Social Enterprises:

From Corporate Social Responsibility to Business Model Innovation

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My perspective

- As a teacher - at the University of California Berkeley Haas School of Business
- As an advisor - to insurgent entrepreneurs and incumbent executives
- As a participant - entrepreneur, public official, lawyer and investor
- As an American observer

The headlines of my talk

- Social enterprises are not new
- What is new are the expanding expectations society has for its enterprises
- As a result, we are moving from "business as usual," beyond "corporate social responsibility" to new SE business models that reflect new sets of relationships and responsibilities for both resources and results
- Many opportunities and challenges lie ahead for players, whether they approach this topic offensively or defensively
- The groundrules are being rewritten daily . . . (that's why I'm using a blackboard for this presentation)

Social Enterprises are not new

- Corporations are, by definition, "social enterprises"
- Created by the state, not God
- Given unusual powers on behalf of society
- Therefore, accountable to both their owners and creators
- The question is: **for what?**

  . . . or what's the balance between the "S" and the "E"?

In the beginning . . .

- Man created corporations by charter/law
- Granted super-human powers:
  - unlimited life
  - limited liability
  - self governance
  - separate identity
- . . . + human-like status as “persons”

Social Enterprises 1.0

The Old Frontier

“For what?”: sE Deal 1.0

- Make money for your owners
- Make as much as you can
- Produce whatever you want however you want to
- Pay whatever you can get away with
- Use whatever you can get for free

Capitalism 101

Rule #1: Externalize costs

Rule #2: Internalize profits

[Rule #3: for as long as you can]

Q: What's the definition of a "capitalist"?

Quote 1.0

". . . while the law of competition may be sometimes hard for the individual, it is best for the race, because it ensures the survival of the fittest in every department. "

- Andrew Carnegie

There have always been exceptions

- Robert Owen at his New Lanark, Scotland mill:
  - phased out child labour
  - established progressive schools, including world's first nursery school
  - ran the village store for the community's benefit (regarded as the cradle of the co-operative movement)
  - prices kept low by bulk-buying, and profits helped meet running expenses of the schools

. . . in the early 1800s

Social Enterprises 2.0

The Better Business Bureau

"For what?": sE Deal 2.0

- Make money for your owners
- Make as much as you can
- Produce whatever you want more or less how you want to
- Pay "fair wages" to get a stable workforce
- Don't ask, don't tell
- Obey the law
- Do no more unless you <u>want</u> to

Quote 2.0

"The business of business is business!"

- GM President Alfred T. Sloan, Jr.

Some difficulties with 2.0

- Corporations create many different types of externalities that impose real costs on other players in society
- Claiming that you "play by the rules" is not convincing when you have a greater ability to set those rules than other people affected by them
- Increasingly, simply "obeying the law" is not sufficient to a public concerned about broader views of social well-being, immediate fairness or longer range worries about global sustainability

Social Enterprises 3.0

Corporate Social Responsibility

"For what?": SE Deal 3.0

- Make money for your owners
- Make as much as you can consistent with your responsibilities to all stakeholders
- Do business "the right way"
- Offer employment setting worthy of a committed workforce
- Ask and tell
- Obey the law +
- Do more unless you can't

Quote 3.0

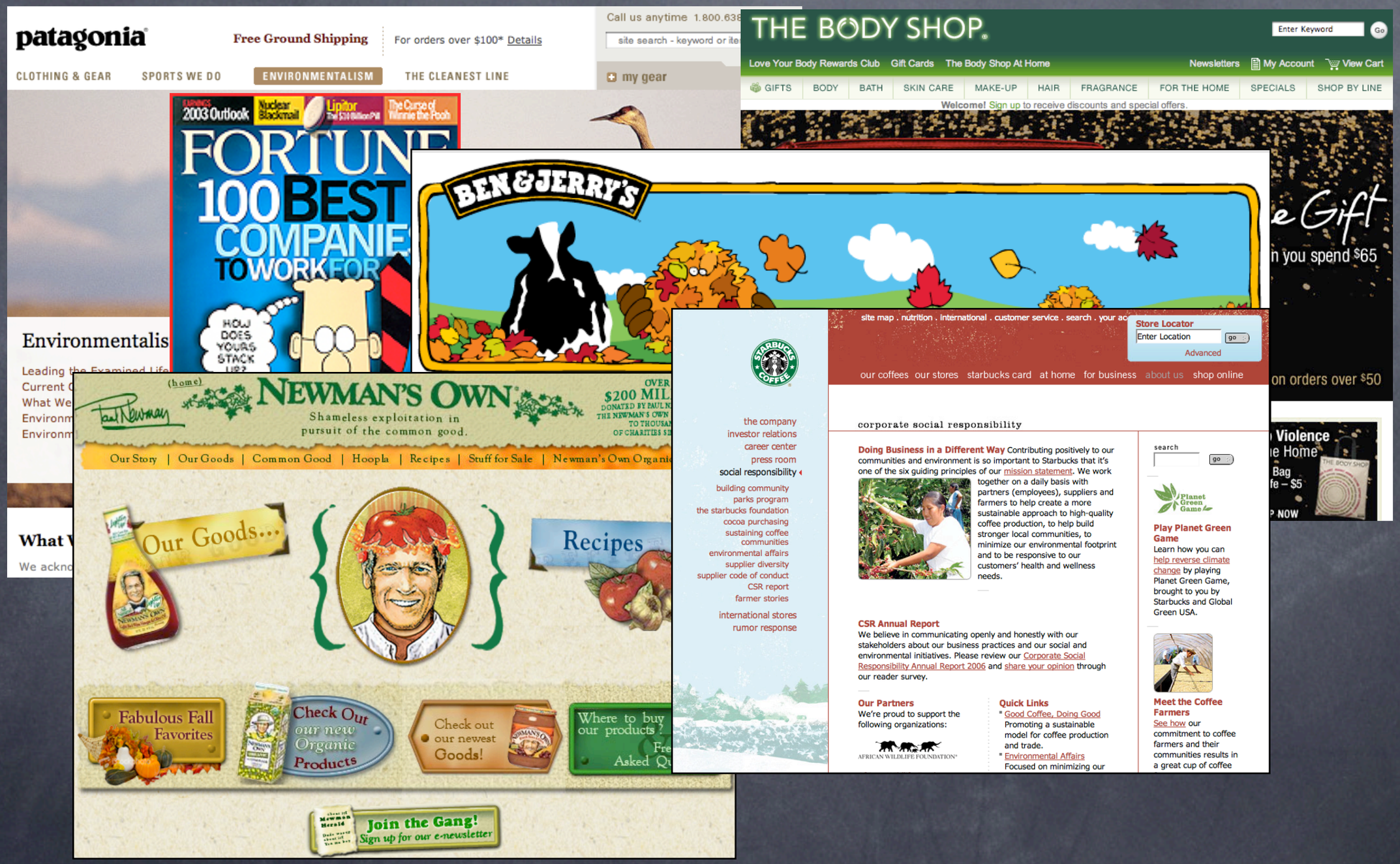
"Corporate social responsibility is a hard-edged business decision. Not because it is a nice thing to do or because people are forcing us to do it... because it is good for our business"

- Niall Fitzgerald, Former CEO, Unilever

The exceptions are gradually becoming standards

- Danny Wegman's supermarkets:
  - 4% of Wegmans' 31,000 employees are unionized
  - Everyone earning less than $55,000, including butchers and stock boys, gets substantial benefits: full medical coverage, a retirement plan under which the company matches employee contributions 50 cents to the dollar up to the allowable tax limits and a defined-contribution retirement plan funded by the company.
  - Part-time high school cashiers and baggers can earn a scholarship bonus of up to $6,000 over four years

