

Corporate & Policy *Spring 2008*

For Profit, For Good: Integrating Social Value into the Bottom Line

Keynote:

Martin Coles, Chief Operating Officer of Starbucks Corporation and President of Starbucks Coffee International

Panel:

Jacqueline Novogratz, CEO, Acumen Fund

Keith Yamashita, Chairman, Stone Yamashita Partners

Mari Hayashi, Senior Manager, Citizenship, Plan-J Group, Microsoft Co. Ltd., Japan

Presider:

Hiroshi Tasaka, Professor, Tama University; President, Thinktank SophiaBank

Closing Talk:

Darren Huston, President & CEO, Microsoft Co. Ltd., Japan

On February 6, 2008, Innovators Network members **Keith Yamashita** of Stone Yamashita Partners and **Hiroshi Tasaka** of Tama University and Thinktank SophiaBank joined executives from Microsoft, Starbucks, and Acumen Fund in Tokyo to discuss how social entrepreneurship is changing the landscape of business and society today.



Martin Coles. © Kenzo Sai.

At Seattle-based Starbucks Corporation, employees are referred to as partners, and a shared ethos of respect and partnership shapes the way the company does business around the world, said Starbucks chief operating officer **Martin Coles** in his keynote address. "We talk about respecting our coffee, respecting what it took to pick that individual bean and then transfer it thousands of miles, touch it, prod it, poke it, roast it, care for it, and then deliver a hand-crafted beverage to our customers 45 million times a week," he observed.

Starbucks employees are partners not just in spirit, but literally, Mr. Coles explained: in 1991 Starbucks became the first privately held U.S. company to provide both stock benefits and health care programs to staffers at every level, including part-time workers. "In our company, this spirit of partnership drives a deep sense of connection to each other, to our communities, both from the farm, right the way through to our stores in the communities we serve, and to our customers. And this is as true at my local store at the south end of Mercer Island near Seattle in Washington, as it is for any one of our 15,000 stores" in 44 countries, he added.

Starbucks employees are partners in caring for their local communities, he said. In Japan, 600 Starbucks partners began an initiative through Make-A-Wish Japan to bring gifts to hospitalized children at Christmas; the project now draws "literally thousands of our 18,000 partners across Japan." In Dublin, in the Republic of Ireland, workers adopted a nearby school in a poor neighborhood, creating clean, bright common rooms in the school basement to give the children a safe place to gather after school and cleaning up the school's only playground,

which had been used as a dumping ground for years. "But beyond this, our partners also connected with many of the children, almost like a big brother or a big sister, to help them understand that there are many possibilities for each one of them following their time in school, and in fact it was possible to succeed" in an adult role; and "to this day, in the city of Dublin, in our store at College Green, many children from the school still go to our store to gain some work experience with our partners and think about what it is they might do" when they leave school for the world of work.

"Delivering great coffee, exceptional service and an uplifting and personal customer experience have all contributed to our success," Mr. Coles continued, "but of equal importance is our commitment to conducting business in a socially and environmentally sensitive manner." Thus Starbucks worked with Conservation International, a nonprofit based in Arlington, Virginia, to develop a set of some 28 specific guidelines called C.A.F.E. practices, Coffee and Farmer Equity practices, focusing "on everything from quality to economic accountability to environmentally sustainable methods of farming, to adopting social practices which ensure safe, fair and humane working conditions for coffee workers." Moreover, he added, "Starbucks is the largest purchaser, roaster and distributor of fair-trade certified coffee in North America."

"According to the UN Global Compact, a socially responsible company has an edge both in recruiting and retaining essential talent, and according to Net Impact's 2007 global membership survey, when given a choice between a socially responsible employer and one that isn't, more than half of respondents in a survey of global MBAs, graduate students and professionals said that they'd take a significant pay cut, and that was somewhere between 10 and 15 percent, to work for a socially responsible organization. So this really does make a difference," he said.

Starbucks understands "that coffee farming, like any business, must be profitable to be sustainable," he said. The company pays "premium prices for premium coffee"--in 2006, it paid an average of \$3.12 per kilogram of coffee, which was "37 percent more than the New York commodities market price" for that period.

