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BUSINESS for the Common Good

A Christian Vision for the Marketplace

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Emerging Directions in Business

Most of the apples we eat are grown in the rolling hills of southeastern Washington. In clusters along the major roads there, wooden shanties, often lacking plumbing and electricity, serve as temporary housing for migrant farm workers. A turn at the end of a highway near the Snake River lie orchards, clusters of middle-class houses and a school. Halfway up Fishhook Park Road is a place that some have called a piece of Eden, a family farm run by Ralph and Cheryl Broetje.[1] Broetje Orchards' brand First Fruits of Washington is named after the biblical festival in which people offered the first and best of their harvests to God.

Don't let the "family farm" label fool you. Broetje Orchards is one of the largest privately owned apple orchards in the world (more than 5,000 acres) and employs roughly one thousand full-time year-round employees in addition to another nine hundred seasonal workers. The company packs over five million boxes of apples a year and sells them to retailing giants like Costco, Safeway, Albertsons and Walmart.

While apples are not a unique product, the company's social and spiritual mission of serving the poor and marginalized sets it apart. From their early days in the agriculture business, Ralph and Cheryl witnessed the hardship experienced by their farmhands, many of whom came from south of the U.S. border for seasonal work. They could see the toll through children who were often left without supervision and unable to attend school because of frequent family moves to find work. So they created full-time

[1] Kari Constanza, "A Piece of Eden." *World Vision* 7, no. 2 (2003): 22-27. See also Jim Rice, "Core Values," *Sojourners*, November-December, 2000.

year-round employment and built a preschool. They learned more about poor living conditions and health issues, including a boy being bit by rats as he slept, recalls Cheryl Broetje (who directs the "community profit" side of the business). Ralph and Cheryl decided to put up almost everything they had saved to that point and built 100 two, three and four bedroom homes. The homes form clusters known as Vista Hermosa (beautiful view) and are rented to employees and their families at substantially subsidized rates.

Before the Broetjes knew it, they realized many more needs had to be met. As they put it, they were soon in the social-work business. And so they also built a private Christian school, a ranch for troubled youth (Jubilee Youth Ranch) and a day-care center that serves employees, also at highly subsidized rates (no one pays more than $7 per day), a chapel and a grocery store. After-school programs, an onsite library and a computer lab were set up. Money was set aside for college scholarships for the children of employees. In all the company donates about 60 to 75 percent of its yearly after-tax profits to local, domestic and international charitable projects (a total of $50 million to date). Countering concerns about paternalism, Cheryl is proud to note that in the past, up to 40 percent of the families who leave Vista Hermosa go on to become first-time homeowners.

The Broetjes' beliefs shape their direct management practices too. When I (Kenman) had the privilege of visiting the business a few summers ago, I was taken aback by the thoughtfulness and humility with which the Broetjes designed the entire operation. The company views itself as a community and practices a servant leadership model. A deepening awareness that some families had almost no time together as a unit (fathers working early morning in the fields, and mothers spending swing shifts in the plant) compelled them to build a new state-of-the-art packing facility that could run alongside the old one and eliminate the need for early evening work. And realizing a new facility would be more efficient and thereby possibly cost workers their jobs, much careful thought was given to the maximum number of jobs that could be preserved while running the business in an economically sustainable manner.[2] For the past two years, a council made up of employees has given away 100 percent of the proceeds (often in the hundreds of thousands of dollars) from a cherry orchard to

[2]Albert Erisman and Kenman Wong, "An Orchard with Fruit That Lasts: A Conversation with Cheryl Broetje," *Ethix*, November 2005.

support various causes. The employees are actually empowered to solicit proposals, much like program officers of a charitable foundation.

The company's motto is "A quality fruit company committed to 'bearing fruit that will last'" (Jn 15:16) "Sure, we have to make money or we'd have to shut the doors," Cheryl Broetje explains.

> But profit isn't our main motive. It becomes the by-product of treating people with dignity, respect, and mutuality, and as equals in every sense of the word. We all have a role to play in creating a community of people who care for a business that then cares for them. We believe that if we ever stopped doing that, we would implode.[3]

Broetje Orchards is a business that grows and sells excellent apples, but as the Broetjes note, they are also in the business of developing people.

Broetje Orchards is an early pioneer of what have become known as "social enterprises" or "social ventures" that seek to directly blend social and financial bottom lines. Social enterprises comprise one among several movements that are working toward making business a more direct and intentional partner in solving difficult social problems, such as poverty and environmental sustainability. Each of these movements has attracted entrepreneurs, customers, media attention, curriculum development at the university level and large sums of investment dollars. Moreover, some mainstream business organizations are adopting similar practices and aims.

In what follows, a number of exciting developments in business will be discussed. Before we begin, it is worth noting that these efforts are *not* charitable, per se. While they do focus on humanitarian issues and some degree of profit may be sacrificed for other bottom lines, these efforts creatively occupy the space that has traditionally divided the for-profit and nonprofit sectors. These emerging organizations offer a powerful witness to the need for business to be an active partner in solving social issues as they seize upon the power of economic competition and the profit motive (although often in tempered form) to encourage innovation and discipline in ways that donor-funded and government entities typically cannot. Business has a unique capacity to bring innovative products and services to

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[3]Cheryl Broetje, www.broetjeorchards.com/index.cfm?pageId=A6B922A8-16A8-5F5A-37A77AD149247D85, accessed November 12, 2008.

scale quickly, transfer knowledge between various market segments and geographical areas, and operate sustainably free of dependence on donor and government funding. Instead of charity, each of the following movements take advantage of what business does best in pursuit of creating economic and social value.

We will discuss the move to comprehensive Corporate Social Responsibility (CSR), Bottom or Base of the Pyramid (BOP) business, Social Enterprise, Micro-finance, Business as Mission (BAM), and new ownership and control models. We will then examine how they fit into a vision for business that is characterized by transformational service for the common good. It is important to note that these developments represent categories that are not neatly separable. Some scholars even see an emerging convergence of most, if not all of them.[4] For example, the line between social enterprise and a more robust conception of CSR may be a thin one. Likewise, social entrepreneurship has certainly been a factor in the rapid expansion of Micro-finance. Social entrepreneurs and BAM leaders can also use BOP strategies in achieving their objectives. We also wish to point out that we are not invalidating or minimizing the role of businesses that operate in more conventional spheres (the subject of most of this book) in contributing to God's work in the world, especially as many of them are moving in the direction of emphasizing benefits to multiple stakeholders.

COMPREHENSIVE CSR

In the past, CSR (Corporate Social Responsibility) was generally defined as not doing any overt harm in the course of pursuing "normal" business activities. Many corporations also practiced CSR by investing in their local communities through charitable giving and staffing local volunteer efforts by sending their employees.

More recently, however, CSR has grown to become a much more robust and comprehensive concept. Once considered "normal," business operations such as sourcing and manufacturing, for example, are now being carefully examined to see if they violate moral (beyond legal) standards for the treatment of workers and environmental care. The older disconnected practice

[4]For example, Kim Alter groups many of these movements or organizations under the banner of "Social Enterprise" (see Kim Alter, "Social Enterprise Typology," *Virtue Ventures*, November 27, 2007, www.virtueventures.com/typology).

of giving large sums to charity, while producing goods in ways that were harmful to employees or end users is considered far less acceptable.

In fact, emerging CSR can be described as "360 degrees," "vertically integrated" or "seamless" in nature as business organizations are now internally examining and externally being held accountable for how their activities affect multiple stakeholder groups from the start of the supply chain to product or service end use. Business organizations must now consider how their actions affect investors, suppliers, consumers, employees and the environment. McDonald's is a good example of a company that has been influenced by the shifting nature of CSR. In years past, McDonald's enjoyed a fine reputation for corporate citizenship as a result of its charitable giving, particularly its investment in building "Ronald McDonald houses" near hospitals to offer shelter to families with children battling lengthy illnesses. More recently, however, McDonald's has been criticized for contributing to childhood obesity because of the nutritional value of its food products. This type of criticism has undoubtedly forced the company to re-examine its product line and to expand the number of choices available on store menus.

While certainly not embraced by all as a positive change (some think its ridiculous to hold a company and not parents responsible for children's eating habits, for example), the evolving nature of CSR has been driven and shaped by a combination of forces. Changing public expectations, government/regulatory pressure, nongovernment/advocacy organizations, media scrutiny, and the speed and volume of news and information travel on the internet have all played a role. Moreover, the use of ethical screens in investment and consumption decisions has also grown dramatically in recent years.