More examples

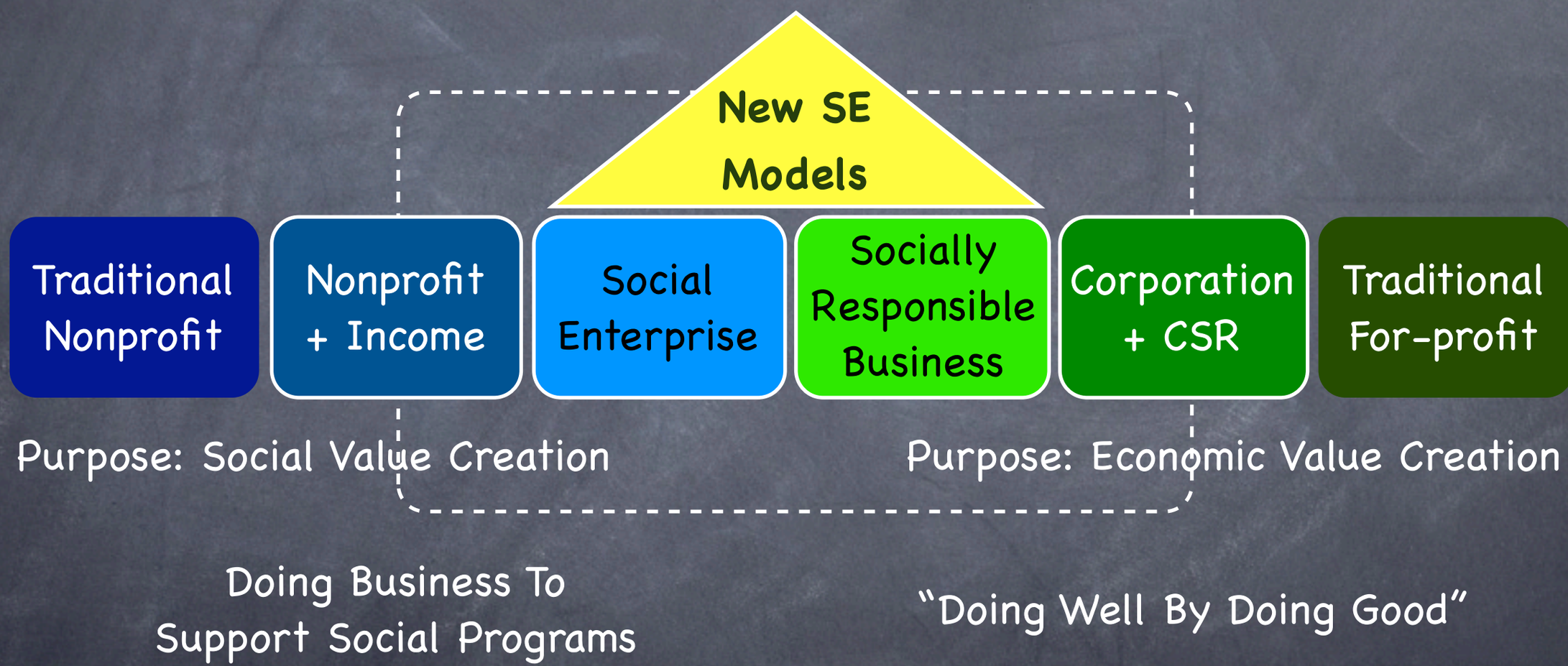


Moving from defense to offense

- 3.0 companies beginning to generate powerful brand equity and often superior shareholder returns by leveraging their SE credentials
- 3.0 behavior takes many forms:
  - Community philanthropy: Target Stores' DO 5% GOOD
  - Operations innovation: Walmart's Sustainability Campaign:

  - Corporate philanthropy: CECP COMMITTEE ENCOURAGING CORPORATE PHILANTHROPY
- Even 2.0 firms are becoming more 3.0-conscious, e.g., Ford Motor

One view:
Filling in the middle



Adapted from "Social Enterprise Typology" by Kim Alter, Virtue Ventures LLC, 2006 and its version of Etchart, Nicole and Lee Davis, "Profits From Nonprofits," NESsT, 1999.

Social Enterprises 4.0

expanded
The ~~New~~ Frontier: Beyond CSR

"For what?": SE Deal 4.0

- Do no harm
- Give back more/make it better
- Make enough money but distribute it fairly
- Disclose what you're doing and its impacts
- Ask, tell and improve/figure out new questions
- Share what you know and own
- Lead the law; don't just follow it

Emerging global standards

SAMPLE
SAMPLE

Human Rights

1: Businesses should support and respect the protection of internationally proclaimed human rights; and

2: make sure that they are not complicit in human rights abuses.

Labour Standards

3: Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining;

4: the elimination of all forms of forced and compulsory labour;

5: the effective abolition of child labour; and

6: the elimination of discrimination in respect of employment and occupation.

Environment

7: Businesses should support a precautionary approach to environmental challenges;

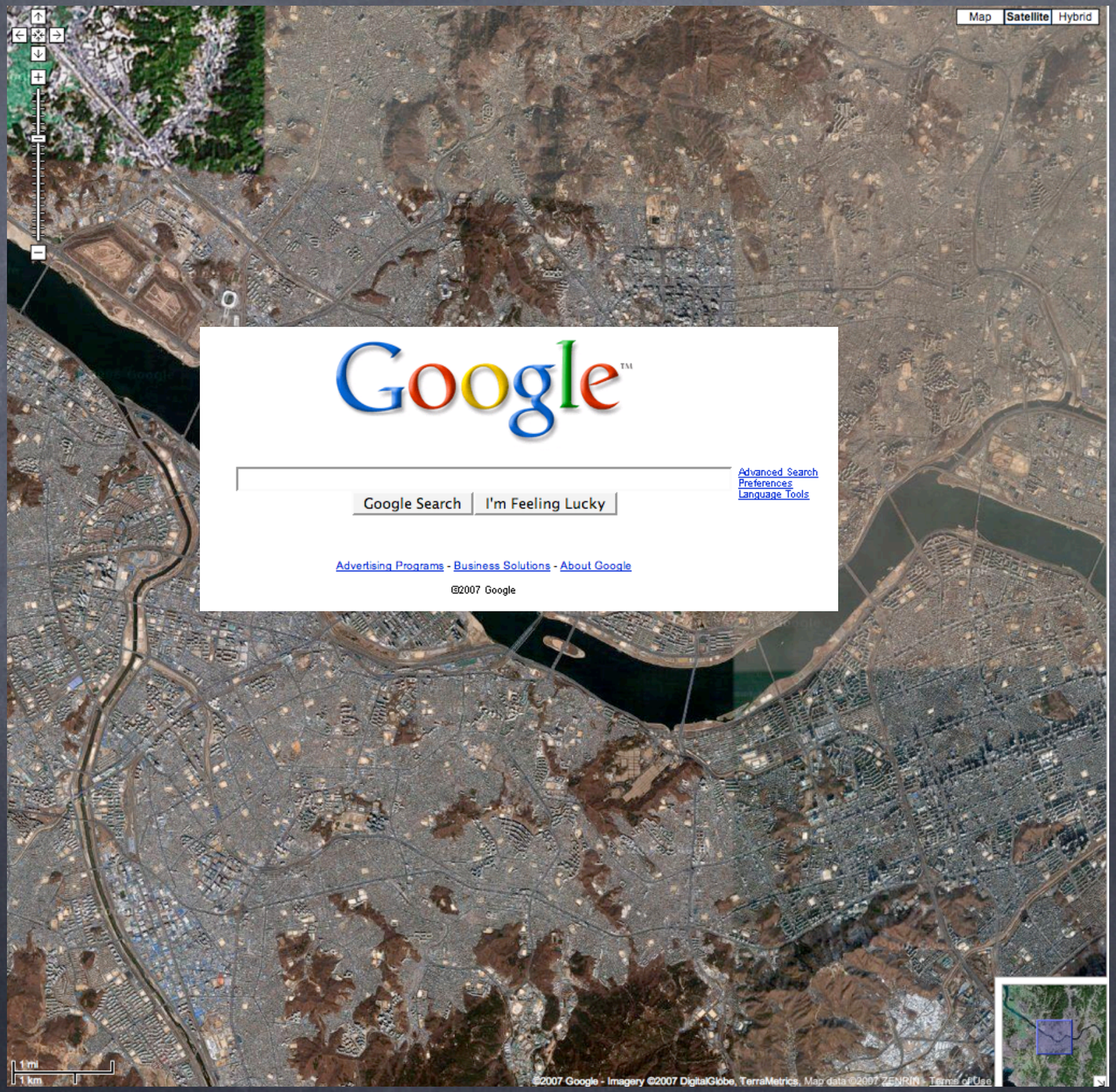
8: undertake initiatives to promote greater environmental responsibility; and