Through organizations like Root Capital, Starbucks provides access to affordable credit for farmers, who "are typically paid after the harvest and often lack the cash they need to invest in their farms or meet expenses at certain times of the year," he said. Starbucks also funds social programs in farming communities, ranging from schools and water wells to health clinics that are sometimes coffee-growing families' only source of healthcare.

In the 2007 fiscal year, Starbucks began several pilot programs to support young social entrepreneurs around the world, "who are changing their local communities through innovative ideas, volunteerism, and civic action"; these initial projects "have met with tremendous success and enthusiasm," and the company plans to roll out the program on a broader scale in 2008, Mr. Coles concluded.



Hiroshi Tasaka.
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Introducing the panel discussion, **Hiroshi Tasaka** of Tama University and Thinktank SophiaBank observed that CSR means more than just do no evil: it goes beyond compliance and corporate ethics, requiring that companies make a positive social contribution. Giving a portion of corporate profits for good works, as many Japanese companies do, is necessary but not sufficient. A company must contribute to society through its core business, and the true test here, in Dr. Tasaka's view, is the day-to-day experience of the people who work at the company: If employees are excited about what they do, if they are fulfilled as human beings in their work, then the company can know that it is contributing positively to society.

Moreover, Dr. Tasaka said, companies are learning that a socially responsible business must look beyond its core business to the business ecosystem, as Starbucks does through its partnerships with coffee-producing communities and its support of environmentally friendly production techniques; and companies are also learning that social responsibility means helping to train and support new social entrepreneurs, new NPO actors, outside their own organizations.

Jacqueline Novogratz of nonprofit Acumen Fund began with the story of a favorite blue sweater she wore as a child and then gave up, as a donation to the Salvation Army, when she became a teenager. "Fast forward about a decade and 5,000 miles, and I was jogging through the hills of Kigali, Rwanda, where I had come to set up a microfinance bank, like the Grameen Bank, in Rwanda, 1986. And about 10 meters in front of me I saw a little boy, 10 years old, with toothpick legs, little knobby arms. And there was my sweater. And I was so excited I ran up to the child, and I turned the collar on this sweater, and there I saw my name written on that sweater."

"And I tell that story because I hold it with me as a metaphor for how much our action and our inaction can impact people we may never know, never meet, across the universe," Ms. Novogratz said.

"When we give clothes away to the Salvation Army, and they go to Africa or to other parts of the developing world, what we don't always realize is that it creates an entire industry, a second-hand clothing industry," she continued. Though the tailoring industry has suffered as a result, overall "it's had extraordinary positive effects. And some of the wealthiest poor people, who are moving themselves out of poverty, are actually those who sell second-hand clothing to other people in their countries."

In the Kibera slums of Nairobi there is a famous market, called the Toy Market, which "used to be, until about 10 days ago, a thriving market of 3,000 second-hand clothes salesmen, who would take this clothing from Mombasa, the port, and they would wrap them up and sell them to people who are rich and poor from all over Nairobi," Ms. Novogratz said. In the violence following Kenya's recent presidential election, the market was burned to the ground. "And I went, through the work that I do with Acumen Fund, and I met a man named Charles Nyonga. And about 10 years ago he was a beggar, had absolutely nothing, but took a loan from one of the organizations that Acumen Fund supports, and slowly by slowly built his life, to the point where he was running three stalls in the marketplace, selling clothing, and had a loan for about \$8,000 outstanding--one of the more successful people in the market.

"And obviously the night that the mob came, he lost everything. Everything. And when I was talking to him and asking him about how he would rebuild his life, he stood there with such grace, with tears in his eyes and a smile on his face, and he said, 'You know, I'm still trying to sell the little bit that I have left, because when you've lost everything, all you can do is hope.' But he also said, 'If you could find a creative way to forgive the debt that I owed, and give me a new loan, I don't want a handout, because I've already been a beggar, and the last thing that I want to be again is a beggar.'"

Too often, she said, "we underestimate what low-income people all over the world want, which is the same thing all of us want, which is dignity, and it's so much more important to the human spirit than wealth." Thus charity can only be a partial solution to the problem of poverty. Nor have markets proved to be the whole solution either. "And it's really why I started Acumen Fund, to take the best of the marketplace and the best of the charitable ethos, the best of the resources that we have at our disposal, to create solutions that can help individuals solve their own problems."