Some sincere and outspoken business leaders have also led the charge on the corporate side. For example, PepsiCo's CEO Indra Nooyi, is an outspoken proponent of a new kind of capitalism, in which corporations take on responsibility for multiple bottom lines.[5] Similarly, Clif Bar's founder, Gary Erickson, states: "To me shareholder value is long-term stewardship or sustainability. . . . We know we need profit, but profit is not why we exist. Profit enables Clif Bar to remain healthy and to do good

[5]Betsy Morris, "The Pepsi Challenge," *Fortune,* February 19, 2008, http://money.cnn.com/2008/02/18/news/companies/morris_nooyi.fortune/index.htm.

over the long haul."[6] This sense of purpose translates into five "bottom lines" or aspirations at Clif Bar: Business, Brands, People, Community and Planet. Even Bill Gates (founder of Microsoft, known for its highly competitive business practices) has expressed his frustration at capitalism's failures to address the needs of the poor and has called for a "creative capitalism" that is redirected toward helping those at the bottom of the economic ladder.[7]

Many companies provide examples of a more robust approach to CSR. Timberland, another company with a CEO (Jeff Swartz) who embraces a comprehensive CSR viewpoint, has moved from annual to quarterly CSR reporting in a quest for more transparency and stakeholder engagement. The report covers fifteen different performance indicators, including energy use, material composition of products (for health and environmentally friendliness), employee volunteerism/service, and labor conditions of factories.[8]

Starting with the treatment of workers far down the supply chain, companies like warehouse retailing giant Costco conduct audits of their supplier's farms to make sure employees are being treated fairly. According to CEO Jim Sinegal, Costco never wants to be in the position of being accused of bringing low prices to consumers because of an unseemly activity.[9] Likewise, Starbucks pays higher than market prices for raw beans and has invested in health care initiatives in coffee farming countries.

Mattel, another company with a strong commitment to CSR, has factories, especially those which produce the company's "Hot Wheels" line, that look nothing like the type of Chinese sweatshops reported by the news media. Work is designed in such a way that employees rotate through various stations rather than performing the same repetitive tasks. Factory workers are also housed in facilities that rival any modern dormitory in China,

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[6]Gary Erickson with Lois Lorentzen, *Raising the Bar: Integrity and Passion in Life and Business* (San Francisco: Jossey-Bass, 2004).

[7]Robert A. Guth, "Bill Gates Issues Call for Kinder Capitalism," *Wall Street Journal*, January 4, 2008, http://online.wsj.com/article/SB120113473219511791.html.

[8]Alex Hausman, "Timberland's Journey to Quarterly CSR Reporting," *Environmental Leader*, June, 25, 2008, www.environmentalleader.com/2008/06/25/timberlands-journey-to-quarterly-csr-reporting; for actual reports see www.JustMeans.com.

[9]Albert Erisman and David Gill, "A Long Term Business Perspective in a Short Term World: An Interview With Jim Sinegal," *Ethix*, March-April 2003, pp. 6-9, 16, reprinted in Scott B. Rae and Kenman L. Wong, *Beyond Integrity: A Judeo-Christian Approach to Business Ethics*, 2nd ed. (Grand Rapids: Zondervan, 2004), pp. 146-51.

and they enjoy air-conditioning, ping pong tables and karaoke machines.[10]

In exercising greater responsibility toward consumers, some companies like Walmart, which gets beaten up far more than praised for its practices these days, has long had policies of carrying family-friendly products. The company has refused to carry some video games with explicitly violent content and has used its considerable buying power to force record companies to produce special versions of compact discs with sanitized lyrics that would fit in with the family atmosphere of Walmart stores. According to former COO Don Soderquist, Walmart executives were not motivated by money in instances like these; they did it because it was the right thing to do.[11]

Comprehensive CSR is not well received by all. As noted earlier some question its fairness. (Is it fair to make companies responsible for the end use of its products; e.g., McDonald's for obesity?) Others object that it amounts to window dressing to appease and attract consumers. Yet others argue that it encroaches on the ability of business to pursue its profit objectives and so hurts investors who have risked their hard-earned funds to capitalize the company.

Given these concerns, how well does it fit in with the vision of transformational service? Undoubtedly, some parts fit in very well. Recall that business should not be an engine only to generate private wealth, but should be a vehicle for service to others. Also, restitution laws in the Old Testament and the idea that we are "our brother's keeper" are glimpses into a biblical ethic of responsibility for how our decisions and actions may affect others. Catholic social teaching also provides us with helpful ways to envision corporate responsibility, namely, the concepts of subsidiarity and mediating structures. According to the former, "every social activity ought of its very nature to furnish help to the members of the body social, and never destroy and absorb them."[12] What this means is that business and government must not harm people's relationships with God, with others, with nature or with themselves. The latter implies that

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[10] "Mattel's Efforts at Social Responsibility," *Los Angeles Times*, November 28, 2004, p. C1, http://seattletimes.nwsource.com/html/nationworld/2002102819_monitor28.html.

[11] Albert Erisman and Kenman Wong, "Wal-Mart Way Produces Accolades, Criticism, Growth: A Conversation with Donald G. Soderquist," *Ethix,* March/April 2008, p. 9.

[12] *Compendium of the Social Doctrine of the Church* (Vatican City: Pontifical Council for Justice and Peace, 2004), p. 81, cited in Lloyd Sandelands and Andrew J. Hoffman, "Sustainability, Faith and the Market," *Worldviews* 12, nos. 2-3 (2008): 129-45.

business can serve as one of the structures (like churches and schools) that stand between the individual and large institutions (the state) and which are necessary for integrating people into societal life.[13]

As business becomes even a more powerful force for change in a global economy, businesspeople and institutions must take greater responsibility for their actions, particularly consequences produced for the powerless and the voiceless. Since companies like McDonald's choose to market their products directly to children, some measure of corporate responsibility for end use is not far-fetched.

However, a major challenge is drawing a clear responsibility line. Holding companies entirely accountable for all unintended consequences produced by the use of their products negates legitimate forms of shared responsibility. Certainly, parents, governments and educational institutions have roles to play too. A strong argument can be made that McDonald's should not be ultimately responsible for overuse of its products if the company is marketing them responsibly and if it is making accurate information regarding the nutritional value of its foods readily available. After all, it is parents or other caretakers who make the final decisions (up to a certain age) for their children, and it is they who provide the money to purchase the food kids eat.

Furthermore, it might be more accurate to conceive of CSR as a series of relationships that make up a circle. At various points along the line that comprises that circle are businesspeople and organizations. Other social institutions such as government and families exist at other points. Finally, consumers and investors are also important and oft-neglected parts of the circle. In many ways, how we act in terms of purchases and investment decisions are strong drivers of the global economic system and thereby of business behavior. Comprehensive CSR may focus too much on the corporate/business part of the circle.

Another major challenge at this point is to develop accurate and auditable metrics for how well companies are doing with respect to treating other stakeholders. Like Timberland, many companies already

[13]While Peter Berger and Richard John Neuhaus are widely credited for the more recent rebirth of mediating institutions as a means of social analysis, for their relationship to business see the work of Timothy L. Fort, especially "Business as a Mediating Institution," *Business Ethics Quarterly* 6, no. 2 (1996): 149-63; and *Ethics and Governance: Business as Mediating Institution* (New York: Oxford University Press, 2001).

post CSR reports on their websites. A fairly recent development called "triple bottom line reporting" (3BL) represents one effort to formalize and standardize the metrics used. While the concept of the 3BL has promise, some critics believe that it has limited usefulness, and what gets passed as social responsibility reporting is often more public relations or "spin" over substance.[14]

Another challenge or limit of this movement is the reality of duplicitous motives. To no one's surprise, it seems clear that at least some of the corporations publicly speaking this language are far more motivated by capitalizing on a trend to attract consumers and investors to benefit the financial bottom line than by a values-based commitment. What if cultural values shift? Will comprehensive CSR simply go by the wayside as one more discarded trend that has lost its usefulness?