9: encourage the development and diffusion of environmentally friendly technologies

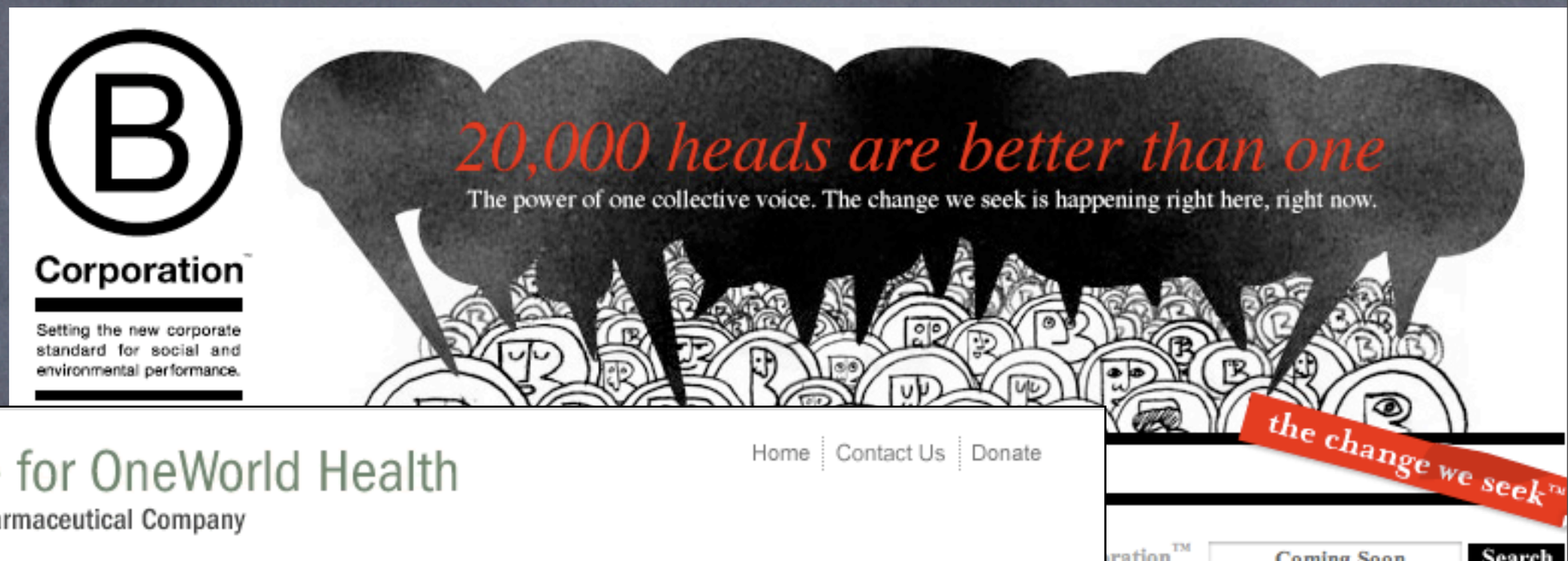
Anti-Corruption

10: Businesses should work against corruption in all its forms, including extortion and bribery.

