



## The Place for Social Enterprise in a Christian Economy

Continuing the very engaging session in December 2014 on Social Change Ventures, Jeff Woodward, Attorney at Taylor English Duma LLP, returned to BELIEVES, along with Paul Sansone, the former CFO of Better World Books and now the CFO of Boys & Girls Clubs of America, to lead Social Change Ventures – Part II. This time the discussion centered more on the place for social enterprise in a Christian economy.



“Last time when we discussed Social Change Ventures, we talked about the three ways any of us can engage in social change,” Woodward reminded everyone. “Volunteerism is how you as an individual can make a direct impact, philanthropy is how you as an individual or company empower others to make a direct impact, and social enterprise is how you use your business to make a direct impact.”

Social enterprise, according to Woodward, is defined as using business to solve social problems, is a blend of both profit and mission, and depending on the audience, can be looked at from multiple perspectives.

“A company’s perspective on social enterprise is centered on how to meet the needs of its stakeholders,” Woodward said. “The consumer perspective involves how the power of purchase can be used. The investor’s perspective is centered on how to use investment and capital markets to scale positive social change.”

Focusing on the company’s perspective for a moment, Woodward reminded everyone of the challenge they were given if they had attended the December 2014 BELIEVES session on Social Change Ventures – Part I.

“Last time, I asked you all to think about who the stakeholders at your company are and what are their needs,” reminded Woodward. “Then I challenged you to think of three steps or action you could take to address the needs of your stakeholders.”

Elaine Szeto, Sales and Catering Manager at Hyatt, told Woodward, that she had taken on the challenge and shared with everyone what happened in her workplace.

“I am in mid-level management in the hotel and travel industry,” Szeto shared. “We have been thinking of engaging churches more. In the travel industry we already give 10% back to stakeholders as an incentive, so the challenge in December got me thinking and now we’re brainstorming of doing this with churches.”

Woodward thanked Szeto for sharing what had happened, and took the opportunity to transition from Szeto’s remark comments around cause marketing to invite Paul Sansone to share his thoughts on that.

Sansone thanked Woodward for the introduction and then shared a bit of background about the Boys & Girls Clubs before diving deep into cause marketing.

The Boys & Girls Clubs first began in the 1860s in Connecticut, later to become the Boys & Girls Clubs of America (BGCA) after the turn of the century when there was the need to provide structure to the clubs that had been formed.

“When the first club started, it was to do service in the community,” Sansone shared.

This purpose, like those of many other organizations, is foundational when it comes to cause marketing.

“In cause marketing, 15% of people are considered high-end/aspirational meaning they’ll spend more when they feel there is purpose involved,” Sansone said. “The other two segments are the low-end/cost-conscious who are on the other end of the spectrum and comprise 15-20% of people, and then the middle 60-70% which we can call ‘tie goes to the runner’ meaning they consider cost but if all else is equal, then they’ll focus on purpose. Better World Books fell across all three perspectives.”

From a cost perspective, Sansone shared that the inventory of Better World Books was donated, allowing them to be low cost. From a purpose perspective, he said Better World Books has been able to provide more than \$15MM in funding to non-profits or literary partners since its inception.

Why is this mix of cost and purpose important to the business success of a company like Better World Books? Sansone provided the answer.

“Data shows if you do cause marketing, where there is a connection to purpose, you can see sales go up 20-40%.”

Woodward then asked Sansone how they thought about their stakeholders at Better World Books. Sansone provided an example to illustrate.

“We knew we were emitting carbon, so we had a consultant come in to assess our carbon footprint,” Sansone responded. “From there we could see how much we needed to offset, and this allowed us to give our consumer a choice to pay more if they wanted, which Better World Books would match.”

Sansone added from an internal perspective, the team at Better World Books had initially just looked at the company’s shipping carbon footprint. After finding something of significance, they looked at more stakeholders and the scope of their carbon footprint reduction efforts expanded.



One of BELIEVES’ attendees then asked Sansone if the original idea for Better World Books was more an idea for a bookstore, or an attempt to connect the dots between social, business, supply chain, and other elements that the founders could see.