Bottom or Base of the Pyramid Business

An exciting movement involves the role of corporations in alleviating poverty. The Bottom or Base of the Pyramid (BOP) movement calls on large companies, including, multinational corporations (MNCs) to consider doing business with the world's poorest four billion people (two-thirds of the world), one part of the population they have long ignored.[15]

C. K. Prahalad and Stuart Hart, two of the movement's seminal thinkers state MNCs should consider "selling to the poor and helping them improve their lives by producing and distributing products and services in culturally sensitive, environmentally sustainable, and economically profitable ways."[16] In so doing, several objectives may be reached, including providing opportunities for people who make up the bottom of the pyramid to become connected to global markets and thereby lift themselves out of economic poverty. Of course, since large corporations are involved, the focus isn't just on alleviating poverty. The more traditional bottom line of financial growth is also emphasized. Researchers estimate that the market

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[14]For a critique of 3BL, see "Wayne Norman and Chris MacDonald, "Getting to the Bottom of the Triple Bottom Line," *Business Ethics Quarterly* 14, no. 2 (2004).

[15]See Allen Hammond et al., *The Next 4 Billion: Market Size and Business Strategy at the Base of the Pyramid* (New York: World Resources Institute, 2007).

[16]C. K. Prahalad and Stuart Hart, "The Fortune at the Bottom of the Pyramid," *Strategy+Business* 26 (2002): 2; see also C. K. Prahalad, *The Fortune at the Bottom of the Pyramid* (Philadelphia: Wharton School Publishing, 2004); and Stuart Hart, *Capitalism at the Crossroads* (Philadelphia: Wharton School Publishing, 2005).

in the eighteen largest developing countries is $1.7 trillion and in the "multi-trillions" overall.[17]

MNCs have largely overlooked this market because of assumptions regarding viability. Purchasing power parity (PPP) is roughly equivalent to $1,500 U.S. dollars (the minimum deemed necessary to sustain a decent life) for the billions of people in this economic tier and less than $1 per day for the bottom billion. Thus, it is natural to question how goods and services traditionally offered by large corporations to top-tier markets can be afforded. There may be want or need for some of the products and services, but the assumption is made that there will be little or no true economic demand.

Similar to the way the microfinance movement (discussed later in this chapter) has had to overcome myths about the economic resources and financial habits of impoverished people, leaders of the BOP movement point to level of activity that occurs in the informal economy, much of which is invisible to corporate executives, who are mostly based in countries with top-tier economies.

This market is reachable, they argue, via innovation and overcoming a set of orthodoxies, including assumptions about the importance, needs, ability to pay of the consumers and the availability of managers who wish to work in these countries and tackle the challenges of serving their needs. Prahalad says,

> If we stop thinking of the poor as victims or as a burden and start recognizing them as resilient and creative entrepreneurs and value-conscious consumers, a whole new world of opportunity will open up. . . . What is needed is a better approach to help the poor, an approach that involves partnering with them to innovate and achieve sustainable win-win scenarios where the poor are actively engaged and, at the same time, the companies providing products and services to them are profitable.[18]

He goes on to state, "When the poor at the BOP are treated as consumers, they can reap the benefits of respect, choice, and self-esteem and have an opportunity to climb out of the poverty trap."[19] BOP lead-

[17] See Prahalad and Hart, "The Fortune at the Bottom of the Pyramid," and C. K. Prahalad and Allen Hammond, "Serving the Poor Profitably," *Harvard Business Review* 80 (2002): 48-57.
[18] See Prahalad, *Fortune at the Bottom of the Pyramid*, pp. 1, 3.
[19] Ibid., p. 99.

ers are also emphatic that products and services be designed with environmental sustainability in mind, given the amount of damage that would be caused if developed-world products and services are simply replicated and consumed by billions more.[20]

Once assumptions are changed, many operational and strategic innovations are needed.[21] There are significant challenges to providing products and services or creating employment opportunities for people who have small and often erratic incomes, live in media-dark areas, and may not have the necessary skills to serve in production or distribution capacities. Moreover, the contexts in which many of these people live may support trade in ways taken for granted in higher-tier economies. For examples, some countries lack infrastructure such as good roads and payment systems (e.g., check clearing, electronic deposit and money transfer) by which the efficiency of economic transactions is enabled.

Some BOP strategies are simple, for example, selling items such as laundry soap in single servings to address the inability to purchase in bulk due to small and irregular incomes on the part of consumers. Others are revolutionary. For example, an effort by British telecom giant Vodafone (one of the largest mobile telecommunications firms in the world, by revenue) in cooperation with Kenya-based Safaricom launched M-Pesa in 2007. M-Pesa (*Pesa* means money in Swahili) is a service that enables economic transactions over mobile phones in Kenya.

A dramatic increase in cellular phone ownership due to an equally dramatic reduction in phone costs and the availability of prepaid service during the past few years has allowed for widespread adoption in developing countries. For a small fee customers can deposit funds at one of many M-Pesa agent locations (often at small stores where Safaricom prepaid phone cards are sold) that are then credited to their mobile phone accounts. Then, via phone they can use the funds to make purchases at stores (by sending electronic money to the store owners' M-Pesa account) or transfer money to family members living in another part of the country. The family members can take the credit that appears on their phone to another M-Pesa agent to receive the actual cash or use the credit to make

[20]See Prahalad & Hart, "The Fortune at the Bottom of the Pyramid," p. 4.

[21]See Ted London and Stuart Hart, "Reinventing Strategies for Emerging Markets: Beyond the Transactional Model," *Journal of International Business Studies* 35, no. 5 (2004): 350-70.

purchases of their own. For example, a worker living in a city can send part of his income to his wife and children living in a far away village. Money transfer (remittances), something easily done in a wealthy country, often produces tradeoffs between expense, speed and reliability to people living in economically impoverished parts of the world. So, it is no surprise that M-Pesa has been very well received in Kenya. According to *The Economist*, as of late 2009, M-Pesa boasts seven million users. (Kenya has a population of 38 million people, and 18.3 million have mobile phones.)[22]

MNCs (or divisions thereof) involved in BOP initiatives include Shell Solar (energy/utilities), Cemex (housing) Kodak (cameras) and H.L.L., a subsidiary of Unilever (health- and hygiene-related products, such as soap).[23]

In the best cases the people who live at the BOP are not just seen as potential customers but as key participants in distribution and procurement, thereby creating direct productive economic opportunities for them. For example, Grameen has successfully created income opportunities for women who own cell phones and then earn a living by selling time, typically to fellow villagers.[24] Other opportunities exist for people to sell prepaid cards or recharge phone batteries for a fee. Similarly, a key part of H.L.L.'s rural distribution strategy in India involves thousands of local villagers who are trained as "traveling retailers."[25] Nestlé has helped spur rural economic development by relying on local farmers to supply product, and other workers for storage and distribution in its milk districts. In addition to economic gains, nutrition, food safety, infrastructure, training and access to veterinary expertise are among the other benefits of the program.[26]

The BOP movement's emphasis on achieving multiple bottom lines, a

[22]"Beyond Voice," *Economist*, September 24, 2009.

[23]For further descriptions of these and other examples, see V. Kasturi Rangan et al., eds., *Business Solutions for the Global Poor: Creating Social and Economic Value* (San Francisco: Jossey-Bass, 2007); and Prahalad, *Fortune at the Bottom of the Pyramid*.

[24]The Grameen phone initiative was very successful in its earlier years, but due to saturation of cell phones due to lower costs, the model appears now to be less economically beneficial. The point, however, is that similar income-generating opportunities exist.

[25]V. Kasturi Rangan, Dalip Sehgal and Rohithari Rajan, "The Complex Business of Serving the Poor," in *Business Solutions for the Global Poor*, ed. V. Kasturi Rangan et al. (San Francisco: Jossey-Bass, 2007), pp. 144-54.