New cultures



New models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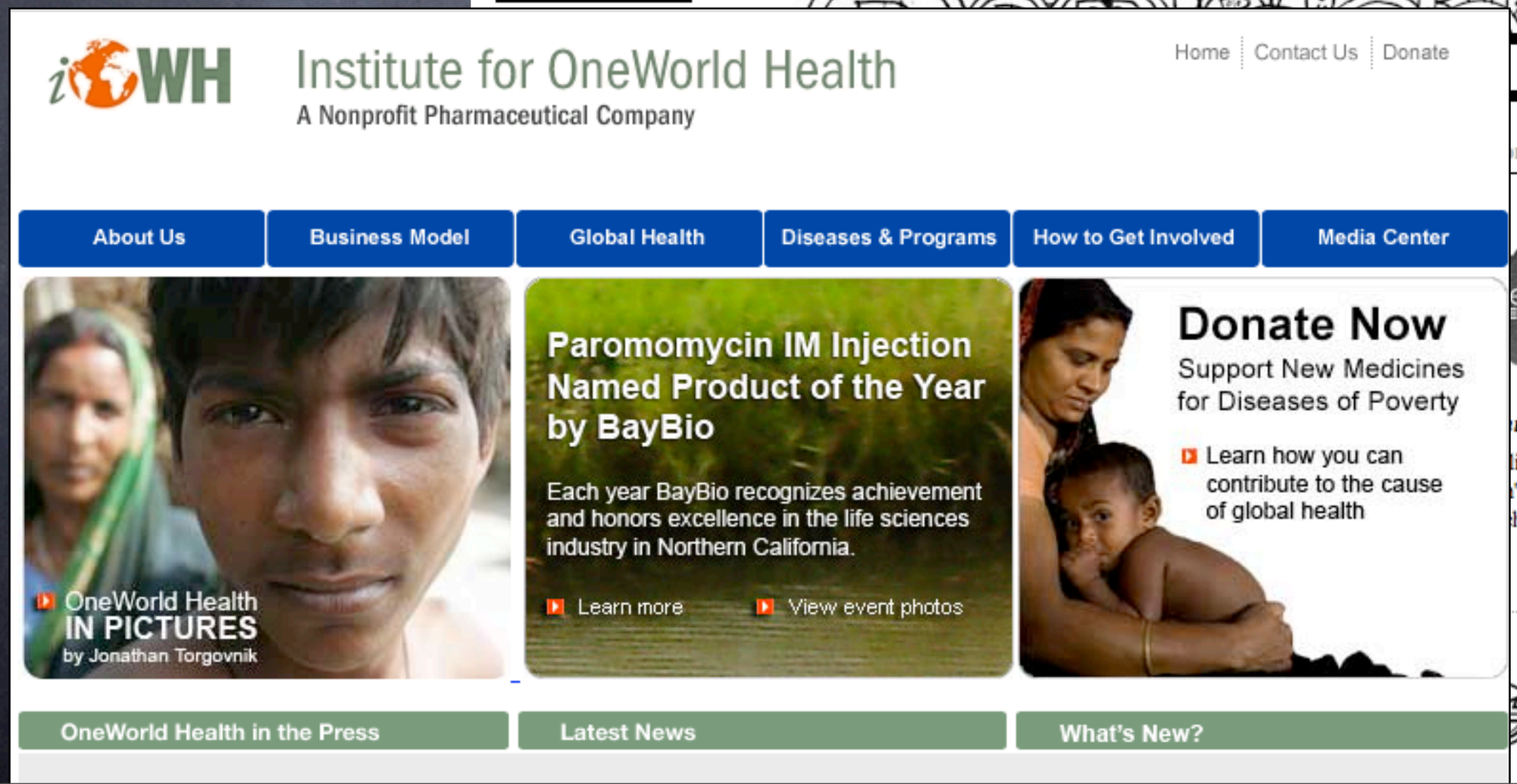
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