



**KYLE WESTAWAY**

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How social innovation  
is transforming  
business for good

# **PROFIT & PURPOSE**

**WILEY**

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# Introduction

Fluorescent bulbs buzzed overhead in the second-story room on a small side street in the notorious Nana red light district of Bangkok. A handful of us sat on plastic chairs around a fold-out table. A mere four feet separated us, but a gulf of life experience lay between us.

My friend Sean and I were on one side of the table. Two young professionals from New York City, we had the good fortune of growing up in middle-class American suburbs. Our parents sat down for dinner with us every night and ensured we were well equipped to succeed in life. We both had the opportunity to attend great schools and pursue the careers of our choosing.

Four Thai women sat on the other side of the table. They grew up in extreme poverty in northeast Thailand and had little education. More often than not their parents weren't able to feed all the mouths in their families. With only a few years of education they were forced, coerced, or tricked into moving to Bangkok to work and send money back to their families.

Upon arriving in the capital they discovered that the work they left home for was not in the restaurants or shops, as they had been promised, but in the bars and brothels of Bangkok's red light districts. They were horrified when they realized their fates. They had suffered from the oppressive rule of the brothel owners, the nightly rapes, the stinging shame of social scorn, and the battering of abusive boyfriends. Their families had rejected them. By anyone's estimation, these women were victims.

But that's not how they saw themselves. They considered themselves survivors.

They were full of personality and their eyes sparkled when they laughed. They loved joking around, even across the language barrier. And as they told us their stories, they expressed hope. They were the most resilient and powerful women I've ever had

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the privilege of meeting. They were meeting with us because they had escaped the bars and brothels and they were determined to make the most of the rest of their lives.

They didn't want much from us. They certainly didn't want our pity, and they didn't want our guilt. They didn't even want our money. What they wanted was opportunity. They wanted skills. They wanted dignity and respect. Most of all they wanted jobs, so they could raise their children and provide a better future for them.

That was our mission. We were there in Bangkok to launch our fashion brand called Biographe, which would give these women on-the-job training so they would have the skills to take the next steps in their lives away from the bars and brothels.

Our meeting with them was four years in the making, during which time our anti-sex trafficking nonprofit, The Blind Project, had been on the ground listening and learning from established organizations in the region. The Blind Project founded by three friends of mine—Liem, Anthony, and Chad—had invited me to join upon returning from their first trip to Southeast Asia.

As The Blind Project continued to take trips back to Southeast Asia, we witnessed firsthand the lives of those ravaged by the sex trade. We met women and children who had been trafficked, studied prevention programs, and even did some undercover filming inside brothels, recording young girls being sold for pocket change.

Throughout Southeast Asia, we kept encountering women who had either escaped or been rescued from the trade, but were struggling in the next phase of life. Too many of them drifted back into the trade because they couldn't earn enough money to feed their families.

This broke our hearts. It also got us thinking.

As we'd been observing and interviewing, we'd been raising money for nonprofits we learned were doing good work in helping these women. But these organizations were focused on the women's immediate needs, and it became clear that these were unsustainable solutions that weren't able to produce longer-term change in the women's lives. It also became clear that the women didn't want charity; they didn't want to be dependent upon others' generosity.

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They wanted the opportunity to take ownership of their lives and provide for their families in a dignified manner.

The problem of the sex trade is horribly complex and tackling it whole cloth would have been overwhelming. But we thought if we focused on these specific women, we could find a way to empower them to take the steps to make better lives.

Our solution was to create Biographe—a premium, socially conscious fashion brand that employs and empowers survivors of the commercial sex trade. The business model is simple: Our team of professional designers in New York design high-end jewelry and apparel, the survivors produce it in Bangkok, we market and sell the clothes and then reinvest all of the profits back into initiatives for fighting the commercial sex trade. This is the power of social entrepreneurship, putting commerce to work to improve lives.

When we launched Biographe, we were just focusing on solving a specific problem. We simply knew we wanted to leverage market economics to solve the problem of creating work for these women.