[26]Ray Goldberg and Kerry Herman, "Economic Development for a Value-Added Food Chain and Improved Nutrition," in *Business Solutions for the Global Poor*, ed. V. Kasturi Rangan et al. (San Francisco: Jossey-Bass, 2007), pp. 183-89.

proactive role for business to help alleviate economic poverty, economic empowerment and the need for sustainable design are highly commendable. If more businesses approached their work in this manner, transformational work could take place. However, there is a need to take a cautionary approach. First, the fortune to be made may be overstated. Aneel Karnani argues that the market at the bottom is more of a mirage.[27] Second, MNCs are often shareholder owned and are thereby under tremendous short-term pressures to bring products and services to a profitable scale. Therefore, they are vulnerable to take actions that favor financial growth over the best interests of the people they purportedly serve and thus may exploit the economically poor by diverting scarce financial resources into unnecessary purchases. Indeed, it is worth asking if people living at the BOP really need all of the products and services we have in top-tier economies that cause harm to physical, social, spiritual and environmental health. To be fair, leaders of the movement are keenly aware of the need to operate carefully, since companies could easily cross into the territory of profiting on the backs of economically poor people.[28]

Next, much of the existing BOP literature refers to economically impoverished people as "the poor." While this practice can be overlooked as a simple rhetorical issue (and "the poor" is routinely used language in literature from many disciplines), there are many dimensions of poverty. Ignoring this reality may well reduce people to economic agents alone (see chap. 5). This often unintentionally leads to the assumption that economic growth and development are synonymous, therefore rendering the creation of other types of value (social and spiritual) an afterthought at best.

On a related note there is a danger in treating people like consumers rather than neighbors. The BOP movement's intention to regard all people as equals is commendable. Undoubtedly, treating people like consumers may well be a step in the right direction and is an improvement over regarding them as charity recipients or, worse yet, as invisible. However, outcomes that work directly against human flourishing are produced if business practitioners see the people they are dealing with as consumers

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[27]Aneel Karnani, "The Mirage of Marketing to the Bottom of the Pyramid," *California Management Review* 49, no. 4 (2007): 90-111.
[28]See for example, Rangan et al., ed., *Business Solutions for the Global Poor*, p. 11.

alone, and if people come to see themselves primarily through such a lens. Treating people as dignified children of God entails seeing them in their entirety as human beings. Moreover, their economic interests might be better served by seeing their creative and productive capacities as the parts of the movements that follow attempt to do.

Social Enterprise

Beyond deeply integrated CSR there is another movement afoot (of which Broetje Orchards may be considered a part) that seeks to make business an even more direct and proactive partner in solving social problems. In addition to social enterprise (which itself has multiple definitions), this emerging category has been called “social entrepreneurship,” “social ventures,” “socially motivated business,” “for-benefit,” “for more than profit” and “not just for profit,” among others.

The number and variety (e.g., nonprofit, religious nonprofit, for profit) of organizations is diverse as the names used to describe this emerging sector. Despite the variety of names and organizational forms, however, they all share common threads. Like Broetje Orchards described at the beginning of this chapter, social ventures use skills (such as entrepreneurship and innovation) and income-generation models once seen as belonging exclusively to the domain of business to help achieve specific social objectives, once seen as residing exclusively to the nonprofit sector. Many if not all effectively function as “blended value organizations and blur the traditional lines that have existed between the for-profit and nonprofit sectors.[29] Often, these organizations are trying to move to, or have attained, financial self-sufficiency through their own earned income. In short, these organizations use business in a more direct and intentional manner to encourage human flourishing.

Distinguishing these organizations from traditional business organizations that embrace CSR is a fuzzy line (especially since both employ the language of multiple bottom lines) and might be better characterized as a matter of degree. Like the organizations that are moving toward

[29]For a thoughtful and detailed discussion of multiple manifestations of blended value organizations and the intersections of social and financial value, see Jed Emerson, “The Blended Value Proposition: Integrating Social and Financial Returns,” *California Management Review* 45, no. 4 (2003): 35-51.

comprehensive CSR, most if not all social ventures attempt to be socially responsible.

However, they go farther. One helpful definition can be derived by adapting the definition of social entrepreneurship developed by Jerr Boshee and Jim McClurg. While describing enterprising nonprofit organizations, Boshee and McClurg provide a key distinction between entrepreneurs and social entrepreneurs:

> Traditional entrepreneurs frequently act in a socially responsible manner: They donate money to nonprofits; they refuse to engage in certain types of businesses; they use environmentally safe materials and practices; they treat their employees with dignity and respect. All of this is admirable, but their efforts are only *indirectly* attached to social problems. Social entrepreneurs are different because their earned income strategies are tied *directly* to their mission: They either employ people who are developmentally disabled, chronically mentally ill, physically challenged, poverty stricken or otherwise disadvantaged; or they sell mission-driven products and services that have a direct impact on a specific social problem (*e.g.*, working with potential drop-outs to keep them in school, manufacturing assistive devices for people with physical disabilities, providing home care services that help elderly people stay out of nursing homes, developing and selling curricula).[30]

Traditional entrepreneurs are ultimately measured by financial results: The success or failure of their companies is determined by their ability to generate profits for their owners. On the other hand, social entrepreneurs are driven by a *double* bottom line, a virtual *blend* of financial and social returns. Profitability is still a goal, but it is not the only goal, and profits are reinvested in the mission rather than being distributed to shareholders.

Boshee and McClurg's definition captures the critical distinctions between CSR and social ventures. However, as Arthur C. Brooks notes, some social enterprises may be for-profit in nature and may in fact distribute profits to shareholders.[31]

One of the most well known social ventures is Newman's Own Products. The company uses the motto, "Shameless Exploitation in Pursuit

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[30]Jerr Boshee and Jim McClurg, "Toward a Better Understanding of Social Entrepreneurship: Some Important Distinctions," *Social Enterprise Alliance*, 2003, www.se-alliance.org/better_understanding.pdf.

[31]See Arthur C. Brooks, *Social Entrepreneurship: A Modern Approach to Social Value Creation* (Upper Saddle River, N.J.: Pearson Prentice Hall, 2009), pp. 16-17.

of the Common Good" on its labels. Started by the late actor Paul Newman and his close friend A. E. Hotchner in 1982, the company makes and sells food products such as salad dressings, popcorn and salsa, and donates all of its net profits (through Newman's Own Foundation) to support charitable causes (including Hole in the Wall camps), a total of $250 million to date.[32]

Other examples are abundant. Some, which fit Boshee and McClurg's definition, originate as creations of enterprising nonprofit organizations and return profits to the umbrella organizations, empowering them to be less reliant on donor funds or government grants to sustain their social missions. For example, a number of social enterprises, including food services, commercial laundries and document-shredding businesses, were created by the Seattle-based Northwest Center. These enterprises not only earn income, trade on quality and value rather than charity, and are self-sufficient but also employ the disabled clients of its umbrella organization. Likewise, while running multiple income-generating businesses (which provides 99 percent of operating budget), including packaging, manufacturing and wholesale food distribution, Pioneer Human Services also employs people on the margins of society, including ex-convicts, providing them with a steady income and a pathway back into the mainstream workforce.

Other social ventures (like Newman's Own) look more like traditional for-profit businesses but often have a nonprofit (social profit or community profit) arm or at a minimum a strong social motivation and focus. Athena Partners was founded to raise funds devoted to finding a cure for cancer. Founded by a cancer survivor and former Microsoft executive, the company sells bottled water and competes for shelf space at supermarkets with brands owned by beverage giants Pepsi and Coca-Cola. Edun is a company founded by U2 front man and poverty activist Bono (Paul Hewson) and his wife Ali. Edun produces its designer clothing in countries (such as South Africa and Tanzania) that are badly in need of sustainable employment and commercial relationships.[33]

Many social entrepreneurs are explicitly motivated by faith. For exam-

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[32]Paul Newman and A. E. Hotchner, "Newman's Own Story," *Time*, November 10, 2003, www.time.com/time/magazine/article/0,9171,1006144-1,00.html.