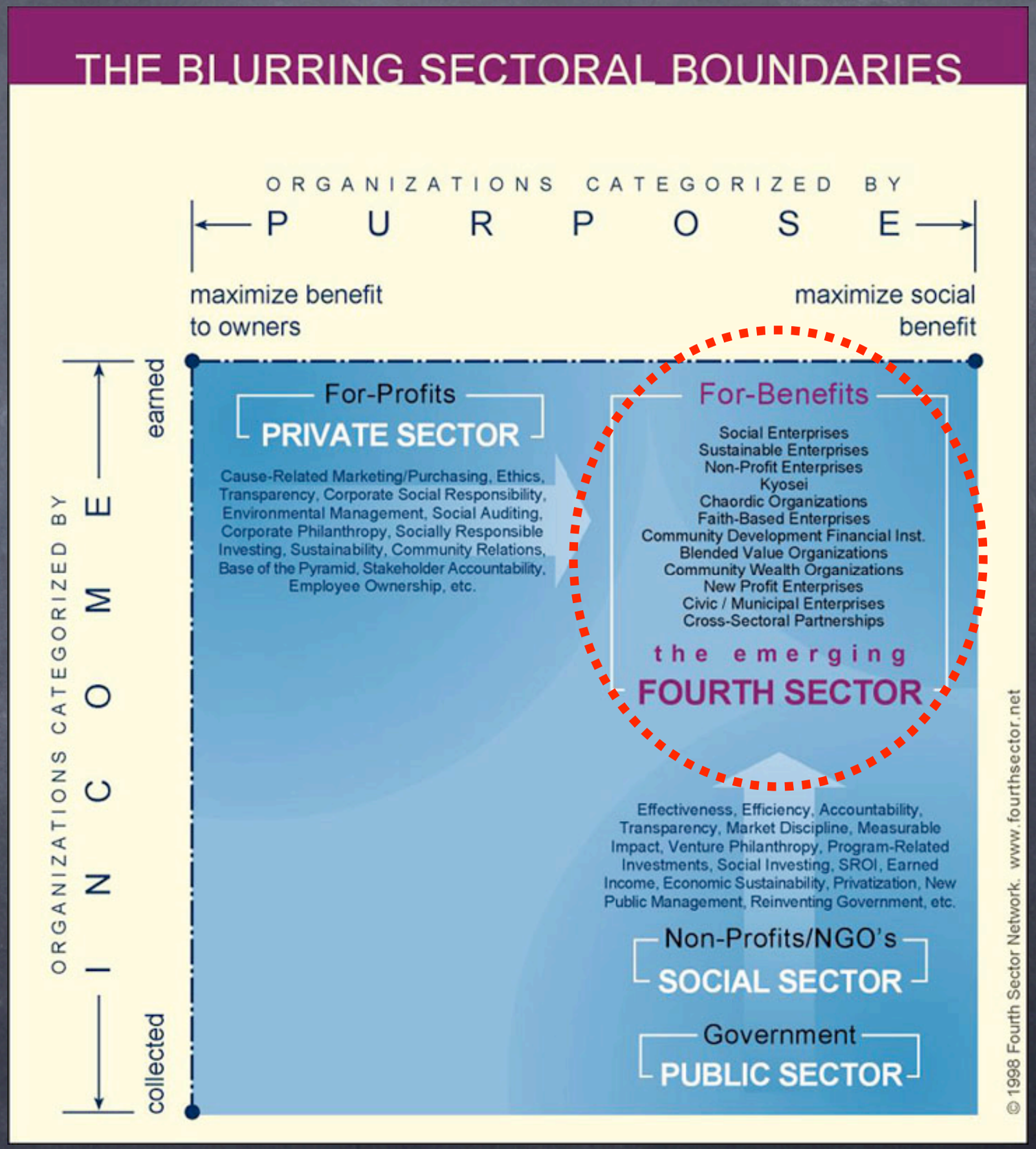
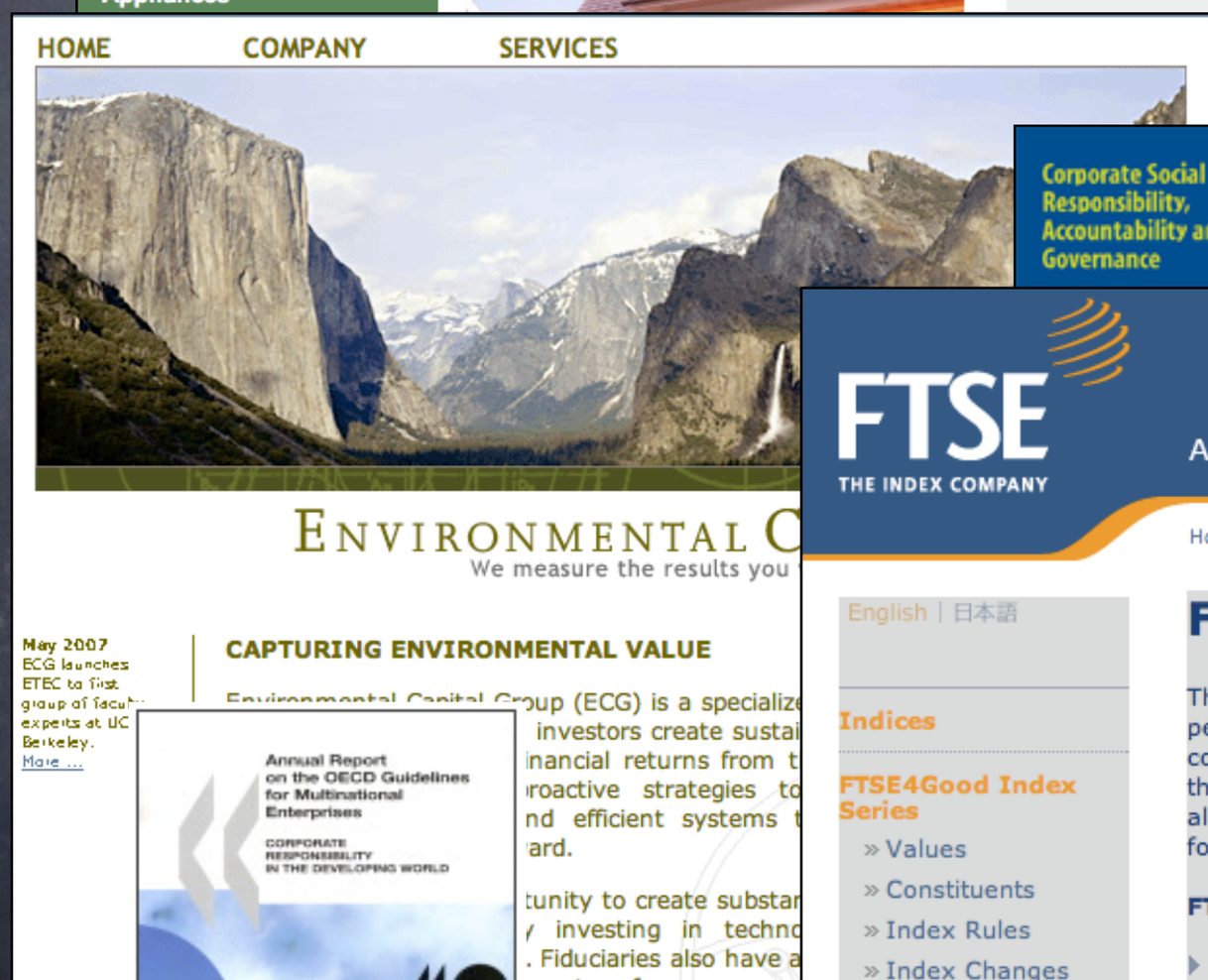
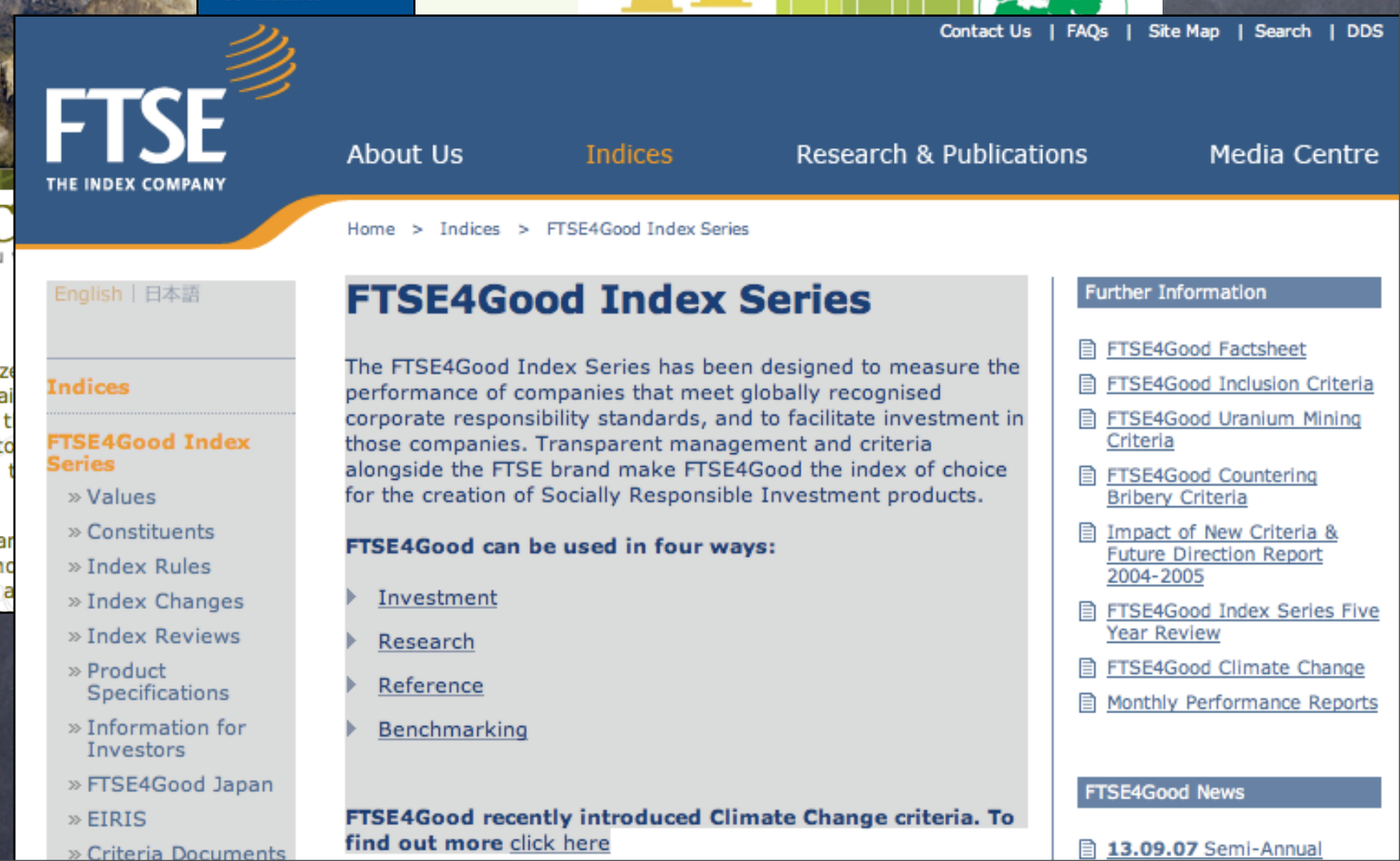
New boundaries