We didn't really think about breaking the traditional barriers between for-profit and non-profit. We wanted to deliver a product to the consumer that they valued so that we could make a good profit margin, so we were for-profit. But the whole goal of the business was to empower these women, so we were also performing the work of a non-profit. Why did we have to be one of the other? We thought there should be a third way that reconciled the goals of profit and purpose.

We soon came to learn that Biographe was only one tiny venture in a groundswell of entrepreneurs merging the pursuit of profit with the passion for a cause. The movement is global and spans the gamut from tiny startups like ours to some of the biggest companies on the planet.

The name of this movement is social entrepreneurship. Social entrepreneurship the application of innovative business models to create positive social or environmental impact. It's where the heart of Gandhi meets the mind of Henry Ford. Throughout this book, we'll use the terms social innovation and social enterprise interchangeably with social entrepreneurship, as they are different expressions of the same concept.

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When I first heard the term *social entrepreneurship*, I was excited for a number of reasons. I loved the way it captured the idea of bringing about social change by applying the lessons of business. It was validating to know that we were not alone in our thinking about business as a solution to social problems. It was also inspiring to be part of an emerging movement that I so strongly believed in. I dove in and started reading everything I could get my hands on about the topic.

As we were building Biographe, I also launched Westaway & Co., a law firm focused exclusively on counseling social entrepreneurs (shameless plug). In addition, I've had the honor to co-teach a class on social entrepreneurship as a Lecturer on Law at Harvard Law School. My experience as a social entrepreneur at Biographe, counseling social entrepreneurs, including some featured in this book, at Westaway & Co., and teaching social entrepreneurship at Harvard Law School has taught me many lessons about both the pitfalls and best practices in building a social enterprise.

Unfortunately, Biographe did not reach the scale of success we had envisioned, and we have transitioned operations to our partners on the ground for local production. Our failure to hit the tipping point opened my eyes to the many distinctive challenges of social entrepreneurship. Failure, often times, is the best teacher.

All of this experience in the field of social entrepreneurship has caused me to ask one question:

*What are the keys to creating a successful social enterprise?*

This book is the answer to that question. It is informed from my personal experience as a social entrepreneur and the years of counseling social entrepreneurs, but draws from extensive research into social entrepreneurship, including in-depth interviews of some of the most innovative and successful founders, including Scott Harrison of Charity: Water, Charles Best of DonorsChoose.org, Matt Stinchcomb of Etsy, and Neil Blumenthal of Warby Parker. I am more than ever convinced of the particular strengths of combining an innovative business model with a social mission for tackling the most pressing problems. Indeed, social entrepreneurship could be the greatest chance we've got.

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Some skepticism has been expressed about the practicality of truly pursuing both profit and purpose. The notion that a business enterprise must exist solely for the purpose of making a profit and a nonprofit is to the only way to pursue a social purpose seems to some an immutable law. For-profit companies are driven by maximizing profit, and there's no place for social or environmental goals, other than some charitable contributions and perhaps a corporate social responsibility program. Non-profit organizations will necessarily be diverted from their social missions by any sort of profit motivation. If you want to make money you go into the corporate world, and if you want to make the world a better place you go into the non-profit sector. Or, so the conventional wisdom goes.

It's time to move past the simplistic caricature that running a business for profit will make a person a greedy automaton who cares only about getting rich and not about making the world a better place, who may not be able to sleep at night but at least will have enough money to buy all the Prozac needed to numb the pain of having sold out. It's also time to move past the view that if you're on a mission to do social good, you've got to take a vow of poverty, which is okay because at least you're compensated by the reward of making the world a better place.

This either-or thinking is outdated, yet we seem to cling it the way fifteenth century Europeans clung to the idea that the world is flat.

This is not to say that creating an enterprise that pursues both profit and a social purpose isn't challenging. Getting the balance right is definitely a tough feat. But as I researched social entrepreneurship, I constantly sought to discover whether there are any keys to creating a successful blending of profit and purpose, and I observed again and again that successful founders of social enterprises shared a set of values and methodology in pursuing the mission. That's what this book is all about: building thriving organizations that optimize for profit and purpose.