[33]"Bono Offers Clothing with a Conscience," Associated Press, March 15, 2005, www.msnbc.msn.com/id/7182840.

ple, Pura Vida (which means "pure life" in Spanish) coffee was started by two Harvard business school classmates, John Sage and Chris Dearnley, to aid a Christian ministry (run by Dearnley) that serves children in impoverished coffee-growing regions in Latin and South America. The company gives most of its profits to its nonprofit arm, Pura Vida Partners. The company's motto is "create good" and has become one of the largest sellers of fair trade, sustainable coffee in the nation, and is a big hit on college campuses.[34]

Another faith-motivated enterprise is Earthwise Ventures, which seeks to build a fleet of two hundred catamaran-style passenger ferries to service Africa's Lake Victoria. Earthwise aims to bring economic vitality to the region and earn a financial profit at the same time. Lake Victoria, which borders Tanzania, Uganda and Kenya, is the second largest freshwater lake in the world. Currently, there is no reliable ferry service, and if traveled by land a one- to three-day drive is necessary to get around the body of water. The ferry will reduce the trip to seven hours at a cost of about $25, roughly the price of bus fare, and if financial models hold true it will bring a profit to Earthwise, funded by private investors. The service aims to reestablish reliable travel routes and promote economic activity in the forms of tourism, trade and much more efficient distribution of good and services.[35]

Founded by South Africa-born (and now Seattle-area based) Rob Smith and Ugandan Calvin Echodu, Earthwise will build the boats in Washington state and then disassemble and ship them to Uganda, where they will be reassembled and operated by a team of forty locals working under the leadership of Echodu. The company will also contribute to economic development by buying jatropha seed from local farmers to produce biofuel. Motivated by his Christian faith, Smith says, "The Gospel gives us a ticket to earth, not just to heaven. It should transform the way we live and how we treat our neighbors." He goes onto to state, "Growing up in Africa convinced me not only does Africa need good investment, but our kids need an example. . . . They see a culture of aid organizations handing out money from donors abroad, not

[34]Pura Vida has had a recent change in ownership structure, so its mission is changing. See Stephanie Strom, "Hybrid Model for Nonprofits Hits Snags," *New York Times,* October 25, 2010, http://www.nytimes.com/2010/10/26/business/26hybrid.html.

[35]Kristi Heim, "Everett Man Building Fleet of Ferries for Africa's Lake Victoria, *Seattle Times*, August 17, 2009; Julia Youngs, "Earthwise Ventures," lecture given at Seattle Pacific University, Social Enterprise class, November 2009.

people earning a living through productive labor."[36]

Social ventures can also employ BOP strategies. For example, a partnership between Grameen and Danone (makers of Dannon yogurt), deemed a "social business" by Muhummad Yunus, uses many BOP techniques (pricing and product innovation) to offer an affordable and highly nutritious yogurt to combat hunger, but returns only a symbolic profit of 1 percent to investors, though it is technically a for-profit enterprise.[37]

From the standpoint of transformational service, social enterprise is a welcome movement. Thinking creatively about how to merge and blend business with social goals is a true example of integration. However, there are several dangers or challenges. One danger is to mistakenly imply that all businesses must be explicitly "double bottom line" focused in order to benefit others. Though the degree and intentionality may be different, conventional businesses do make societal contributions, and as many of these organizations take steps toward embracing broader purposes, they are often doing so more directly as well.

Second, like CSRs mentioned earlier, sometimes motives may be unclear. Is an institution really driven by a social mission or just the appearance of one because it might sell well to certain constituents? Third, a challenge or reality rather than a weakness is the fact that managing two bottom lines can produce difficult if not altogether irreconcilable tensions. For example, there will be inevitable choices and tradeoffs that need to be made to preserve or enhance both bottom lines. For example, what if the most needy clients are the most expensive to employ or serve? Which bottom line will take precedent?

MICROFINANCE

During the past five years microfinance (and the broader category of microenterprise development) has exploded in growth. In 2006 Muhummad Yunus and the Grameen Bank shared the Nobel Peace Prize for their pioneering work in microfinance. Likewise, the United Nations declared 2005 as "the Year of Microcredit." While these events prompted many Americans to learn about microfinance, the MicroCredit Summit esti-

[36]Heim, "Everett Man."

[37]Muhummad Yunus, *Creating a World Without Poverty: Social Business and the Future of Capitalism* (New York: Public Affairs Books, 2007).

mates that microfinance has already served over one hundred million poor people around the globe and that at least three thousand institutions are engaged in its delivery.[38]

Microfinance has emerged over roughly the last thirty years and has been touted as a revolutionary way to combat poverty, in part because it is a bottom-up development method that relies more on a business model than on traditional charity to serve the poorest of the poor.[39]

Microfinance involves providing small-scale financial services like loans, savings accounts and insurance, which have traditionally resided within the realm of business, to the economically poor. Loans can range in size from a few dollars to a few thousand dollars. Many of the borrowers are women who often lack a consistent income stream and have little or no collateral so they cannot access traditional or formal financial services. They may even be illiterate, so they can't even fill out the required loan forms.[40] In many cases clients have to borrow from local money lenders, who often charge exorbitant interest rates for their services.

Microfinance is seen as a "hand-up" approach because, in theory, clients use loans to help start, stabilize or expand small businesses in industries such as agriculture, animal husbandry, soap production, crafts, textiles, transportation and small retail operations, to name a few. The increased income produced from their business often leads to better nutrition, health, housing and the ability to send children to school.

Microfinance has also exploded many myths about the poor, in particular their ability to pay back loans and to save money. In many cases, loan repayment rates of greater than 95 percent have been reported. When loans (initially capitalized by donor funds, government grants and increasingly through investment dollars) are repaid, the funds are recycled and reloaned, often to new recipients, beginning a new cycle and leading to an exponential impact from the same funds. Moreover, microfinance is more financially sustainable than traditional development efforts since credit services rely on loans that are repaid and recycled rather than purely char-

[38]State of the Microcredit Summit Campaign Report 2007, www.microcreditsummit.org/pubs/reports/socr/EngSOCR2007.pdf.

[39]Philip Smith and Eric Thurman, *A Billion Bootstraps: Microcredit, Barefoot Banking and the Business Solution for Ending Poverty* (New York: McGraw-Hill, 2007).

[40]See Muhammad Yunus, *Banker to the Poor: Micro-Lending and the Battle Against World Poverty* (New York: PublicAffairs Books, 2003).

itable funds that are exhausted once they are spent.

Upon first hearing about microfinance many people wonder how poor people with no assets can pay back loans. Several factors are at play. First, economically poor people are hard working and are adept at survival under difficult conditions. It is said that poor people who are lazy, particularly in the developing world, are dead.[41] Second, microfinance institutions have developed methods to help ensure repayment. For example, they often rely on the use of repeat loan cycles, so that repayment guarantees access to future loans. In addition, peer groups are often used. While microfinance loans can be made to individuals, many borrowers start out in self-selected groups. The groups serve to screen applicants for their ability to repay, offer peer support and may act as guarantors of repayment, often through mandatory savings that are a required condition for taking a loan. Microfinance institutions also use frequent but low repayment installments so that the payments are manageable for those who have difficulty coming up with large (lump) sums all at once.

In addition to loans, some microfinance institutions also provide services that help contribute to social safety. For example, some institutions provide savings services. Poor people already save money for emergencies, weddings and to take advantage of economic opportunities. However, safety and immediate household needs can jeopardize the ability to regularly save. So, many people pay someone to keep their funds safe or they accumulate money through informal groups such as rotating savings and credit associations (ROSCAs) in which a group of people each put in weekly or monthly funds, and someone takes home the entire pot of money.[42] Though just in nascent stages, others provide insurance services (or partner with insurance providing organizations) since economically poor people rarely have social safety nets to protect them from natural disasters and the loss of income occurring because of a death in the family.

Microfinance can also be contextualized in settings where there are other ongoing development projects or are packaged with other social services. In a microcredit-plus model many organizations provide nonfinan-

[41]See Bryant L. Myers, *Walking with the Poor: Principles and Practices of Transformational Development* (Maryknoll, N.Y.: Orbis, 1999).

[42]Stuart Rutherford, *The Poor and Their Money* (New York: Oxford University Press, 2000). See also Beatriz Armendariz and Jonathan Morduch, *The Economics of Microfinance* (Cambridge, Mass.: MIT Press, 2007).

cial services, such as literacy classes, business training, health care and spiritual education and development, along with financial services.

Because of the developing-country contexts where it is used, microfinance might sound like a cottage industry, but it is developing quickly. For example, the last several years have seen the establishment of organizations that have developed information databases, financial rating systems and benchmarking data. Other organizations are devoted to capacity building, technical advice, funding, outcomes and best practices research.[43] Currently, there are many efforts being made to make microfinance even more available by lowering transaction costs and barriers. For example, the Grameen Foundation is working to develop open-source accounting and management software. Other organizations are now using technology such as smart cards and cell phones to enable transactions.

Many Christian organizations have been involved in microfinance from its earliest days. Opportunity International is one of the most well known. Relief and development giant World Vision has long been involved and recently created VisionFund. Esperanza International and Hope International are others.