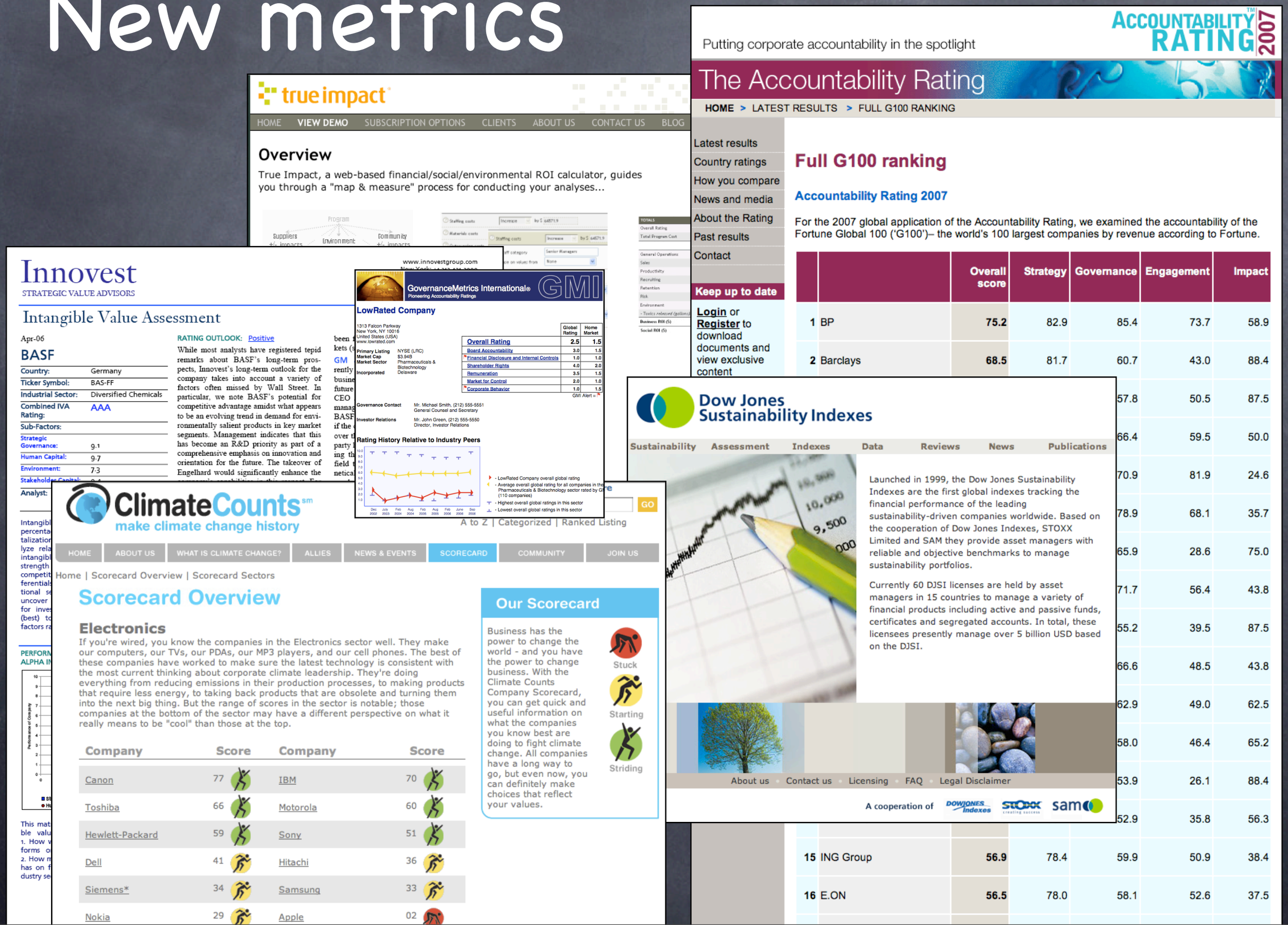


New expectations





New metrics


true impact
HOME VIEW DEMO SUBSCRIPTION OPTIONS CLIENTS ABOUT US CONTACT US BLOG
Overview
True Impact, a web-based financial/social/environmental ROI calculator, guides you through a "map & measure" process for conducting your analyses...
Innovest
STRATEGIC VALUE ADVISORS
Intangible Value Assessment
Apr-06
BASF
Country: Germany
Ticker Symbol: BAS-FF
Industrial Sector: Diversified Chemicals
Combined IVA Rating: AAA
Sub-Factors:
Strategic Governance: 9.1
Human Capital: 9.7
Environment: 7.3
Analyst:
RATING OUTLOOK: Positive
While most analysts have registered tepid remarks about BASF's long-term prospects, Innovest's long-term outlook for the company takes into account a variety of factors often missed by Wall Street. In particular, we note BASF's potential for competitive advantage amidst what appears to be an evolving trend in demand for environmentally salient products in key market segments. Management indicates that this has become an R&D priority as part of a comprehensive emphasis on innovation and orientation for the future. The takeover of Engelhard would significantly enhance the
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Market Cap $3.94B
Market Sector Pharmaceuticals & Biotechnology
Incorporated Delaware
Overall Rating 2.5 1.5
Board Accountability 3.0 1.5
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If you're wired, you know the companies in the Electronics sector well. They make our computers, our TVs, our PDAs, our MP3 players, and our cell phones. The best of these companies have worked to make sure the latest technology is consistent with the most current thinking about corporate climate leadership. They're doing everything from reducing emissions in their production processes, to making products that require less energy, to taking back products that are obsolete and turning them into the next big thing. But the range of scores in the sector is notable; those companies at the bottom of the sector may have a different perspective on what it really means to be "cool" than those at the top.
Company Score Company Score
Canon 77 IBM 70
Toshiba 66 Motorola 60
Hewlett-Packard 59 Sony 51
Dell 41 Hitachi 36
Siemens* 34 Samsung 33
Nokia 29 Apple 02
Our Scorecard
Business has the power to change the world - and you have the power to change business. With the Climate Counts Company Scorecard, you can get quick and useful information on what the companies you know best are doing to fight climate change. All companies have a long way to go, but even now, you can definitely make choices that reflect your values.
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Putting corporate accountability in the spotlight
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Full G100 ranking
Accountability Rating 2007
For the 2007 global application of the Accountability Rating, we examined the accountability of the Fortune Global 100 ('G100')– the world's 100 largest companies by revenue according to Fortune.
Overall score Strategy Governance Engagement Impact
1 BP 75.2 82.9 85.4 73.7 58.9
2 Barclays 68.5 81.7 60.7 43.0 88.4
15 ING Group 56.9 78.4 59.9 50.9 38.4
16 E.ON 56.5 78.0 58.1 52.6 37.5
Dow Jones Sustainability Indexes
Sustainability Assessment Indexes Data Reviews News Publications
Launched in 1999, the Dow Jones Sustainability Indexes are the first global indexes tracking the financial performance of the leading sustainability-driven companies worldwide. Based on the cooperation of Dow Jones Indexes, STOXX Limited and SAM they provide asset managers with reliable and objective benchmarks to manage sustainability portfolios.
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New competencies

Business for Social Responsibility

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BUSINESS FOR SOCIAL RESPONSIBILITY

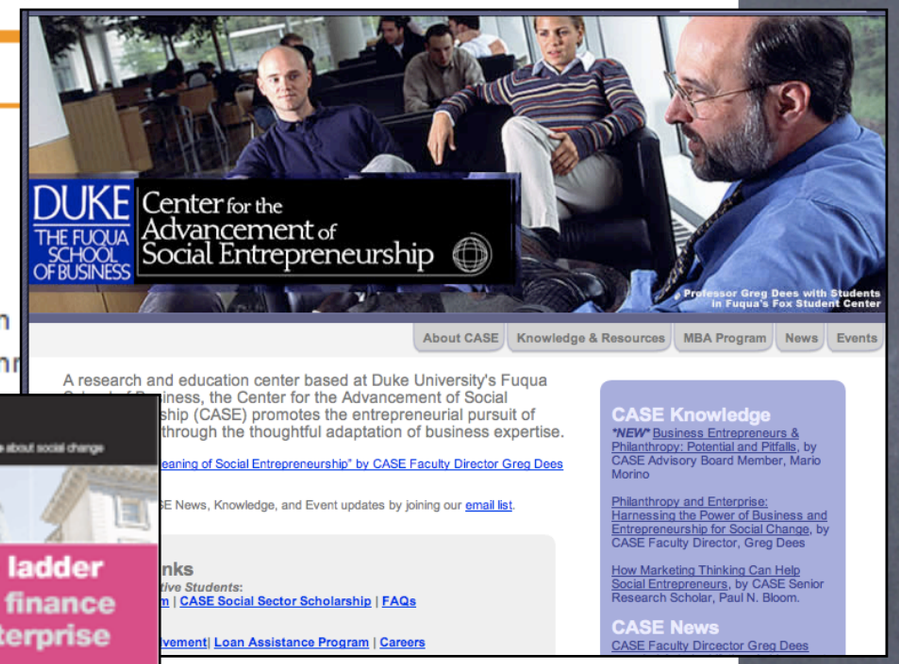
Issue Briefs

Briefs provide critical summary information on the full spectrum
53 Issue Briefs are grouped into primary topic areas -- business ethics; comm
and accountability; human rights; marketplace;
understanding the most common CSR issues facing compani
provides comprehensive information about that area of corp

