

# Innovation at the Corner of Profit and Purpose

By Priya Parker, Mobius Consultant and Innovation Expert

Today, some of the most path-breaking and innovative work is happening at the nexus of profit and purpose. Organizations are innovating around every aspect of the business model, questioning traditional assumptions about price structures and dividends, and embedding their values into the operations and balance sheets. Companies such as TOMS Shoes, Better World Books and FEED are challenging the fundamental assumptions of what drives consumer behavior and what leads to market sustainability. And they're having fun doing it.

I design visioning sessions and innovation labs for start-ups and organizations at inflection points. I work with them to create viable value-based visions, and find ways to create operations and structures that align with their core purpose. When designing innovation labs, we first explore the boundaries around which they've considered innovating: their product, customer, supply chain, business model, organization structure, etc. Many organizations aren't sure how deep their innovation should go. I've found social enterprises and hybrid organizations more willing than most to be innovative across a multitude of platforms. Not surprisingly, this willingness to experiment sometimes leads to tension around decision points with multiple stakeholders. For example, whether to plow back profits in the company to scale (and arguably affect more people in the long run) or to create a cap above which dividends are distributed to the targeted community

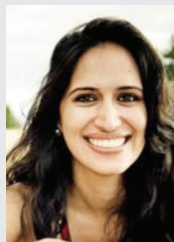
of impact through financial or non-financial returns.

Over the past six months, a colleague of mine at Harvard and I conducted research looking at how successful hybrid organizations innovate around their business models to create value for both consumers and producers.<sup>1</sup> We were working with a Cambridge-based social enterprise that was struggling to balance its social mission to help female entrepreneurs in conflict zones while selling their product at a large enough size to maintain solvency. We designed a benchmarking project and studied seven organizations across public and private sectors that have faced the similar challenge of creating a scalable product and positively impacting their target communities. The companies ranged in size, revenue, age, and geography (three in the United States, two in Africa and one in India). While the companies shared a number of interesting insights, the most common theme was the importance of identifying core values and making them explicit early, and then of structuring every aspect of the organization around those values.

## Sequencing Matters: Clarify your values first and articulate them

We interviewed the founders of organizations that have been at the forefront of innovation in their sectors and focused on how and when they innovated. Despite the differences among the organizations, we found that the ones that have been able to innovate most successfully were the ones that had invested in identifying, articulating and infusing their organization with an explicit mission and an explicit set of priorities. The organizations that were most easily and effectively able to innovate when the need arose were the ones in which every staff member could articulate the core purpose and values of their enterprise.

Once an organization becomes clear on its values, the form these values take tends to be held less sacredly and provides an easier bed for experimentation and design. The organizations that have the most trouble with change are those that are vague on whether, for example, their primary duty is customer satisfaction or community impact.



## Priya Parker, Innovation Expert

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<sup>1</sup> The original paper is co-written with Moni Haji Mkanga for the Harvard Hauser Center for Non-Profits in May 2011.

Vinod Parmeshwar, Oxfam's Brand Manager, spoke of the importance of coming up with the "brand attributes and values that are most dear to you early." He said, "If you're clear on the values, you can keep reinterpreting these values for each new generation and as the product goes through its natural life."

One organization we interviewed, Fabindia, has enjoyed much success because of clearly defined values early in its life. Fabindia is considered a leader, in India and globally, for growing impressively while mastering a values-based supply chain. Sourcing from 40,000 artisans throughout India, a staff of 960 employees brings traditional products to 141 stores in 58 Indian cities. When asked about the trade-off between social impact and the quality of products sold, Fabindia's Prableen Sabhaney said, "The founder of Fabindia was very clear that equitable relationships are very central to what the company does. Therefore, we have perfect clarity on how we want to be perceived and a very strong central idea on how you marry profit and purpose. It's not something that's new to us, the base has been very very clear." Once a company is clear on its basic principles, they can then focus on all of the other aspects of running the business. She added, "Our brand is completely intertwined with how we source."

### Alignment of the supply chain with the values of the organization

Every hybrid organization that achieves social impact through sales of a product needs ensure that each step of its supply chain is aligned with their values. The more compli-

cated the supply chain and the more steps in getting the product to market, the more likely a values clash will occur. Supply chains affect not only the customer experience in terms of delivery time and fulfillment expectations, but also the customer's value expectations of how the product got to market.

The mode of engaging suppliers can create legitimacy. At Fabindia, the artisans are integral partners in the supply chain. "Our biggest strength," Sabhaney said, "is our ability to work with artisans on the ground." The very way the company is structured reflects its mission. "We have created in the past ten years what we call Community Owned Companies (COCs)." Currently, Fabindia has developed 17 COCs across India.<sup>2</sup> They have moved into these 17 COCs "to get closer to the artisans so that they get access to the market." Additionally, all of the work is still done in traditional environments (out of homes or in community clusters) and they intentionally don't run any factories.

The supply chain is personal, and the sourcing is authentic. When balancing the tradeoff between surge in demand and the resulting demands on the supply chain, Fabindia prioritizes the supply chain over its customers. Sabhaney said, "We have to grow capacity unit by unit and product by product. We value the supply chain over the demand for sales if there is a conflict. For example, if there is a surge in orders, we don't have the women work faster, we have to get more women." She added: "For us, the supply chain is very important, and we have been working with it for 50 years.

We know down to the person who made what. Because of the nature of the product, we can tell you exactly where the craft has come from, and even the village, and by looking at the design, can tell you which family." The value that Fabindia brings is largely "the authenticity of sourcing. You can be sure of the authenticity in each of our products and how it's being sourced. That's where we put our brand value."