“The founders had gone to the University of Notre Dame,” Sansone recalled. “After a particular semester, they returned expensive books totaling around \$1,000, and got just \$5-10 back. They were frustrated. So the real genesis of the company was arbitrage – the difference in value between the buyers and the sellers.”

From there, however, Sansone said, the founders wondered if others saw this arbitrage, so they stayed at Notre Dame after graduating and did a project where they organized a book drive, sold all the books, and gave 50% of the proceeds to Notre Dame’s Robinson Center.

“The thought they had was – this is scalable,” Sansone said. “So then they started wondering how they could do good with this, and wound up wrestling with should they be a for-profit or non-profit institution. The decision was to be for-profit.”

A collective dialogue amongst all the attendees, Sansone, and Woodward, then began on discerning the intent of why Better World Books did what it did as a business. Sansone ultimately shared another anecdote to illustrate how intent played out at Better World Books.

“One thing we wanted was to have wide-based ownership,” Sansone said. “So if you were an employee and reached your one-year anniversary, you received stock options. Once we did this internally with our employees, we decided to expand this to our non-profit partners and give stock to the partners who met their goals. In short, as we got more educated about our stakeholders, we expanded the opportunities.”

So what if we take all we’ve talked about around social enterprises, and apply it to an existing company, Woodward posed to everyone. Though it’s a bit harder, once things start getting tried and develop a track record, there’s substance to share with stakeholders for it to expand further.

Going one step further, Woodward asked, “How do we use the power of our purchase to further this?”

This led to a discussion about Certified B-Corps which are recognized in many but not all states in the United States.

“As LEED is to the market for sustainable construction, B Certification is for social change,” said Woodward. “More importantly, going through the B Certification process helps you think through what to do.”

Then Woodward asked, “So are you a socially responsible consumer, and how can you become one?”

CTK parishioner Walter Kozik thought about the question but first asked, “Where is the impact of me being a Christian in this whole thing, because what I am hearing is still about how I can make a \$?”



While being a Christian could underlie the desire to use market forces for change, or stand up against market forces, in Woodward’s opinion, social enterprise actually does both – using both philanthropy and market forces together.

Sansone shared that he thinks a good case study in this space is Ben & Jerry’s.

“All their ingredients were organic, and they were the poster child for social enterprise,” stated Sansone. “Then they were acquired by Unilever and people were afraid they would lose their intent. Do you know that a few years ago, Ben & Jerry’s became the first solely owned division of a public company to become a B-corporation? Someone at Ben & Jerry’s had to say, ‘we’ll be acquired, but our underlying intent is going to be preserved.’”

President and Chairman of the Chastain Park Athletic Club Jim King commented, “There is nothing wrong with making money, it’s what the intent is that matters.”

Then King asked Sansone about how the type of capital structure impacts social enterprise.

Drawing from his experience at both Better World Books and BGCA, Sansone provided a clear comparison.



“In 1951, the United States’ Congress chartered BGCA to start clubs in more communities,” Sansone said. “So with BGCA, there are 8-10 ways to get capital. With Better World Books it’s more limited. We actually realized at one point that we were capital-constrained, and in the end went to Good Capital, a West Coast venture capital firm that wanted to only invest in social enterprise, and received a capital infusion.”

Woodward added that the \$4MM capital infusion allowed Better World Books to grow from a \$20MM enterprise to a \$60MM enterprise, and make more contributions for literacy. If Better World Books was a non-profit, Woodward felt it would still be a \$20MM enterprise.

“Another element tied to this is in the area of foundations,” said Woodward. “Foundations have to give 5% of their money away, but 95% is invested. I want to focus on the 95% and having it invested in companies like Better World Books. Then I want 5% going to BGCA.”

With time coming to an end for the discussion, Woodward decided to close by reflecting on – what is our role as Christians in social enterprise?

“For me personally,” said Woodward, “there is a blend where I spend half of my life doing something contributing to others lives, while as a business person, I want to see change.”