Jacqueline Novogratz.
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Acumen receives donations from individuals, foundations and corporations and then makes loans to, or sometimes takes equity investments in, enterprises, both nonprofit and for-profit, that aspire to deliver services, “not to 5 or 10 or 20 thousand, but to hundreds of thousands if not millions” of low-income individuals, she explained. Acumen has helped bring clean water to over 500,000 people in rural India, microfinance loans to 250,000 in Pakistan, healthcare to a million patients in Kenya, and drip irrigation to over 175,000 people in drought-prone agricultural areas.

“We really do need the scale factor that corporations can bring, the policy changes that government can bring, and the innovation and the flexibility that nonprofits can bring—together,” Ms. Novogratz urged. “In fact, corporations are starting to see what Acumen Fund has been talking about for the last decade, that people who live on one and two and three dollars a day cannot be thought of only as charitable recipients, but they must be seen as potential contributors, as potential customers.”

Thus Acumen helped Sumitomo Chemical capitalize on an innovative mosquito-net technology used to guard against malaria, she noted. Sumitomo was producing nets in China and Vietnam but wanted to shift the work to Africa, where malaria accounts for some 300 to 500 million cases and 1.5 million deaths a year and \$13 billion in lost productivity. UNICEF agreed to buy and distribute the nets. Acumen Fund identified a Tanzanian company, A to Zed, to take on production, and lent the company \$350,000 at 6 percent interest; the fund also provided \$60,000 in management assistance. Today, the loan has been paid back, and A to Zed “now employs 7,000 people, mostly women, many illiterate, and produces 10 million nets a year,” bringing \$12 million in new wages to the country’s economy.



Panelists discuss the importance of creating social value. © Kenzo Sai.

“It’s so easy to throw these statistics out, but to talk to the women themselves, and to see them now bringing their girls to school, building homes for themselves, delaying marriage and having children, then the story starts becoming almost unimaginable for me, who’s seen this work over the last few years,” Ms. Novogratz said. “If we start thinking about change, and philanthropy, in those ways, that you use the market as a listening device, and recognize where the market fails, we really can do a lot better at coming closer to solving problems of poverty.”

Dr. Tasaka asked:

Could you talk more about the leverage that social investment makes possible?

An example is Acumen Fund’s support for an Indian company working to bring low-cost, UV-filtrated water to rural areas, Ms. Novogratz responded.

Acumen made a \$600,000 equity investment and set up guarantee funds at commercial banks to enable villages to buy the water systems for resale to residents. And when Acumen learned that villagers were storing the clean water in contaminated clay casks, the fund used its charitable monies to find out how to remedy this flaw in the distribution system.

The Indian company now operates in 200 villages with a half million customers, and recently raised another \$12 million from investors, she said. As a result of this project, Acumen has become involved in discussions on water-supply issues in India with top-level policymakers. Thus the Acumen model not only leverages financial support from banks and other investors, but also leverages knowledge.

How does Acumen Fund evaluate the results of an investment that may not show a return in monetary terms?

"We have something at Acumen Fund called BACO, the best alternative charitable option," Ms. Novogratz said, which compares the costs of manufacturing and distributing malaria bed-nets through A to Zed, for example, with the costs of the best alternative that's available from other charitable sources. "In this case, the numbers are quite extensive in favor of creating a low-cost net and using private distribution to get it to low-income people."

Acumen also calculates the value of what the organization creates on an output basis, she said. And "once you see 750,000 people buying a drip irrigation unit for \$30, and you see them quadruple their income, you can calculate the new wages into that economy. But you can't calculate the value of the children who are now going to school, which is sometimes the most important impact of all."

Most donors who give to Acumen Fund get their money back nearly in full, she added, and most see that for every \$1 they give to fund a single enterprise, \$3 to \$4 are raised from other donors. And finally, "there is this policy impact and this qualitative change that very few organizations are able to get. It's that kind of combination of using a hard head, hardheadedness, a focus on accountability, but combining it with compassion and a soft heart, that I think has convinced over 200 people to give us about \$100 million to date."

Mari Hayashi, as senior manager of Microsoft Japan's Plan-J Group, sets overall strategies, establishes budgets, and coordinates and monitors the progress of the company's citizenship projects as they are carried out by staff members in each department of the company, much as a conductor works with the players of an orchestra, she said.