The innovative people behind these organizations are unconstrained by the traditional thinking about business and philanthropy. Their enterprises are not defined by their tax status, but rather by the impact they are creating. I am convinced that social

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entrepreneurship is the best way forward in solving the worst social ills. Social enterprises offer the most promising way to move past the hobbling limitations of traditional market capitalism as well as those of both philanthropy and governmental aid.

## MOVING BEYOND SHAREHOLDER VALUE

By and large, capitalism has been a positive force in the world. Throughout history, as market economics has spread across the globe, a rise in living standards has followed. However, growth has begun to slow down and the side effects of that growth are beginning to catch up to us.

Michael Jensen and William Meckling, two economists, published an article in 1976 entitled, *Theory of the Firm: Managerial Behaviour, Agency Costs and Ownership Structure*, which argued that the owners of companies were being taken advantage of by the managers and executives of corporations. It's been wildly popular among academics and business gurus and remains the most-cited academic article about business to this day. This article inspired a powerful movement for managers to focus on maximizing financial returns to shareholders, known as the duty to maximize shareholder value.

In the swanky Pierre Hotel on August 12, 1981, Jack Welch, the CEO of General Electric, stepped up to the microphone and delivered a speech called "Growing Fast in a Slow Growth Economy," where he laid out his theory that the purpose of the corporation is to generate the maximum possible returns to shareholders, taking the idea of shareholder maximization mainstream. Board directors, executives, corporate lawyers, and academics have all but unanimously embraced this argument, to such an extent that the prevailing view is that maximizing shareholder value is a legal duty. There is, in truth, little legal basis for this view point, as cogently discussed in Lynn Stout's seminal book on the topic *The Shareholder Value Myth*. But precisely because so many corporate decision makers and lawyers believe it to be true, it has become a practical truth.

Under the shareholder-maximization paradigm, businesses are judged by one simple metric, their stock price, which has famously



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led to the single-minded drive to boost profits in order to drive up stock prices, leading to damaging short-term, quarter-to-quarter decision making, the illness that David Blood and Al Gore of Generation Investment Management call *short-termism*. This narrow, short-term thinking has had many damaging effects.

In order to show quarterly balance sheet growth, companies sell off valuable assets, delay investment in equipment, and cut back R&D budgets, draining resources and slowing innovation in the process. They also engage in creative accounting to hit quarterly sales targets, and too many have been driven to leverage the corporation to the brink of financial ruin, which has led to waves of corporate scandals. In addition, hostile corporate raiders have targeted companies with lagging stock prices, most often breaking them up and selling off the parts. This has made a small group of people very wealthy at the expense of communities that have been devastated by mass layoffs.

It's become clear that shareholder value maximization is often simply creating a short-term boost in the balance sheet at the cost of more substantial long-term value creation. The pure drive toward meeting or beating quarterly earnings has resulted in environmental and societal disasters from the BP oil spill to sweatshops to massive fraud at Enron and set the wheels in motion for the global financial crisis of 2008. After the crisis, even Jack Welch admitted that he may have been wrong all those years earlier at the Pierre Hotel. He noted, "On the face of it, shareholder value is the dumbest idea in the world."

The shareholder wealth-maximization version of capitalism has driven short-term decision making that has negative social, environmental, and financial consequences.

## MOVING BEYOND GIVING

Philanthropy can be traced back to the time of Socrates, but the modern foundations arose after the Civil War in the United States out of the combination of vast newfound wealth and dramatic social problems to address. The very same gilded-age tycoons who made their money through exploitation, collusion, and coercion became

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some of the biggest philanthropists, seeking to redeem themselves for practicing dirty business by building libraries, schools, and symphony halls. The rich western governments have done the same.

The colonization and exploitation of the developing world, through the extraction of resources, were justified in the name of progress. When the colonialists were faced with the devastating consequences for the exploited nations, aid programs were created, in part to assuage the guilt but also to exercise influence as the developing world gained independence. The result has been called the Charitable Industrial Complex.