Another aspect of a supply chain is location. Managers at two companies told us that a fundamental aspect of their supply chain is to use local materials and to build on traditions of local craftsmanship that already exist. Torkin Wakefield, the founder of Bead for Life, explained that the material for the beads the community women make is recycled paper from print overruns in Uganda. She said that she has had to turn away international donors that wanted to donate paper because "it makes no sense: it's heavy; it requires storage; and you have to get it through customs, which in Uganda often means bribing." She shared an example: "British Airways wanted to donate to us one ton of paper. When it arrived in the airport, the customs officials wanted us to pay \$780 just to get it out. So we abandoned it. I tried to explain to the officials that it was used paper, and it didn't matter."

When developing an innovative model, Wakefield said, "Look for a naturally occurring product that the people are already making, that maybe you can make it nicer and bring up to the standards of Western market rather than inventing something." She added:

<sup>2</sup> Fabindia has a subsidiary, Artisans Micro Finance Pvt Ltd (AMFPL) that has set up 17 Community-Owned Companies across the country in the areas Fabindia sources from. These COCs act as an aggregator for the products. 26% of the shareholding belongs to the artisans, 49% to AMFPL, and 10% to the employees of the COCs. The rest is capitalized through shareholders. Each board of directors has at least one artisan director.

“First, see what’s there. Second, see what’s lightweight, not breakable and useful to the culture.” The Fabindia executive also said that one of the most important aspects of their model is that “we work with what is readily available rather than bringing in what you think should be.” All of the company’s products “are generated in rural areas largely because that’s where the best craft comes from. Our products are based in skills and techniques that are traditions and linked to knowledge.” She talked about the importance of community feedback on what they need and what they’d like to produce: “Being entrepreneurial happens when you work with people and find out the materials they can access locally.” The best organizations then add value on top of what already exists by tailoring it and providing access to the market.

### Alignment between the Customer and Producer

One area of innovation and alignment that is often overlooked is alignment between the customer and the producer. In innovation circles, there can be a tension between listening to the customer and leading the customer. Henry Ford once famously said, “If I asked my customers what they wanted, they would have said a faster horse.” The companies that have been able to manage this tension, and communicate both with the producer and the customer to get them aligned (to get the producer to understand what the customer likes and to get the customer to value the uniqueness of the producer’s style), tend to thrive. One leader told us: “We have had to embark on a continuous co-education campaign both for

the artisans and for the customer.” For example, “To the artisans, we may need to explain that this year green is more popular than red, and to the consumer that ‘indigo’ is a natural color that bleeds and not a defect but part of the ‘custom-made’ quality of a shirt.” Greater alignment between the customer and the producer increases sales and, more importantly, repeat purchases. And repeat purchases in any sector lead to long-term sustainability.

### Alignment between the Values and the Product

The organizations that were most excited about what they were doing tended also to value the products they were selling. “We are committed to our products and to their intrinsic value. For us, the product is intrinsic value in itself: we’re selling a *sari* that takes three days to create. The value is the work that’s done, the food put on the table as a result – so many factors. A large part also is the skill and knowledge that go into each piece.” In the case of TOMS shoes, each staff member is a brand ambassador and would likely buy the product even if they weren’t working for the company. Alignment between the values and the product usually assumes high quality. Oxfam’s Parmeshwar sums up nicely the importance of organizations conveying their social impact: “The most essential thing is that people need to come and be clear about your product and what your product stands for.”

### Finding customers who exercise your values and buy into the community

In hybrid organizations, the leadership has to create a strong relationship between the customer

and the product (just like Mac fans are attached to their Macs), but *also* to the community of producers (most Mac fans don’t think about the variety of engineers producing their materials or hard coding their computers). Leaders in the social impact sphere are very clear about the two-way relationship between the customers and the producers, and the importance of this emotional connection that the community of buyers feels for the producers. This is a key difference between hybrid organizations and others. A number of organizations distinguished between merely telling a story about their social impact and actually encouraging their customers to believe that they, too, can make a difference. For instance, Wakefield, of Bead for Life, said that they encourage people to have the identity that “I can change the world.” Similarly, Devon McAnany, of Arzu Studio Hope, said, “We are successful in educating people about social change and inspiring people to make a difference in whatever way we can, whether it’s with Arzu or other ways.” While it doesn’t substitute for product quality after an initial purchase, it is a very strong asset to any organization looking to achieve social impact through sales.

### Conclusion

In 2009, the White House established its own office of “social innovation.”<sup>3</sup> Innovation hubs are no longer only at places like MIT and Stanford, but are popping up in places like Nairobi, Buea, Lagos and Ahmedabad.<sup>4</sup> And it was recently announced that the top 50 impact investors manage a total pool of \$8.9 billion in assets.<sup>5</sup> With the rise of so many organizations

<sup>1</sup> See <http://www.whitehouse.gov/administration/eop/sicp>.

starting to experiment with developing products and services that can both make a profit and have a social mission, there is a growing need to apply the skills and best practices from leadership and change fields to these fledgling organizations.

Because these are still the relatively early days for the field of

social enterprise, organizations that are working today not only have an effect within their own target communities, but also contribute to an anchoring affect in the field. The decisions they make today will be looked at by many other organizations and leaders in years to come. As there has been a surge in interest in these types of organizations – in

starting them, funding them, supporting them, buying from them – co-creating visions and aligning structures that will bring those visions to life will be a key success factor in the long-term impact of the field. ■

<sup>4</sup> See Appfrica Labs, ActivSpaces, iHub, and Center for Innovation Incubation and Entrepreneurship.

<sup>5</sup> <http://t.co/F7wTtuc>

*"Knowledge emerges only through invention and re-invention, through restless, impatient, continuing, hopeful inquiry men pursue the world, with the world, and with each other."*  
-Paulo Freire