Mari Hayashi.
© Kenzo Sai.

"Why citizenship, now?" she asked. "At the time of our founding in 1975, our vision was to have a computer on every desk and in every home. At that time, we did not even hear of a personal computer." This vision is now becoming reality, and to continue to serve its customers and enjoy the trust of stakeholders, "it has become indispensable for Microsoft to live up to our corporate social responsibility."

Microsoft's aim is to be a corporate citizen deeply rooted in Japanese society, Ms. Hayashi said. The company's motto is "innovation through partnership," and the company cooperates with many partners in different sectors, from national and local government to industry and academia.

One pillar of Microsoft's civic endeavors is digital inclusion, and in particular, the effective use of IT in the nonprofit world, where many organizations lack the wherewithal to realize their potential, she said. Microsoft has joined together with community organizations and other nonprofits in an initiative called NPO-J. As a part of this effort, the company has formed an NPO IT Promotion Consortium, made up of IT companies, NPO support organizations, and professional IT engineering groups. The consortium is developing NPO-Plus, a portal site for nonprofits, and sponsors regular conferences and seminars. Microsoft also holds NPO Days to provide skills-building training sessions to personnel in nonprofit organizations.

A second pillar of Microsoft Japan's citizenship programs is innovation and responsible leadership, including issues of safety, security, intellectual property rights, interoperability, and accessibility, Ms. Hayashi continued. In Japan, "more than 80 percent of the people use Internet in some form, and therefore the Internet is indispensable in daily life of the Japanese," yet computer viruses, spam, phishing attacks, leaks of personal information and threats to the safety of children represent continuing challenges.

Microsoft approaches information security “from three different angles: security, safety, and morale of the users,” Ms. Hayashi said. Thus in 2002, the company introduced the Security Development Lifecycle process to assure that software development includes rigorous testing of security defenses at each stage. To help users who may be particularly vulnerable, the company gives special guidance on safe use of the Internet to elderly citizens and to parents and teachers of young children. Microsoft also promotes safety and security through many partnerships, including an agreement with the National Police Agency on tracking online criminals and joint efforts with government and industry trade associations to combat viruses.

Dr. Tasaka asked:

When Microsoft supports nonprofit organizations, the company gains as well as gives, isn't that correct?

Yes, that's correct, Ms. Hayashi replied. “NPOs are our partners, so it's kind of a give-and-take relationship,” a way not only to achieve shared social goals, but to widen the scope of Microsoft's knowledge network.

In the future, how do you expect collaborative efforts within the industry to develop?

“This question of security cannot be addressed by a single company alone,” Ms. Hayashi responded. “We need cooperation with government organizations and industry peers. . . . And also we want to hear directly from the consumers, the end users, and that will lead to the development of safer and more secure products, and so in that sense I think there is going to be innovation produced in our core business as well.”

Panelist **Keith Yamashita** of Stone Yamashita Partners began with the story of his great-great-grandfather, who in 1871 left Shōdoshima Island for the Americas and made his way from Mexico to southern California, riding on a donkey, and started a farm. As a child, Mr. Yamashita was the only Japanese child in an all-white school. “And when you are the only Japanese student in a school of all-white children, you learn to really understand how systems work. How do choices get made? How do leaders get chosen? What's good for all of us, what's good for some of us, what's good for none of us? And I think from a very, very early age, I've been absolutely fascinated about how whole systems work.”



Keith Yamashita.
© Kenzo Sai.

The question that must be asked, Mr. Yamashita said, is how to fuse customer value with societal value. “And I think the way you do that is you have to completely reimagine your job as a leader. You have to be willing to look at the system that you live in, your company, your city, your country, and look at how all of the parts of that system come together to create value.”

To this end, the first step in Mr. Yamashita's view is “to change from a mindset of scarcity to a mindset of bounty.” Too often, he said, business is viewed as a competition where if one wins, the other loses. “We almost always believe that we live in a world of complete scarcity, where there is only a certain amount of resource, and too many people to take advantage of that resource”; to the contrary, what “we see going on in the leaders of the clients that we work with, and I think we're starting to see this in Japanese leaders as well,” is a notion “that the modern corporation has capability for virtually infinite value creation.”