William Easterly, a professor of economics at New York University who studies aid, used World Bank figures to calculate that it takes \$3,521 to raise the income of one person in the developing world by \$3.65 per year. Results like this would bankrupt any company in the private sector but are condoned in the social sector.

Take aid to Africa as a prime example. According to Dambisa Moyo, a former Goldman Sachs economist and the author of *Dead Aid*, over the past 60 years at least \$1 trillion of development-related aid has been transferred from rich countries to Africa. Yet real per-capita income today is lower than it was in the 1970s, and more than 50 percent of the population—more than 350 million people—live on less than a dollar a day. That figure has nearly doubled in two decades.

It seems that not only has aid not had a significant positive impact on the development of the African continent, it may have had a negative impact. The key reason is that while aid may have a short-term positive effect, it often has unanticipated negative long-term consequences.

Say for instance, you are a corn farmer. You are barely able to feed your family on the corn you raise and you have a bit extra to sell at market, from which you buy all the other essentials for your family to live on and to pay school fees for your children. You are making ends meet, but barely. Then a western country donates boatloads of corn to your town. So, suddenly the price of corn is free. The crop that you were going to bring to market is now worthless. Not only have you lost your ability to buy short-term essentials, but your kids can't go to school and you can't invest in next year's crop.

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Once the food aid dries up your usual customers come back to you, but you have no corn to sell them. Now both your family and theirs go hungry.

In addition to aid destroying small local economies, it has a negative impact on exports. When there is an influx of money into an economy—and much aid is in the form of cash—the currency exchange rate is driven up, wiping out much of the advantage the country may have had in the export markets. Aid also encourages corruption among national leaders, who skim off funds to secure their power through patronage or simply to enrich themselves. Finally, the constant inflows of aid create a cycle of dependency. Why work hard and take ownership of the future of your community or country if you can just get by living on handouts?

Peter Buffett, the philanthropist son of Warren Buffett, wrote in an op-ed for the *New York Times*,

As more lives and communities are destroyed by the system that creates vast amounts of wealth for the few, the more heroic it sounds to “give back.” It’s what I would call “conscience laundering” — feeling better about accumulating more than any one person could possibly need to live on by sprinkling a little around as an act of charity.

But this just keeps the existing structure of inequality in place. The rich sleep better at night, while others get just enough to keep the pot from boiling over. Nearly every time someone feels better by doing good, on the other side of the world (or street), someone else is further locked into a system that will not allow the true flourishing of his or her nature or the opportunity to live a joyful and fulfilled life.

This *conscience laundering* is not only for the extremely wealthy or big governments; it has hit the average U.S. citizen as well. The 1984 famine in Ethiopia hit our TV screens in a way that no other disaster had up to that point. It’s not that famines like this haven’t been happening since the dawn of man, it’s just that this one famine was invading our living rooms. Pop stars rallied together to create the iconic (and slightly demeaning) pop single “Do They Know It’s

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Christmas” and the Live Aid concert, raising millions for relief. Charities saw that mass consumers were willing to open their wallets if they were moved, so they began airing more TV ads designed to play on our emotions, telling us that for just a few pennies a day we could sponsor a child and change his life. All the major charities started to employ this approach, and it became known as poverty porn.

One problem with these pleas is that people can become fatigued. Another problem with this kind of charitable giving is that there’s been little accountability about where the money is going. Some reporters have dug into big charities to look into that and in a few cases revelations emerged about extreme waste, high administrative costs, and outright fraud. Those reports generated skepticism and have had a lasting impact on the psyches of potential donors. A recent survey by Bank of America noted that the top two impediments to giving are perceptions of inefficiency and a lack of transparency.

Many charitable organizations have no doubt done a great deal of good, but the fact is that even massive amounts of aid and charitable giving have been unable to solve many of the most pressing problems, from providing clean water to making sure all children get a good education and basic health care.