Looking through the lens of business as transformational service, microfinance and its achievements should be celebrated. The effort to assist the poor and eradicate poverty is a direct extension of the biblical vision for justice. Dignity is also honored through the use of a hand-up approach. And the potential for more sustainable efforts through the use of recycled funds is an improvement over traditional charitable models.

The explosion of myths regarding the economically poor has opened previously unimaginable access to capital. With the high repayment rates by clients (often higher than in developed countries) coupled with the high interest rates charged, it was inevitable that microfinance would attract purely profit-seeking investors. Thus, big name Wall Street-based institutional investors have become involved as capital providers on Wall Street. And in 2006 one Mexico-based microfinance institution, Compartamos, that had been originally funded by government grants and loans from NGOs like Accion actually had an IPO, raising over 400 million dollars.[44]

[43]Brigit Helms, *Access for All: Building Inclusive Financial Systems* (Washington, D.C.: World Bank, 2006).

[44]Richard Rosenberg, "Reflections on the Compartamos Initial Public Offering: A Case Study

At some level, of course, attracting this type of capital should be a cause for celebration. The poor can pay back so well that large Wall Street investors are actually lining up to loan them money! Who'd have thought? Moreover, more capital is being mobilized into microfinance, allowing more people to be reached (outreach breadth).

However, there are several dangers too. First, microfinance can easily reduce the definition of *poverty* to a lack of money and thereby equate human well-being with material wealth. A more comprehensive and Christian definition of poverty includes social, psychological and spiritual dimensions. Therefore, any attempt to comprehend or alleviate poverty must be holistic in focus and define human well-being beyond materialistic or economic terms. On a related note, exceeding care must be taken in trying to define and measure outcomes. While economically poor people can often pay back the loans, and there is lots of available anecdotal evidence about beneficiaries, more evidence is needed that their lives are actually being improved in the process.[45]

Second, given all of the publicity, it is easy to believe that microfinance holds the key to efficient development. It is important to be clear that microfinance is *one* tool in the development tool box. Hyping microfinance to the point that it supplants or replaces other legitimate measures of poverty alleviation is simplistic and harmful.[46] In fact, if not properly motivated or managed, microfinance can produce extremely negative outcomes for its recipients (e.g., increased debt burdens and social shame).[47] To create more safety for clients, an increasing number of practitioners and scholars believe that a full range of financial services (including savings, insurance and remittances) versus mere credit is a more responsible course of action in meeting the needs of clients.[48]

Finally, some of the recent trends are alarming. Some worry that microfinance institutions have focused more on financial measures of sustain-

on Microfinance Interest Rates and Profits," CGAP Focus Note No. 42, June 2007, www.cgap.org/gm/document-1.9.2440/FN42.pdf.

[45]Aneel Karnani, "Microfinance Misses Its Mark," *Stanford Social Innovation Review*, summer 2007.

[46]See Peter Greer and Phil Smith. *The Poor Will Be Glad* (Grand Rapids: Zondervan, 2009).

[47]See Kim Wilson, "The Money Lender's Dilemma," in *What's Wrong with Microfinance?* ed. Thomas Dichter and Malcolm Harper (New York: Practical Action, 2007).

[48]See, for example, Daryl Collins et al., *Portfolios of the Poor: How the World's Poor Live on $2 a Day* (Princeton, N.J.: Princeton University Press, 2009).

ability (operating without subsidy) than on the well-being of clients. In practical terms this translates into aggressive promotion of loan products, which can lead to adverse inclusion and overindebting of clients, exorbitant interest rates on loans (sometimes exceeding 100 percent on an annualized basis), which can saddle clients with debt that may be able to repay but at the cost of other areas of their lives. Some institutions also have been accused of keeping clients in debt (i.e., they must take loans if they are to have access to other services). The entire industry has been criticized for emphasizing loan products (which are profitable to institutions) over and above savings products, which may well be equally or more beneficial to clients but less profitable for the institutions.[49]

These particular criticisms have only grown in the last few years with the influx of commercially (profit) motivated capital. In fact, Yunus worries that some institutions have crossed the line into loan sharking.[50] We wonder if some microfinance institutions will experience mission drift and work harder to attract or satisfy investors than serve their clients. There are some economically poor areas where it is very expensive to deliver microfinance services. In the quest for financial well-being, these clients either may be charged exceedingly high rates of interest or abandoned altogether (hurting *depth* of outreach).

While high interest rates in themselves can be caused by a number of factors (e.g., inflation, high transaction costs) and do not necessarily violate biblical injunctions against usury, the situation looks different once profit seeking enters the equation. If high rates are charged because of the need for return necessary to generate private profit, this is more questionable. Of course, in our broken world we seem to be caught between tensions. If profit cannot be made, will capital flow to this sector?[51] And if microfinance institutions don't focus on the financial bottom line enough,

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[49]For extensive criticisms of microfinance, see Dichter and Harper, eds. *What's Wrong with Microfinance?*

[50]"Online Extra: Yunus Blasts Compartamos," *Bloomberg Business Week*, December 13, 2007, www.businessweek.com/magazine/content/07_52/b4064045920958.htm; see also, Jonathan Lewis, "Microloan Sharks," *Stanford Social Innovation Review*, summer 2008.

[51]See Michael Chu, "Profit and Poverty: Why It Matters," *Forbes*, December 20, 2007. See also a transcript of much publicized direct debate between Chu and Muhummad Yunus on the topic "Is It Fair to Do Business with the Poor?" *World Microfinance Forum Geneva*, October 2008, www.othercanon.org/uploads/Is%20it%20Fair%20to%20do%20business%20with%20the%20Poor.pdf.

they will not attract capital. However, if they do focus on the bottom line too much, they may abandon service to the poorest of the poor or burden them with too much debt.

A partial solution to this problem is to work on a multiple bottom line "service" model. Microfinance organizations must measure achievements of other bottom lines and perhaps must make conscious efforts to sacrifice some return to serve their target markets. While a strong argument can be made that there is room for commercially funded organizations like Compartamos, there may always be a need for donor- or government-subsidized microfinance, particularly in the incubation stages, for those who cannot be serviced on a more sustainable basis—poorest of the poor type clients.

Business as Mission

Business as Mission (BAM), also referred to as Kingdom Business, has generated lots of excitement and conversation within segments of the Christian community over the past two decade or so. The movement, which began in the 1990s when globalization allowed many more businesses to be built overseas, is new enough that a commonly accepted definition and boundaries regarding its scope are still very much in discussion. However, some of the seminal and emerging writing indicates that the movement seeks to employ business in the work of global mission. In particular, the movement seeks to encourage and facilitate the work of Christian owned and operated business organizations that focus on holistic transformation in the developing world, with a special emphasis on countries formerly closed to evangelism. In short, BAM enterprises function "to bring good news in word and deed to the neediest places in the world."[52]

Like some of the other movements discussed in this chapter, BAM organizations seek to act in socially responsible ways, focus on creating blended value, emphasize bettering the lives of the poor and oppressed, and on achieving profitability. However, they also seek to create spiritual transformation in the countries they operate in.

While acknowledging the limitations to his definition, C. Neal Johnson notes:

[52]Steve Rundle and Tom Steffen, *Great Commission Companies* (Downers Grove, Ill.: InterVarsity Press, 2003), p. 25.

> BAM is broadly defined as a for-profit commercial business venture that is Christian led, intentionally devoted to being used as an instrument of God's mission *(missio Dei)* to the world, and is operated in a crosscultural environment, either domestic or international. BAM companies are themselves ministries at two levels. First, they minister to all those who are directly in the business's spheres of influence, such as their workforce and their families, suppliers and vendors, investors and creditors, customers and clients, even competitors. Second, they engage the community they operate in and undertake holistic, people-impacting community-development initiatives.[53]

BAM organizations can range in size from microenterprises to large transnational corporations and can range in scope from craft exporters to technology companies.[54] Regardless of the size or industry, leaders of the movement are emphatic that no matter the size or the industry, these organizations should serve as profitable, taxpaying, job-creating entities that have a holistic positive impact rather than as fronts for hidden agendas such as evangelism. The latter neglect to create economic value, which is badly needed by developing countries, contribute to a false bifurcation between business and the real work of missions, invite hostility and distrust from locals, and are more easily expelled by governments.[55]

While the idea of integrating business and mission seems new, BAM leaders note it is merely reemerging. Recognizing the need for spiritual and economic transformation, David Livingstone, a missionary pioneer, stated in 1857, "Those two pioneers of civilization—Christianity and commerce—should ever be inseparable."[56]

BAM enterprises stretch across the spectrum in terms of geographical location, size and industry. Among the best known and largest is Galtronics, a manufacturer of wireless antenna solutions. While located in Galilee, the "Gal" in the company's title actually has a deeper meaning. *Gal* is

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[53]C. Neal Johnson, *Business as Mission: A Comprehensive Guide to Theory and Practice* (Downers Grove, Ill.: IVP Academic, 2010), pp. 27-28. For a similar definition, see Mats Tunehag, Wayne McGee and Josie Plummer, eds., "Business as Mission," Occasional Paper No. 59. Lausanne Committee on World Evangelization, October 2004, pp. 12-13.