What does this really mean? The art of building great organizations, Mr. Yamashita said, can best be represented by an infinity symbol, where the left-hand loop is internal value, value shared within the organization, and the right-hand loop is external value, value realized by shareholders and by the society at large. And “in the center of this figure eight is something we call customer value,” which is to say corporate profit.

Profit is essential, it's "the air we breathe in the modern corporation," he said. But merely aiming for profit, merely achieving profit, is not enough. "If you're an extraordinary leader, what you will try to do is first know that in order to create great profit, you have to create great individuals."

How to do this? In the figure-eight model proffered by Mr. Yamashita's firm, internal value has three levels, the first of which is the "you" level, the level of the individual.

"What's critical at that level is we look at ways to create an amazing environment where people have the permission and the mandate and the accountability to be fully aware and fully alive," he said. "What we really work with leaders to do" at this level, the you level, "is connect institutions with great organizational purpose."

If each individual finds meaning in the work, if each individual's opinions are solicited, valued and respected, then the next step is to work on the level of duos, or pairs--two people, working together, trusting each other and communicating with each other with openness and honesty.

"What's interesting about this duo level is it's not very well studied in management and leadership," he said. "We focus a lot on individuals and a lot on the next level I'm going to talk about, which is leaders of teams, but what the duo level is about is being able to create with another person this strong bond where you have such powerful communication, communication that is open, that is completely honest, that is completely exhaustive, meaning every time we get together each party says what it wants to say to completeness."

The third level of internal value is the team, or more precisely the innovation team, he continued; and the purpose of innovation teams "is to challenge the status quo, to create new value."

"When you bring these trusted duos in, duos that trust each other, communicate with each other, it creates the fuel, the energy, the ability, for that team to do fast work, to be able to be brave enough to challenge the status quo, to be visionary enough to envision a different way of doing things, to be hopeful enough to be able to do it, and to be industrious enough to do the hard work."

At their very best, innovation teams do not aim simply to create new value for customers, according to Mr. Yamashita; "they give themselves the ambition to create societal value as well."

Societal value, along with shareowner value, is on the right-hand, or external value, side of the model. To trace the complete figure-eight shape of the model is therefore to embrace both customer value and societal value, to make "one gesture, not two," he said. Great organizations give innovation teams "the hard charter of saying this has to be great for our customers and it has to be great for society, in one motion."

"When you do that, you create a more powerful, more lasting, and more enduring set of customer value and societal value that together form the new definition of company value," Mr. Yamashita concluded. The stock market evaluates each company based on its profit stream, "and perhaps for the stock market that's always going to be true--but in the court of public opinion, what really counts every day, in terms of human beings and how they respect companies, the new definition of company value is a combination of you, individuals, amazing duos, and ambitious and bonded innovation teams. Customer value, through pleasure and pleasing a customer, which results in profit, and societal value, which is measured in something that is worth doing: This is the new definition of company value."

Dr. Tasaka responded:

This concept of duo I think is very novel and has a lot of potential for the future. Could you expand on this for us?

"I'll say something perhaps a little controversial: Japan by far is better at this level than leaders in America," Mr. Yamashita replied. "This kind of common respect that the Japanese have in most companies for each other gives Japan a tremendous advantage."

"Where Japan can get even stronger and even better," he added, "is to not just have duos who know how to collaborate politely, but to build duos that know how to collaborate courageously--meaning to take something I know, and something you know, have the friction of that, so that we can create something that neither of us could have invented or created on our own."

Today, the business world has extracted nearly all of the benefits that cost-cutting offers, and therefore "the new kind of innovation that's required is a kind of step-change innovation," he said. "Step changes require significantly more courage. You have to see the world differently; you have to challenge your beliefs, you have to give yourself permission to think about things in a different way, so that you can shape powerful action in the organization to go after new value. And what we find is where people learn to do that work is they learn to do that work in a duo."

"You take two people from two different parts of the organization, and you get them to compare what they are seeing, challenge each other's beliefs, think together about something that they could create, and then mobilize the organization to go act in a powerful way," he concluded. "This atomic unit of the duo is really the place that you need to do the most work if you want to be a great value creator."

What special advice would you have for Japanese companies?