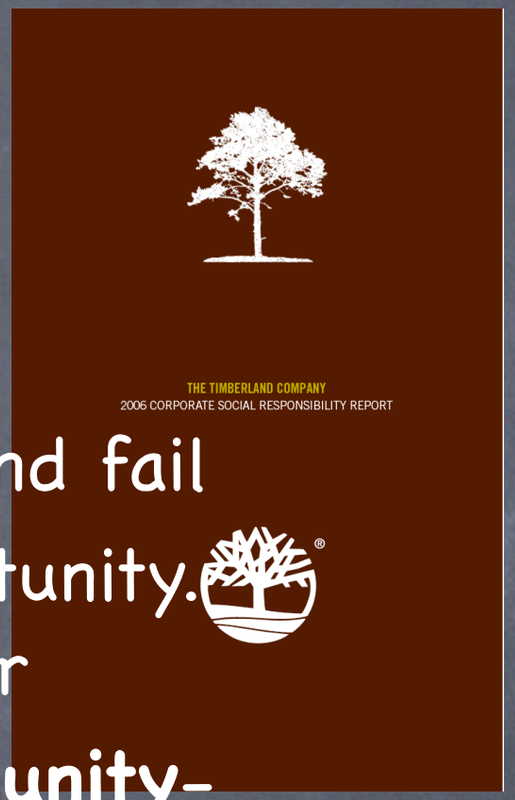
The Issue Briefs are designed as primers. As such each pap
covering business benefits, key developments, external star
polices, awards and recognition programs, and links to relev

Updates and maintenance of the BSR Issue Brief library have been made possible by generous grant support from the Evelyn & Walter Haas, Jr. Fund.

- Board Diversity
- Business Principles
- Child Labor
- Climate Change
- Codes of Conduct
- Community Economic Development
- Community Partnerships
- Contingent Workforce
- Corruption and Bribery
- CSR Governance Structures
- CSR Reporting
- Discrimination
- Domestic Partner Benefits
- Energy Efficiency
- Ethics Codes and Ethics Training
- Forced Labor
- Forest Friendly Practices
- Freedom of Association
- Global Community Investment
- Green Building Design
- Green Product Design
- Health and Wellness
- HIV/AIDS in the Workplace
- Internal Monitoring
- Layoffs, Closings and Outsourcing
- Living Wage
- Migrant Labor
- Minority- and Women-Owned Business Development
- Monitoring of Global Supply Chain Practices
- Overview of Business and Community Investment
- Overview of Business and Corporate Accountability
- Overview of Business and Corporate Governance
- Overview of Business and Human Rights
- Overview of Business and Marketplace
- Overview of Business and the Environment
- Overview of Business Ethics
- Overview of Corporate Social Responsibility
- Overview of Workplace
- Philanthropy
- Political Contributions
- Privacy (Consumer and Employee)
- Religion in the Workplace
- Retail Site Selection
- Rights of Indigenous Peoples
- Shareholder Engagement
- Stakeholder Engagement
- Supplier Environmental Management
- Sustainable Business Practices
- Volunteerism and Release Time
- Waste Reduction and Resource Productivity
- Water Issues
- Work-Life Quality
- Workplace Diversity



New forms of reporting



"Publishing a statement of accountability is necessary, but not sufficient. If we write a report and fail to initiate a **conversation**, we have missed an opportunity. And if our report represents our only venue for engagement, then we have failed. An **engaged community**–a convening of stakeholders committed to **environmental stewardship, community strength, global human dignity, and the quality of life** for our workers and those citizens with whom we are privileged to serve–is my intent. Our process of reporting is not "us" to "you". This report is a forum for you. React, respond, challenge, commit. I commit back to you that we will listen and act."

- Jeffrey Swartz, President and CEO of The Timberland Company, from the 2006 CSR Report

New patterns of philanthropy

$31B

"What can be more logical, in whatever you want done, than finding someone better equipped than you are to do it? Who wouldn't select Tiger Woods to take his place in a high-stakes golf game? That's how I feel about this decision about my money."

1% of profits AND equity (3M shares initially) google.org

CLINTON GLOBAL INITIATIVE
A PROJECT OF THE WILLIAM J CLINTON FOUNDATION

using the power of a forum to connect ideas, needs & resources

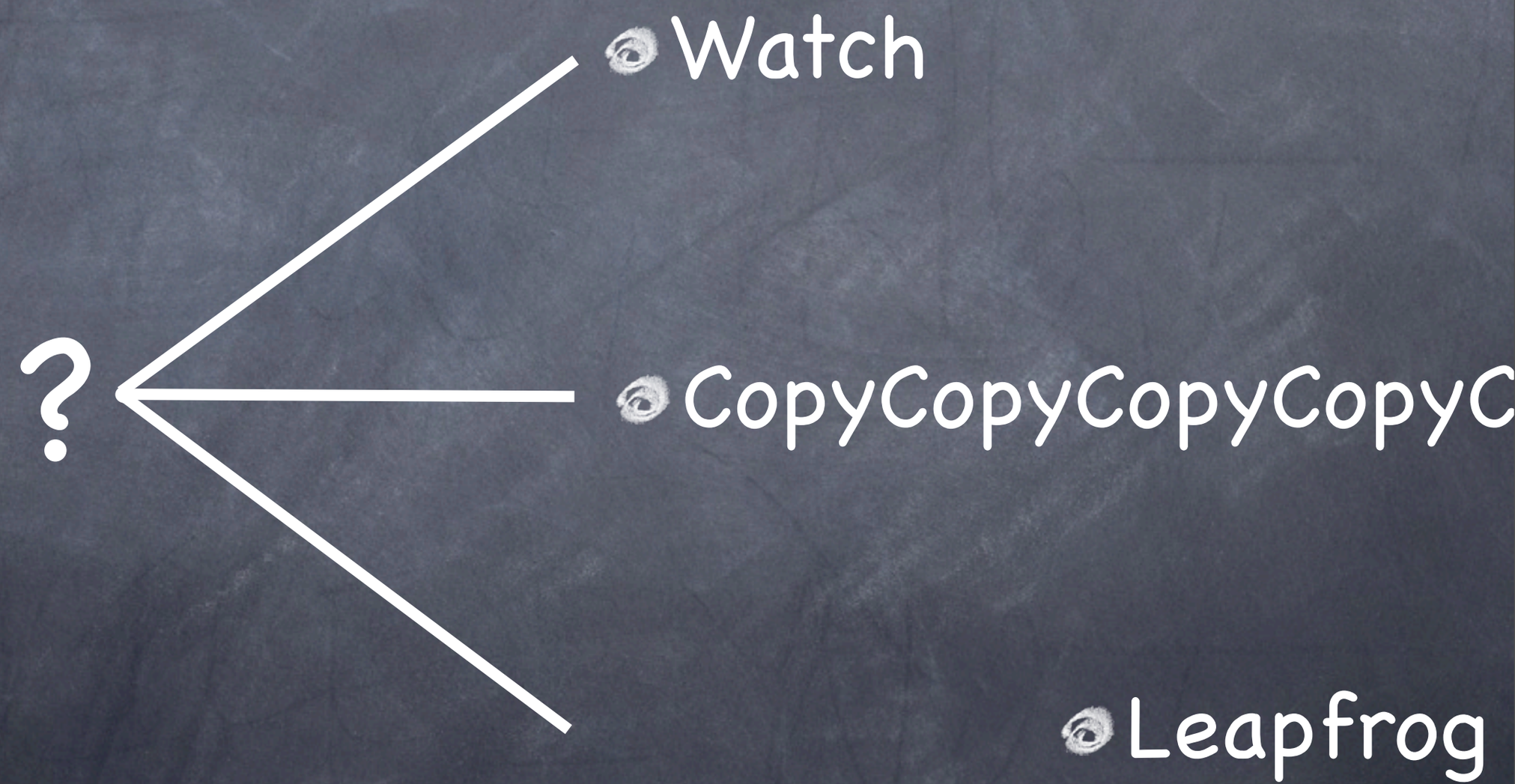
Quote 4.0

"If they [companies] believe they are in business to serve people, to help solve problems, to use and employ the ingenuity of their workers to improve the lives of people around them by learning from the nature that gives us life, we have a chance."