Albert Einstein once said, “We cannot solve our problems with the same thinking that created them.” Corporate capitalism has for the most part chosen not to tackle these problems, and traditional philanthropy has fallen far short. We have to think differently.

## A BETTER WAY FORWARD

An increasingly influential cadre of economists, corporate leaders, leaders in the non-profit sector, and founders of organizations are forging a better way. Management professor R. Edward Freeman introduced a powerful new concept to counter shareholder management called stakeholder management. Rather than judging success simply by the value the company is creating for shareholders,

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this approach puts forward a broader concept of value, which includes not only the shareholders but also the customers, community, employees, suppliers, and the environment—collectively known as stakeholders.

While traditional corporate accounting focuses on the single bottom line of profits, John Elkington, founder of SustainAbility—a think tank on sustainable business—devised a new way to measure the performance of a company called the triple bottom line. Triple bottom line accounting measures not only the financial performance but also the social and environmental performance of a company. These three bottom lines are often referred to as “people, profit, planet.”

In 2011, Michael Porter and Mark Kramer introduced a new way to do business called Creating Shared Value (CSV). They established a framework to reinvent capitalism that would harness innovation as a means to both find new economic growth as well as solve social and environmental challenges by reconceiving products and markets, redefining value in the supply chain, and building supportive clusters of industry. CSV is starting to take hold across the business community, including Jack Welch’s old company GE, which launched GE’s Ecomagination line of products that had \$18 billion in sales in 2009.

In addition, a growing number of organizations in the social sector are rejecting the guilt tactic and have shifted their focus to a relentless pursuit of more effective solutions, rejecting opacity and inefficiency and embracing innovative business models. They are seeking to develop better means of assisting communities by working more closely with them to diagnose the root causes of the problems and devise solutions, and they’re engaging in rigorous measurement of their impact while operating with transparency and soliciting honest feedback.

What’s more, the two streams of change are merging. While corporate capitalism is aspiring to more socially and environmentally responsible value creation, the social sector is incorporating lessons from successful business practices, and that rigor is driving higher impact.

## CAN I REALLY DO WELL AND DO GOOD?

Some of you are probably skeptical. I don't blame you. I was, too. You may be asking, "Where's the data proving that the pursuit of profit and purpose can go together?" Let's take a look at some good data that can help us answer that question.

In his book *Firms of Endearment*, Raj Sisodia presents research on companies that embrace a multi-stakeholder approach to management. He selected 28 "Firms of Endearment"—18 publically traded and 10 private companies—purely on the criteria that they have embraced stakeholder value as their guiding principle for business strategy.

Like most of us, Sisodia's expectations for the financial performance of these companies were measured. It seems logical that a company will have to operate at slimmer margins if it wants to pay employees well, provide good healthcare, invest in the community, and operate in an environmentally friendly manner. But the findings of his study show otherwise.

Not only do the Firms of Endearment do social good, they also make their investors very happy. Between 1996 and 2011 the Firms of Endearment had a 20 percent annualized return on investment, as opposed to the S&P 500 that offered a 6.5 percent annualized return on investment in the same period. Firms of Endearment also weathered the financial crises much better than the S&P 500. So not only do the Firms of Endearment provide a better financial return, they also tend to be more resilient.

There is some additional good evidence of the power of combining purpose with the pursuit of profit. An organization called Ethisphere has been measuring the ethical score of companies based on seven criteria: (1) strong internal ethical and compliance standards; (2) legal, regulatory, and reputational risk; (3) internal leadership; (4) industry leadership; (5) innovation contributing to the public wellbeing; (6) corporate citizenship and responsibility; and (7) corporate governance. The bottom line they've revealed is that high scorers tend to perform well financially. In 2011, 110 companies were identified as fitting the criteria, and the average of those companies' earnings outperformed the S&P 500 by 7.3 percent

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that year. They also enjoy higher brand reputation, higher customer loyalty, and lower turnover.

