farmers’ markets. Their choice to buy TOMS is both an aesthetic preference and a public statement about their socially responsible lifestyles.

Locations and Distribution

TOMS shoes are sold at more than 500 stores nationwide and internationally, including Neiman Marcus, Bergdorf Goodman, Nordstrom, Urban Outfitters, Whole Foods Market, and many independent boutiques. The company is also experimenting with standalone locations. It opened its flagship store in Venice, California, in 2012 and plans to expand its retail presence in the future. Mycoskie included a cafe in the flagship store, and describes it as more of a community meeting place than a retail location.

TOMS distributes donated shoes in two ways—with traveling shoe drops involving volunteers, employees, and contest-winning consumers; and through partner organizations with significant on-the-ground resources. The strategic Giving Partners are usually nonprofit humanitarian organizations that choose where and how the shoes are dispensed, often integrating donations into health and education programs. In some places, the shoes are gifts for families who bring their children in for checkups or immunizations; in others, they are simply given away, as at the Zaatar refugee camp in Jordan, where over 115,000 displaced Syrians are living in a massive makeshift city.

As of 2013, TOMS collaborated with 75 Giving Partners in over 50 countries, including Bridge2Rwanda, World Vision, goods for good, Save the Children, the Cambodian Children’s Fund, Partners In Health, and the Seva Foundation.
Impact Studies

Critics have questioned whether or not TOMS is truly a social enterprise, or if it merely uses cause marketing as a way to differentiate the brand and drive revenues. The inspirational message is so effective, and the feeling of moral certitude among supporters is so strong, that most customers do not ask the company to provide any statistical proof of its social, environmental, or economic impact on the developing world. At a time when consumers are demanding increased transparency and accountability from MNEs (multinational enterprises) and NGOs (non-governmental organizations), TOMS has somehow managed to avoid criticism from this group for failing to measure its philanthropic efficiency or efficacy.

Journalists, academics, and aid workers have shown less restraint. In response to criticism from the media—from the New York Times to a Peace Corps volunteer’s blog—TOMS funded a two-year study at the University of San Francisco to measure the company’s effect on local economies in one of its Giving Areas. In August 2013, researchers released a report entitled, “Do In-Kind Transfers Damage Local Markets? The Case of TOMS Shoe Donations in El Salvador.” After studying 979 households in 22 communities, they concluded that there was “little evidence to support the hypothesis that donated shoes exhibit negative impacts on local shoe markets.” However, the report goes on to say, “El Salvador [is] in many ways an ideal context to test the impact of in-kind donations on local markets because, although there are many children that do not wear shoes out-of-doors, most children do indeed own a pair of shoes (ed. emphasis), providing greater scope for finding a negative impact on local markets than a context in which shoe ownership, and hence market purchases, are rare. Indeed there are many countries such as El Salvador, which are recipients of donated shoes and clothing, but where existing ownership of these goods is relatively widespread compared to developing countries with even lower income levels.” In effect, TOMS is arguing that it does not impact local shoe markets in El Salvador part because children there already own shoes, which raises the question of whether the donated shoes are actually necessary.

Topic for Debate: Follow the TOMS Model?

In this chapter’s debate section, you are asked to play the role of an executive at a company that is considering adopting the TOMS model.

Our fictional company, Swensen Bags, Inc., owns a leading brand of backpacks and handbags in the United States, based in Albany, New York. The owner, Joe Swensen, has decided that the company needs to adopt a more active CSR profile. Swensen has decided to allocate $1 million over the next 5 years to support some sort of charitable or socially responsible activity. Swensen has asked his senior executives to develop proposals.

Swensen’s vice president for marketing, Alma Marlow, has proposed an idea that Joe is supporting: to create a subsidiary brand to be called Earth Bags, which would be made from recycled polyester and which would employ a one-for-one giving approach. For every bag purchased, a backpack would be given to a promising student in a developing country. Joe Swensen has always insisted on the highest quality for his bags and is fanatical about the life span of zippers. He is convinced that low-income people in developing countries probably have to settle for low-quality bags, which break easily, and make it difficult for students to transport their school supplies.

The role of devil’s advocate is taken on by Joe’s vice president for finance, Suzanne Rentof, who believes that the plan...
is impractical and that it would be simpler to give money to a promising charity. “How are we going to get these bags to the kids?” she asks, “We don’t have any overseas sales offices. So how much money are we going to spend flying someone around the world, transporting bags through customs? The kids would probably prefer the cash; they could buy their own bags. Besides, how many of our customers are going to buy an expensive backpack just so kids overseas can get a free one? It’s different with TOMS Shoes; most Americans have many pairs of shoes and they feel bad for a kid without shoes. But most people only have one backpack, and they probably don’t feel that sorry for someone who doesn’t have a good backpack. If we don’t sell any of these bags, how are we going to pay for sending them overseas?”

Swensen admits that Rentof makes some interesting points, but he still supports the idea. He organizes a meeting and assigns two executives to develop pro and con arguments for the idea of the one-for-one bag. In this case, as opposed to some of the others in this text, if you are arguing the negative side of the debate, do not limit yourself to pointing out flaws in Alma Martin’s idea of a one-for-one approach. Remember, Swensen is ready to commit $1 million to some charitable enterprise. If you do not think the one-for-one approach is a good idea, give examples of projects that you feel would represent a better use of the money.

**Affirmative**

Swensen Bags should create a backpack line based on the one-for-one giving model pioneered by TOMS Shoes.

**Possible Arguments**

- It would be an inspiring and fun way for company employees to interact with schools in developing nations, which would foster understanding across class, culture, and community.
- The project would promote education, as many children in developing countries cannot afford good backpacks.
- It would inspire other entrepreneurs to follow the one-for-one model and find new ways to fight poverty, which is something we should support.