[54]For a discussion of the varieties of enterprises involved, see Kenneth Eldred, *God Is at Work: Transforming People and Nations Through Business* (Ventura, Calif.: Regal, 2005).

[55]See for example, Rundle and Steffen, *Great Commission Companies*, pp. 22-25; see also Tetsunao Yamamori and Kenneth A. Eldred, eds., *On Kingdom Business* (Wheaton, Ill.: Crossway Books, 2003), pp. 8-9; see also the Lausanne Committee working paper "Business as Mission."

[56]David Livingstone, cited in Eldred, *God Is at Work*, p. 42.

the Hebrew word for "wave/roll," as in "to wave/roll over your trust onto" or to "commit oneself."[57] Started in the late 1970s by Ken Crowell, the company became northern Israel's largest employer by the 1990s and grew to a value of $70 million by 1998. The company has also sold over one billion antennas.[58]

Another example is a large (3,100 employee) semi-conductor fabricator in based in China (Semiconductor Manufacturing International Group) that went public in 2004 at a market value of $6.4 billion.[59] Others operate at a much smaller economic scale. For example, Cards from Africa, founded by Chris Page in 2004, gainfully employs orphans in manufacturing and distributing handmade greeting cards from Rwanda.

There is much that is praiseworthy about BAM: the movement's integrated vision takes seriously the idea that business can be central to God's mission rather than just financially supportive of it. Approaching business in terms of holistic transformation (versus financial or spiritual alone) is a vast improvement and fits very well with the central premise and goals of this book. And if the writing, conferences, businesses and investment funds inspired thereby are accurate indicators, the movement may well be on the way to reshaping global missions.

Our cautions and criticisms of the movement are few. First, as with any enterprises that are concerned with achieving multiple bottom lines, care must be taken to guard against mission drift, particularly if there are ownership pressures to hit specific financial return targets. Second, pursuing multiple bottom lines produces inevitable tensions, as it may well be impossible to optimize value for every constituent. Organizations that proclaim the name of Christ in all they do are setting themselves up for very high standards and expectations. While this may be positive in terms of accountability, BAM practitioners must have very carefully conceived reasons, frameworks and metrics for making tradeoffs when they become necessary.

Finally, while recognizing that there are ongoing conversations about the scope of the movement, we are concerned that BAM, as it has been

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[57]Yamamori and Eldred, *Kingdom Business*, pp. 45-48; see also William Goheen, *The Galtronics Story* (Eugene, Ore.: Wipf & Stock, 2004).

[58]Joe Maxwell, "The Mission of Business," *Christianity Today*, November 9, 2007, www.christianitytoday.com/ct/2007/november/24.24.html.

[59]Eldred, *God Is at Work*, pp. 227-29.

primarily approached, can do much more to include businesspeople who are faithfully looking for ways to create holistic value and engage in mission, but under the auspices of secularly owned and managed companies.

Emerging Ownership and Control Structures

The foregoing examples are both exciting and inspiring to be sure, but how much freedom do firms, especially those operating under conventional shareholder-owned structures, have in terms of moving in these directions? Firm ownership and control matter greatly in terms of an organization's ability to serve multiple bottom lines (see chap. 2).

As the section on comprehensive CSR shows, publicly owned corporations can take some steps, without damaging market valuations or triggering a lawsuit for breach of fiduciary duty to shareholders. They can openly state in their charters and mission statements the intention to serve multiple stakeholder groups. They can attract like-minded constituents (especially employees, investors and customers) and thereby, relax some of the market pressures that constrain them. Moreover, many states now have constituency statutes that permit managerial decision making that considers the interests of a broader range of stakeholders. However, accelerated and potentially large-scale movement may require fundamental structural changes in order to set organizations free from high or short-term financial return pressures.[60]

It is no accident that many of the organizations mentioned in the social enterprise section of this chapter are private, closely held entities, usually by a single owner or a relatively small group of equity partners. Clearly, these types of ownership structures permit the most freedom in successfully achieving blended value. However, privately held organizations tend to be smaller and may lack access to the capital needed if they wish to grow in order to make a broader (though not necessarily deeper) impact. Neither is there a guarantee the mission will continue after ownership passes through the hands of the current owner or owners who possess controlling shares. Furthermore, concentrating too much power in the hands in one or a few people is a situation fraught with peril. For all of these foregoing reasons, there are several nascent movements to revive older and create

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[60]For a thoughtful critique of the limits of CSR, see Deborah Doane, "The Myth of CSR," *Stanford Social Innovation Review* (Fall 2005): 22-29.

newer forms of organizational ownership and governance in theory and practice.

Among the best known and widely practiced older alternative forms of ownership is the co-op, sometimes now referred to as "stakeholder-owned enterprises." For purposes of clarification, co-ops and employee-owned organizations are not one and the same. Employees can own shares through a co-op but also through more conventional means, such as in publicly traded companies via employee-owned stock ownership plans (ESOPs). Moreover, customers, community members as well as employees can be owners of a cooperative.

In Spain, the Mondragon Corporacion Cooperativa is among the world's best-known co-op. In America, R.E.I., a recreational equipment retailer, comes to mind. Of course, there are many farming co-ops and credit unions that are also member owned. Microfinance pioneer Grameen Bank is nearly all client-member owned (94 percent), with after-tax profits returned in the form of a dividend to owners. In all cases, stakeholders own the co-ops, and management pursues the objectives and goals set by them. Typically, members benefit from economies of scale, lower costs, fewer conflicts of interest and returned profits in the form of a yearly dividend.

Some co-ops are highly successful in the traditional sense of profit, while also permitting the pursuit of blended value. However, a cooperative ownership structure alone is no guarantee that the organization will pursue transformative purposes or holistic flourishing. There is no intrinsic reason why co-ops would have to serve the interests of other (nonowning) stakeholders. They also vary, sometimes greatly, in terms of their governance structures and levels of transparency, even to their members. Coops also have difficulty raising capital, since their bylaws often place limits on capital returns.[61]

In the quest for brand new corporate structures, several nascent forms are emerging. In addition to these models others will likely emerge, partially as a result of movements such as the Corporation 20/20 initiative.[62] One proposed structure is the L3C, or low-profit limited liability com-

[61]See Marjorie Kelly, "Not Just for Profit," *Strategy + Business* 54 (2009): 6.
[62]See Allen White, ed., "The Paper Series on Restoring the Primacy of the Real Economy," from the 2009 Summit on the Future of the Corporation, Boston, June, 2009.

pany. Spearheaded by Robert M. Lang Jr. and Marc Owens, L3Cs are seen as a hybrid between traditional nonprofit and for-profit organizations. A play on the traditional LLC (Limited Liability Corporation), L3Cs enjoy liability protection like a corporation and the flexibility of a partnership. Unlike traditional nonprofits, they can expand their operations by attracting private investment (from foundations, institutions and individuals), and provide return on capital, albeit at a low rate. Unlike traditional for-profits corporations, L3Cs are tax-exempt and must make a social mission, not profit making, their key purpose.

L3Cs can be designed to be financed by multiple tiers (tranches) of capital. The highest risk investment would be borne by charitable foundations in the form of program-related investments (PRIs). Foundations would receive lower than market rates of return, which they can accept because they are set up to achieve social goals. With this investment in place, the financial position of an L3C can be strengthened, allowing it to attract other investors. Other tiers, with lower risk, could then include those with a market rate of return or below market rates, in the case of socially motivated investors.