Finally, Daniel Pink in his book *Drive* attempts to answer the question of what motivates us to work. The research he cites shows that money matters to the extent that an employee feels like they are not taken advantage of, but once he or she is paid at a relatively fair wage, the primary motivations shift. He argues that there are three primary motivations to work: autonomy, mastery, and purpose. Autonomy is the ability to self-direct activities, not being micro-managed. Mastery is having the right amount of challenge to grow skills. Purpose is an ideal that the whole organization is working toward that transcends the pursuit of profit.

Social enterprises are the ideal place for autonomy, mastery, and purpose to flourish. Pink suggests that by engaging employees on all of these levels, they will work harder, be happier, and stay more engaged. If employees are happy, engaged, and working hard, it seems logical that a company will function in a healthy way internally as well as creating more inspired products and serving customers better. Such a company certainly seems like it would be a great place to work. Is it any surprise that financial performance would follow?

*Fortune* posts a list of the 100 best places to work every year, and that list consistently outperforms the S&P 500, with an annualized return of 10.81 percent as opposed to 4.49 percent for the S&P 500 from the years of 1997 to 2012. The cumulative stock market returns for the top 100 performed 366 percent higher than the S&P 500 over the same timeframe.

So the data seem to show that social enterprises perform very well. It's difficult to point to one exact reason for financial performance. There are multiple factors at play in any single organization's financial performance. But one clear advantage is that an organization that has a more compelling story will need to spend less on marketing, and social enterprises, by definition, have a powerful fundamental message. An organization that has a stronger culture of innovation and collaboration will create better products that customers will love. An organization that treats customers with compassion and dignity will win their loyalty.

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### HOW SOCIAL ENTERPRISES ARE LEADING THE WAY

The strong evidence is that by working with the mind of Henry Ford and the heart of Gandhi, the founders and corporate leaders of these organizations are proving that for-profit businesses can be highly effective means for addressing intractable social ills, means that may well be more sustainable and ultimately have more impact than both philanthropic efforts and government aid.

This book profiles a number of the most successful pioneers of this new way forward, telling the stories of 13 organizations that range from non-profit to for-profit and hybrids of both, and from small startups to two multinational corporation with market capitalizations in the hundreds of billions.

Who are these social entrepreneurs?

### **BUILD**

Rethinking how to encourage underperforming students in the urban United States to reach college in the most unlikely of ways, BUILD teaches them how to be entrepreneurs. Founded in East Palo Alto, BUILD is now in cities across the United States, working with local school systems to get students that otherwise would be dropping out of high school into college. BUILD has been recognized with the prestigious Ashoka Fellowship.

### **Burt's Bees**

Coming out of the most unlikely of places—a roadside candle stand in rural Maine—for-profit Burt's Bees developed into a line of natural body care products. Their recognizable yellow packaging has become ubiquitous. After being acquired by Clorox for just shy of a billion dollars they have continued to grow while maintaining their purpose. Incidentally, they have been quite a positive influence on their new parent company.



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### **Charity: Water**

Nearly a billion people across the world lack access to clean drinking water. Charity: Water set out with the audacious goal of bringing that number to zero. Given their progress in less than a decade—raising hundreds of millions of dollars and digging wells across the world—they just might be able to do it.

### **D-Rev**

Why is 100 percent of the design brainpower focused on making more stuff for the 10 percent richest people on the planet? Don't the poor deserve good design? The folks at D-Rev think so. That's why they've been designing and selling brilliantly designed medical products to those living on less than \$4 per day. Their products are improving lives from India to Latin America and turning heads along the way. D-Rev was named one of *Fast Company's* most innovative companies.

### **DonorsChoose.Org**

Public school teachers generally have to dig into their own pockets to fund any special projects in their classrooms—can you believe that? The educational funding system is broken. DonorsChoose.org has disrupted the system by allowing the general public to fund a classroom project. This web platform that started in the Bronx has scaled to every city in the United States and is completely financially sustainable.