**Negative**

Swensen Bags should not create a backpack line based on the one-for-one model, but should instead adopt a different form on social project.

**Possible Arguments**

- Giving away free products does not address the underlying problems of poverty.
- Donations foster dependency on foreign aid, which is unsustainable.
- The one-for-one model gives consumers the feeling that they’ve “done enough,” instead of looking for ways they can really help.
- Donated products hurt local merchants who sell similar products.

**Readings**

https://biz.libretexts.org/Bookshelves/Business/Business_Ethics/Book%3A_Good_Corporation%2C_Bad_Corporation_-_Corp…

Updated: Wed, 19 Aug 2020 00:23:37 GMT
Powered by
5.1 “Shoes for Business: The Unintended Consequences of Doing Good”


TOMS is well known for its one-for-one business model: For every pair of shoes it sells, the company donates a pair of shoes to a child in need. At first, I thought this sounded like a great way to leverage business to help communities. But a skeptical friend prodded me to think more carefully about the impact TOMS—and other companies with similar business models—are making. By giving free shoes to impoverished populations, she pointed out, TOMS competes with local businesses and takes away customers that might otherwise buy locally made shoes.

Apparently, this isn’t uncommon in philanthropy. Several acknowledged instances can be found where in-kind donations have disrupted local markets in developing countries. A 2008 study found that used-clothing imports to Africa explained 50 percent of the fall in employment in that sector from 1981–2000. After the Haiti earthquake, an influx of foreign food aid—particularly donations of rice—hurt rice farmers’ livelihoods. Oxfam has also found that secondhand clothing imports to nations like Senegal and Ghana have likely hurt local industries and contributed to unemployment. The Oxfam report quotes the General Secretary of the International Textile, Garment and Leather Workers’ Federation on the job losses: “Unable to compete [with secondhand clothing imports], local businesses are collapsing, leaving hundreds of thousands of workers jobless.”

Although TOMS likely has good intentions, its donation strategy may negatively impact the communities it seeks to support. Like the litany of organizations that donate shoes, clothes, and other items to developing countries, TOMS may be undermining the development of local businesses. And while making in-kind donations benefits consumers in the short run, stifling local industry and increasing unemployment in this way will intensify poverty in the long-term.

Another issue with organizations like TOMS is that donating shoes can be financially inefficient. Shoes are typically inexpensive in developing nations—in Mumbai, as in Port-au-Prince, one pair is sold for as little as $2. Shipping a used pair of shoes often costs more; for instance, Soles4Soles solicits donations of $3–$5 to ship a pair of shoes to Haiti. In addition to hurting local business, in-kind donations sometimes simply waste money. We could actually save money and simultaneously help stimulate local economies by just keeping our old shoes and instead buying new ones from community-based vendors…

As consumers of “socially conscious” products, we need to be aware of the impact of our purchases. In a culture where giving back through consumption is increasingly popular, and where myriad companies market items that purportedly help those in need, we should be cautious and deliberate about how we choose to support international development.

5.2 “The Best and Simplest Way to Fight Global Poverty”


Poverty is, fundamentally, a lack of money. So doesn’t it make sense that simply delivering cash to poor people can be
an effective strategy for alleviating it?

When it comes to the global poor—the hundreds of millions of slum-dwellers and subsistence farmers who still populate the world—one might be more skeptical. Perhaps the problems facing these unfortunates are simply too profound and too complex to be addressed by anything other than complicated development schemes. Well, perhaps. But there’s striking new evidence that helping the truly poor really is as simple as handing them money. Money with no strings attached not only directly raises the living standards of those who receive it, but it also increases hours worked and labor productivity, seemingly laying the groundwork for growth to come…

The research comes from a 2008 initiative in Uganda’s very poor northern sections. The government announced plans to give roughly a year’s worth of average income (about $382) to young people aged 18–34. Youths applied for the grants in small groups (to simplify administration) and were asked to provide a statement about how they would invest the money in a trade. But the money was explicitly unconditional—parceled out as lump sums with no compliance monitoring.

[Researchers] surveyed 2,675 youths from both the treatment and the control group before dispersal of money, two years after dispersal of money, and four years after dispersal of money. The results show that the one-off lump-sum transfer had substantial long-term benefits for those who got the cash. As promised, the people who received the cash “invest[ed] most of the grant in skills and business assets,” ending up “65 percent more likely to practice a skilled trade, mainly small-scale industry and services such as carpentry, metalworking, tailoring, or hairstyling.” Consequently, recipients of cash grants acquired much larger stocks of business capital and thus earn more money—a lot more money. Compared to the control group, the treatment group saw a 49 percent earnings boost after two years and a 41 percent boost after four.

…One of the most interesting results from the experiment is that recipients of grants actually report 17 percent more hours worked, suggesting that the money serves as a true bridge to economic opportunity. Grant winners increase both the quantity and quality of labor supplied, suggesting there should be at least some spillover benefits to the broader community. No doubt there are major limits to how far up the development ladder you can climb with this strategy: It might not work in moderately prosperous countries with more access to capital. But these results are extremely encouraging…

Poor people just need more money.

5.3 “Sacrificing Microcredit for Megaprofits”


5.4 “Our Ineffectiveness at Measuring Effectiveness”

Synthesis Questions

1. Do you think the one-for-one model can be expanded to all product categories? Why or why not?
2. Would you like to start a social enterprise? What sector or type of product line do you think might work?
3. Do you think the world needs more people like Blake Mycoskie?
4. Are there any social enterprises that you support or whose products you buy? What attracts you to these companies and their products?

Endnotes


8. PVOs are nongovernmental organizations (NGOs) they receive cash contributions from the general public.