- Paul Hawken

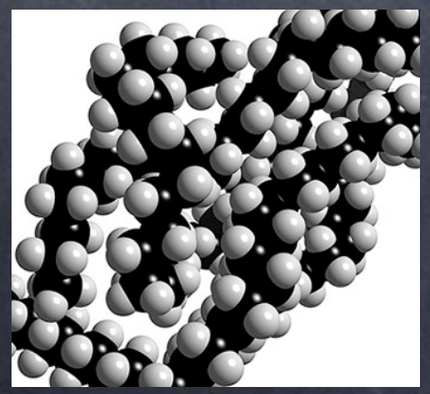
So where do we/you go from here?

Three choices



The parable of the plastic bag

1.0



Polyethylene

2.0

Productivity

3.0

Cradle2Grave

4.0

Public Enemy
v Cradle2Cradle

http://www.youtube.com/watch?v=PSxihhBzCjk

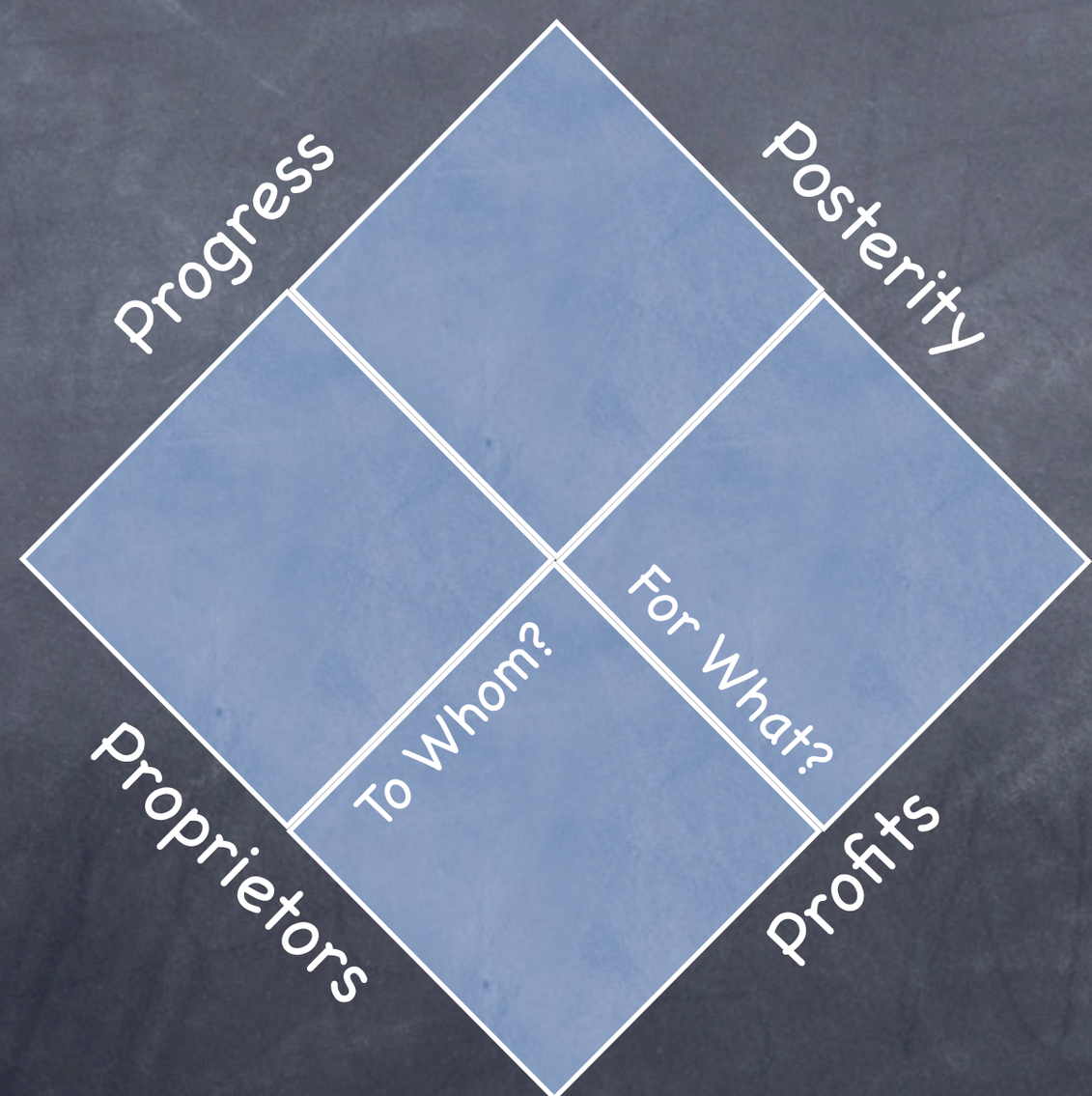
Confronting the flip sides of capitalism

- Prosperity vs Disparity
- Opportunity vs Despair-ity
- Private Initiative vs Public Imperatives

The convergence of consequences

- Global Warming: the ultimate Darwinian test of our usual "business models"
- Terrorism: the triumph of fear and hatred in the absence of opportunity and hope
- Poverty: the unfulfilled challenge and untapped opportunity for social enterprises in the 21st century

Accountability: to whom? for what?



Leadership matters

"My Lords, a corporation is an abstraction. It has no mind of its own any more than it has a body of its own; its active and directing will must consequently be sought in the **person of somebody who is really the directing mind and will of the corporation**, the very ego and centre of the personality of the corporation."

Lord Haldane in Lennard's Carrying Co Ltd v Asiatic Petroleum Co Ltd [1915] AC 705

So does motive

- Platform
- Profit
- Pedigree
- Personality
- PRomises
- Police
- Pity
- Peril

Many options available

- Tithing/corporate philanthropy
- "Fairness" preferences: hiring, purchasing, etc.
- Resource sharing: "free time" for workers, co-located facilities, shared purchasing discounts, etc.
- Co-venturing/new venture formation
- Societal impact audits & reporting
- Corporate transformation

5 new models to consider

1. **Open Source:** a profoundly different way to think about what's yours and what's mine
2. **User Generated Content:** redesigning the relationship among producer, distributor and consumer
3. **Organic:** rethinking why we do what we do
4. **Cradle2Cradle:** designing out problems
5. **Sustainability:** probably a bigger challenge and opportunity than the quality movement

2 things to do if you're still wondering what to do?

1. **Get outside!** - Talk with people outside your company who are affected by what you do and how you do it. Listen to their concerns. Ask yourself how they would do things differently, and whether you should.

2. **Go inside!** - Ask yourself what your company could do that would make you proudest for your kids or parents. What will be your legacy as a leader?

a final thought . . .

"Under capitalism man exploits man;
under socialism the reverse is true"

- Polish proverb

감사합니다

Komapsumnida

Chronicle / Carlos Avila Gonzalez