### **Etsy**

Etsy has created a village community marketplace online, where craftsmen can connect with consumers and have personal interaction. The Amazon of handcrafted goods is empowering craftspeople to make a living creating handmade products as well as empowering consumers to do so consciously. They have exploded in the last few years with 2012 annual sales of more than \$850 million.

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### **EKOCYCLE**

How do you make recycling cool? That is the question that performer Will.I.Am and Coca-Cola asked each other. The outgrowth of that conversation was the unlikely collaboration between a pop star and a cola company to create EKOCYCLE, a brand that creates products from recycled plastic bottles. Partnering with brands like Adidas, Beats by Dre, and Levi's, they encourage conscious consumption of up-market goods—making sustainability fashionable.

### **Embrace**

About 20 million premature or low-birth-weight babies are born globally every year. A fraction of these babies happen to be born into families in the rich western countries, but most are born in developing countries with little access to an incubator—a vital machine to keep the babies alive. The founders of Embrace reimaged a baby incubator that would serve the developing markets. The result was a simple, elegant incubator at 1 percent of the cost of traditional incubators, which is saving lives across India.

### **IBM**

What does this stodgy old computer company have to do with changing the world? If you look closely, you might be surprised. IBM just launched the first commercial research lab for Africa, in Africa. They are focusing on creating commercially viable products that will address Africa's grand challenges. They built the technology that got man to the moon, can they build the next generation of technology to lift a continent out of poverty?

### **Method**

Sometimes systemic change comes from the most unlikely places. Who would have thought that two twenty-something dudes who had trouble keeping their apartment clean could disrupt the

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cleaning aisle of the grocery store? That's Method's story, and their unique combination of style and natural ingredients launched their brand to hit the \$100 million mark faster than many huge companies like Snapple, Ben & Jerry's, and Nike. The rest of the industry took notice that making sustainable products could make them a great deal of money, so all the big guys followed their lead into creating cleaning products that are better for the planet.

### **Nike**

Since the sweatshop scandals of the 1990s, Nike has reinvented its paradigm for doing social good, moving beyond clichéd Corporate Social Responsibility to sustainable business innovation. Innovation throughout the design process has made Nike's products industry leading in terms of people and planet impact and they are making money doing it, with a market capitalization of \$70 billion. The rest of the industry is racing to catch up.

### **Soma**

Can a water filter change the world? Soma thinks so. The company has created a beautifully designed water carafe that filters water and looks amazing. But the real impact is unseen. Money from every carafe goes to fund clean water projects across the globe with Charity: Water. The company is also having positive environmental impact; it's created the world's first completely biodegradable filter. Soma was named one of *Fast Company's* most audacious companies.

### **Warby Parker**

Why do eyeglasses—a 500-year-old technology—generally cost as much as an iPhone? Warby Parker believes it shouldn't be this way. It has disrupted the eye wear industry—playing David to Lexotica's Goliath—by offering super-stylish \$95 glasses direct to the consumer on the Web. It must be doing something right because the company sold 500,000 pairs in the last few years and raised more than \$100 million in venture capital funding. The company is poised

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to push into the mainstream. This success has been largely driven by its purpose to provide eyeglasses to the global poor in developing countries. For every pair the company sells, it distributes a pair to those in need, the one-for-one model.

Some of these organizations and their methods of achieving success are likely to be of more interest to you than others. Perhaps you're a brand manager at a huge consumer packaged goods (CPG) company, so you may be more naturally drawn toward the insights from Method, Burt's Bees, and EKOCYCLE. Maybe you're the founder of an innovative startup non-profit and you're especially interested in learning everything about the success of Charity: Water and DonorsChoose.org. You might be launching a new product and want to learn from the successes of Warby Parker and Soma. Or perhaps you work for a corporation and want to become a social intrapreneur, bringing the wisdom of these practices to your firm. No matter your situation or special interests, I believe that each of the organizations profiled has valuable lessons for you.

## WHAT SETS THESE SOCIAL ENTERPRISES APART?

I specifically selected the social enterprises profiled to span tax-status, geography, size, age, and industry in order to demonstrate that social entrepreneurship can be successful in any sector and at all levels.