"I'm one of the members of the Innovators Network that the Japan Society is gracious enough to sponsor, and because of that I've been here to Tokyo a few times to study innovation and best innovation practice," Mr. Yamashita answered. "When I talk to CEOs and senior leaders at Japanese companies, it seems like Japan is at this really amazing moment of change," and there are choices to be made day by day at every level, from the individual to the duo to the innovation team.

"The way the next chapter of Japan's future is written is in fact not through a grand gesture, but through each of these individual gestures" at each of these levels, he said. "I actually think it's an incredibly promising time in Japan. I'm an optimist."

Summing up the panel discussion, Dr. Tasaka observed that as the philosophy of corporate social responsibility has developed and deepened, corporations are looking beyond their role as a donor of money, and beyond the notion that their core business activities ought to contribute to the good of society.

Thus, firms are becoming more involved in social investment, where the company makes an interest-bearing loan or invests equity in an enterprise that's working to provide solutions to societal problems. And corporations are moving to create support programs for social entrepreneurs, to help these entrepreneurs gain management and technological skills.

The benefits accrue not only to society, but also to the corporations themselves. Just as Web 2.0 draws strength from the wisdom of the crowd, so social investment and support programs for social entrepreneurs allow corporations to access collaborative networks that are valuable resources for innovation.

"I remember getting on the elevator my first day at work at Microsoft and everyone's heads were down," said **Darren Huston**, president and CEO of Microsoft Japan in closing remarks at the symposium. Microsoft had done well in Japan through the 90s, "but in the beginning of this decade, things were pretty static." Company products were widely used, but the people of Microsoft Japan were not in close touch with their constituencies.

The Microsoft mission statement doesn't say anything about selling software or making a profit, Mr. Huston observed. The mission of the company is "really a fundamental belief that as employees and as a company, we're out there to use IT to help everyone in society, business and individuals, realize their full potential," and Microsoft's CSR goals "are very much aligned with who we are as a company. We can go out and paint houses, we can go out and volunteer at the Special Olympics, but really at the core of what we believe we can do to help society is to help people realize their full potential through the use of information technology."



Darren Huston.
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"But then when you think about Japan--this is an IT society," he said. So doesn't everyone have a PC, and is there really anything left to be done in Japan? Is there a way that we can help evangelize information technology in this country, one of the top IT superpowers of the world?"

The answer is yes, Mr. Huston declared. "When it comes to education and it comes to government and it comes to small businesses and the elderly and nonprofit organizations, there's a huge divide in Japan when you compare it to other advanced nations around the world, and that was our rallying cry as a company."

At home, Japanese children have more technology than the average child in the U.S. or Europe, but at school, the picture is quite different, he said. So Microsoft worked with teachers in Ibaraki Prefecture to educate them about information technology and the use of IT in the classroom. The company partnered with Kagayama-sensei, creator of a very successful technique for learning kanji and mathematics, to digitize the method. Using tablet PCs and the Microsoft application, students at Ritsumeikan School in Kyoto were able to raise their kanji scores from middling levels to the very highest in the country. "We're working with University of Tokyo on the future of IT in the university classroom as well," he noted, and research to be published shortly shows that "IT can be used to dramatically leapfrog where Japanese university education is today." And "this isn't computer science class, this is astronomy, physics, chemistry, other disciplines, leveraging information technology to make a difference."

Another focus of Microsoft's CSR activities in Japan is e-government services, where Japan has yet to take advantage of its world-leading broadband infrastructure, Mr. Huston commented: "In America, on average, half of citizens and half of businesses file their taxes electronically. In Japan it's less than 1 percent." Microsoft is working closely with the government on such services, and cooperates with various agencies to eliminate file-sharing viruses and to recertify government websites.

Microsoft's business in Japan is growing again, and the company was voted the number one workplace in a recent Nikkei Business survey, Mr. Huston concluded. "I have my own survey, which is up and down the elevator, a lot more smiles." Ultimately, "it's about taking pride in the place you work in, feeling proud that your company is out making a difference. And I think that's really the core of why companies do CSR. Yes, there's long, long-term ROI in selling more computers to schools, but really at a very basic level it's critical to build trust and respect for your company in the societies you work in, and that's what CSR is all about at Microsoft Japan."