A number of states, with Vermont being the first, have approved L3Cs, and there are discussions for federal level of recognition. An example of an existing L3C is Maine-based MOOmilk, an organic milk company formed by a group of farmers in Maine with private investors and some start-up funds from well-known Stonyfield Farms.[63] More than eighty corporations registered as L3Cs in Vermont between early 2008 and early 2010.[64] On the investment side there are still tax issues that need to be settled, so as of 2009 few, if any, foundations had yet to invest in them.[65]

Another emerging model that has gained more traction is the B (Benefit) Corporation. To become a B Corporation, an organization must undergo a rigorous certification process through B-Lab, a Pennsylvania-based nonprofit started by three former Stanford classmates. Under the

[63]Sharon Kiley Mack, "True Yankee Ingenuity Launches MooMilk," *Bangor Daily News*, October 10, 2009, www.bangordailynews.com/detail/124751.html.

[64]Malika Zouhali-Worrall, "For L3C Companies, Profit Isn't the Point, *CNNMoney.com*, February 9, 2010, http://money.cnn.com/2010/02/08/smallbusiness/l3c_low_profit_companies/index.htm.

[65]"The L3C: Low-Profit Limited Liability Corporation Research Brief," Community Wealth Ventures (2008), <ww.cof.org/files/Documents/Conferences/Legislativeandregulatory01.pdf.

process, companies must meet "comprehensive and transparent social and environmental standards." Then, they must formally institutionalize their values by writing the interests of a broad group of stakeholders into their governing documents. In short, a company's board is *committing to* honoring the interests of these stakeholders, and by formalizing it the hope is that the organization's mission can withstand ownership, investor and leadership changes.[66] According to the B Corporation website, incorporating both sets of changes should allow a company to create a strong market presence through third party validation to consumers and joint promotional efforts through B-Lab, attract investors with similar values, and gain resources and a community of like-minded entrepreneurs. B-Lab's founders also want to attain widespread state-level legal recognition and special tax status for B corporations. [67] In 2010, Maryland became the first state to officially recognize them and Vermont, the second.[68]

Over two hundred companies, across fifty industries in nearly thirty states collectively, representing over $1 billion in revenue, have been officially certified as B corporations.[69] Among the best known B corporations are Vermont-based Seventh Generation, a company specializing in non-toxic household products (e.g., cleaning supplies, hygienic paper products and diapers); Pennsylvania-based footwear maker Dansko; Chicago-based Shorebank; and Seattle-based Pura Vida Coffee.

While promising, most B corporations are still small, at least when compared to Fortune 500 companies, and therefore limited in their ability to make large-scale impact. Most B corporations are also closely controlled by their founders, so tight control and the possibility of mission drift under a change of ownership still remains.[70] Moreover, until B corporations receive legal recognition and protection, their status may be at odds with existing state-level corporate laws regarding fiduciary duties to

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[66]See the B Corporation website: www.bcorporation.net/about.

[67]Ibid.

[68]Diane Mastrull, "Maryland Adopts New Socially Aware Corporation Law," *Philadelphia Inquirer,* April 15, 2010, www.philly.com/philly/business/20100415_Maryland_adopts_new_socially_aware_corporation_law.html; "Vermont Becomes Second State to Pass B-Corporation Legislation," *Outdoor Industry Association News,* June 2, 2010, www.outdoorindustry.org/news.webnews.php?newsId=12600&newsletterId=136&action=display.

[69]Danielle Sacks, "John Mackey's Whole Foods Vision to Reshape Capitalism," *Fast Company*, December 1, 2009, www.fastcompany.com/magazine/141/the-miracle-worker.html.

[70]Kelly, "Not Just for Profit," p. 8.

shareholders. If and when they do get recognition, it isn't yet clear if a stakeholder, such as a customer or community member, could sue for breach of duty for not receiving enough consideration. If so, formally institutionalizing stakeholder obligations is risky. If not, some wonder if the status has real meaning.[71]

Though not certified as a B corporation, other organizations have adopted similar practices. For example, Portland-based Upstream 21, a holding company, goes beyond Oregon corporate law, which *permits* a company to consider stakeholders in its decisions, by stating in its corporate documents state that company directors *shall* do so.[72]

Other interesting models exist too, including the previously mentioned Grameen Danone joint venture that focuses on nutrition in Bangladesh.[73] Europe has long been home to foundation-owned firms. One of the best known of these is Sweden-based Ikea, the furniture manufacturer and retailer. And Google stunned, and perhaps confused, observers when it announced its foundation would engage in "for-profit philanthropy" with an annual budget of $2 billion. While promising, most of the foregoing innovations are still in the infant stages and are small when compared to the overall size of business.

In addition to structure, however, several other matters need to be settled before an organization can truly pursue transformational work. The first is organizational mission. Not all missions beyond the bottom line necessarily encourage human flourishing. Second is the issue of internal control and governance. For example, "foundation-owned enterprise" connotes that profits will be passed onto good causes. Yet the foundation that owns Ikea, the Stichting INGKA Foundation, is one of the world's wealthiest, yet has been criticized for giving away very little to charity. Further, the foundation serves the goal of promoting "innovation in the field of architectural and interior design"; while not something bad (humans need beauty), it is a ways from what most would consider a pressing need.[74] Thus, internal governance provisions in the form of charter state-

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[71]G. Jeffrey McDonald, "When 'B' Means Better," *Christian Science Monitor*, July 22, 2009 Accessed at www.csmonitor.com/Money/2009/0722/when-b-means-better.

[72]Kelly, "Not Just for Profit," p. 8.

[73]Yunus, *Creating a World Without Poverty: Social Business and the Future of Capitalism*.

[74]"Flat Pack Accounting," *The Economist*, May 11, 2006, www.economist.com/PrinterFriendly.cfm?story_id=6919139.

ments, perhaps a special class or number of voting shares, vesting control in a trust or other measures must be set up so that the mission is actually achieved. Sveral recent cases including ownership changes at Pura Vida (p. 267) and the closing of Unitus (a pioneering microfinance organization) highlight the conplexity of trying to create hybrid organizations with two bottom lines.[75] Finally, there is the issue of how these organizations do their work. A good mission doesn't guarantee good processes or how they do their business. For example, do they treat all constituents fairly, and are they attuned to issues of sustainability? Do they go about their business according the guiding questions we suggested in chapter two?

All of these efforts represent creative and bold ways to break out of entrenched ways of thinking about business, but do they represent its future? It would be risky to say so with any degree of certainty. However, what we can attest to is the level of excitement with which our current students embrace and engage these newer models. Similar to the opening conversation found in chapter one, many of our students have thought that meaningful, effective work could be found only within nonprofit organizations, government offices and perhaps churches. So, these newer models represent not only more direct and meaningful ways to influence the world but also lasting, sustainable ones that yield the potential to free up charitable dollars for other purposes.

Another that may arise is how these new models might apply to businesses that operate in more conventional spaces. Can the Boeings, Microsofts and Chase Manhattan Banks of the world become emerging social type enterprises with robust blended bottom lines? Given their histories and ownership structures, we believe that it's unlikely; though we need to add that do they not need to in order to make a positive social contribution. As we have emphasized throughout this book, business, even in its more conventional spheres, when approached with the right motives and practiced with attentiveness to correct ideals, can be a place of service to God and neighbor. The last thing we want to do is create a new hierarchy (like the old one between sacred and secular work) that somehow implies that only these emerging types of organizations are holier.

What may be more achievable, however, is that these organizations can

[75]See Strom, "Hybrid Models for Nonprofits Hits Snags."

engage in ways of thinking and acting that reflect some of the concepts brought forward by these emerging models (many are moving toward more comprehensive CSR). In fact, some evidence exists that this is already happening. The names of the gigantic corporations involved with BOP-type ventures is one indicator. Other indicators are evident at places like Boeing, where there are many efforts to make air travel more environmentally sustainable.

As many business schools (including top-tier ones such as Harvard and Stanford) have done over the last decade or so in terms of changing their curricula and supporting cocurricular activities such as social venture competitions, the emerging generation of business leaders will be exposed to these ideas and may be more likely to implement them. Some of this may show up in the form of new models of business (perhaps some we haven't even imagined yet), while others will come in the form of pushing the boundaries of more conventional business organizations in new directions.