The key question this book seeks to answer is what sets these successful organizations apart from so many others that have failed to take off? The bald truth is that there is no formula for success that emerges. Organizational development simply doesn't break down into neat formulas, and anyone should be skeptical about any lock-step guidelines. So, if you are looking for the secret sauce that will magically make you make billions while saving the world, sorry to disappoint.

What I will offer you is a core set of insights about the key phases you must be alert about in growing a social enterprise and the most important methods and ways of thinking during each that will give you the best chances of succeeding. Though the building of an organization is never a purely linear, step-by-step process, but rather

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one of fits and starts, mis-directions, and outright failures, I have found that there are in fact distinctive phases in the building process that all of the social enterprises I've studied went through. These phases might also be thought of as distinctive challenges, and success in each leans especially heavily on a particular characteristic of the manner in which the successful founders I've studied and interviewed went about the process.

That core set of phases breaks down into:

- Discover—Finding the right opportunity.
- Design—Crafting a prototype.
- Build—Building a product and an organization.
- Fund—Capitalizing the organization.
- Connect—Marketing the product.
- Scale—rapidly growing the organization.
- Evaluate—Measuring performance.

This is of course by no means a hard and fast construct; the stages may, in fact, overlap. When does the designing stop and the building begin? Finding funding is often an ongoing process well through launch. And the phases may proceed in different ways for different organizations. For instance, the funding stage may have to happen before building if an expensive prototype is required. But the construct should help you to anticipate the challenges you'll face and their distinctive requirements.

In that regard, my interviews with all of the founders revealed a handful of key qualities and ways of thinking and operating that allowed them to succeed in the face of each of the particular challenges of the growth phases:

- Curiosity
- Humility
- Hustle
- Commitment

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- Authenticity
- Community
- Honesty

Each of these is of course important all the way through the process, but just as in life there may be times we will profit especially from a certain characteristic, such as curiosity when we are in school, authenticity when we're dating, and commitment when we are married, it's also true that each of these characteristics is especially helpful during one of the stages of growing social enterprise. So I have organized the book to focus each chapter on the pairing of one of the phases of growth and one of these core qualities.

The chapters break down as follows:

- Discover through curiosity. Finding the right opportunity catalyzes impact.
- Design with humility. Prioritizing users creates game-changing products.
- Build through hustle. Rallying people creates critical momentum for launch.
- Fund by commitment. Aligning funders around a vision creates committed partners.
- Connect with authenticity. Authentic connection builds a movement.
- Scale through community. Focusing on culture ensures smart growth.
- Evaluate with honesty. Honest measurement ensures continual improvement.

## BEHIND THE SCENES

Because I believe that there is no more powerful way to convey insights than through a good story, I've focused on getting the nitty-gritty details of how each of the founders faced each of the

## INTRODUCTION

challenges and telling those stories with a fullness that I hope is both engaging and more helpful than the more abstract presentation of action steps offered in so many books for entrepreneurs. I've strived to take you behind the scenes, doing my best to ask the founders all the things you would have asked them about if you could sit down with them. I've also strived to present their stories about the struggles they encountered with unvarnished honesty. So, the book includes tales of bad decisions and embarrassing failures and how each of these founders coped with those setbacks. I believe that failure is the best teacher, and should be celebrated not shamed.

Each chapter covers the stories of a number of enterprises, so you can also make contrasts and comparisons among approaches and take away from the book the lessons you feel will be most applicable to your own enterprise and its distinctive challenges. I've opened each chapter with some simple insights about what each phase of growth requires, and I've closed each by pulling out core lessons from the stories told.

My hope is that if you are an aspiring social entrepreneur, the book inspires you to take action and get going with the discovery and building process, and that if you are engaged in the thick of the struggle, that it gives you valuable ideas for overcoming the challenges you're facing. There's nothing I'd like more than for this book to help you in your own journey, so that together we can build the movement of social entrepreneurship through both profit and purpose.

