

P a r t *o f* the Solution:

LEVERAGING BUSINESS AND MARKETS FOR LOW-INCOME PEOPLE

LESSONS LEARNED

FROM THE

FORD FOUNDATION

CORPORATE INVOLVEMENT

INITIATIVE

Executive Summary

FORD FOUNDATION MISSION STATEMENT

The Ford Foundation is a resource for innovative people and institutions worldwide.

Our goals are to:

***Strengthen democratic values,
Reduce poverty and injustice,
Promote international cooperation, and
Advance human achievement.***

This has been our purpose for more than half a century.

A fundamental challenge facing every society is to create political, economic and social systems that promote peace, human welfare and the sustainability of the environment on which life depends.

We believe that the best way to meet this challenge is to encourage initiatives by those living and working closest to where problems are located; to promote collaboration among the nonprofit, government and business sectors; and to ensure participation by men and women from diverse communities and at all levels of society. In our experience, such activities help build common understanding, enhance excellence, enable people to improve their lives and reinforce their commitment to society.

Preface

This report presents lessons learned from the Corporate Involvement (CI) Initiative of the Ford Foundation, an effort that sought to demonstrate that businesses could use core operating resources and competencies in ways that contribute to large-scale improvement in income and assets for low-income people, while benefiting business.

Influencing business and markets while advancing social goals is a key challenge for philanthropy and civil society. The roles of government, business and civil society are changing dramatically. Government is moving from resource provider to catalyst and enabler. Business is globalizing and is a growing force in influencing societal well-being. Social innovations once stimulated by the public sector are increasingly seeded by business and expanded through the market. For foundations, working with companies and through markets is a critical, yet underutilized tool to unleash new resources that build assets and wealth in poor communities.

The integration of business into grant-making strategies completes a “three-legged stool” of public-private-community alliances needed to improve low-income communities. It draws inspiration from the asset-building framework adopted by many funders and advocates, which defines assets as the broad array of resources that enable people and communities to exert control over their lives and participate in society in meaningful and effective ways.

The CI Initiative was intended to demonstrate how business and communities could collaborate to generate “win-win” outcomes – competitive advantage for business and gains in assets and wealth for low-income people. We believe that the work of the organizations described in this report provides evidence that markets can be leveraged on behalf of low-income communities.

Recently concluded by the Foundation, the CI Initiative has generated insights about effective methods for transforming markets to better meet social needs. These insights include the following:

- *While businesses have some latitude to act in ways that aren't immediately or directly profitable, changing business behavior in sustainable ways requires changing the ways in which markets operate.*
- *Changing markets is complex, requiring the use of multiple strategies and competencies in concert.*
- *Changing markets is a long-range strategy that can have substantial payoffs in improved income and wealth for low-income people.*
- *Foundation funding is critical to supporting the innovations required to change markets.*
- *Building a field of practice helps develop and disseminate new competencies and knowledge.*

This report is intended to serve the needs of nonprofit leaders who want to understand how to engage corporations in win-win strategies and foundation staff interested in grant strategies that support those activities. It also serves the needs of a broader audience: those interested in corporate involvement, corporate social responsibility and corporate citizenship.

The report offers frameworks that help nonprofits understand how to collaborate with businesses over time. It provides examples of how nonprofits have worked with businesses to achieve a social goal, and points out challenges and solutions in crafting CI strategies. We hope that the achievements of the organizations profiled here will provide useful insights for all individuals interested in engaging the business community in positive social change.

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Executive Summary

Part of the Solution: Leveraging Business and Markets for Low-Income People

This summary provides a quick immersion into the key frameworks, examples and findings of the Ford Foundation Corporate Involvement Initiative. From 1995 to 2003, the Initiative sought to demonstrate how business and communities could collaborate to generate “win-win” outcomes – creating competitive advantage for business and gains in income, assets and wealth for low-income people through private sector investment in communities. The full report is available at www.fordfound.org.

Why Work With Business And Markets?

For foundations of all types, learning how to work with corporations and through markets is a critical, yet underutilized tool for unleashing new resources to build assets in poor communities. Here, assets include financial holdings, natural resources, social bonds and human capital that individuals, organizations, or communities can acquire, develop, improve, or transfer across generations. Businesses play a crucial role in establishing many of the conditions that create or hinder the opportunities for low-income people to build their assets. They do so primarily through their everyday operating practices – how they market their goods and services, who they hire and how they develop and compensate them, how they manage their supply chains, where they locate their operations, and how they influence public policies. To make sustainable and scaleable changes in business operating practices requires changing the ways in which markets operate, because markets shape business behaviors. Accordingly, the ability to leverage business and markets in a manner that advances social goals is a key challenge for philanthropy and civil society.

Examples Of Success

The CI Initiative focused on four areas of economic development: financial services, workforce development, enterprise development, and regional economic development. In each area, the Initiative grantees succeeded in demonstrating specific win-win strategies that leveraged business and markets to benefit low-income individuals. Here are some examples:

Financial Services: expanding opportunities to build financial assets

Fannie Mae Corporation, in partnership with Self-Help (a community development lender), agreed to purchase innovative and flexible mortgage products that enabled low-income individuals to purchase homes. This has led to the issuance of more than \$2 billion in affordable mortgages to over 30,000 low-income families who previously would not have qualified for conventional mortgages. This enabled these new borrowers to acquire their own homes, one of the principal means of building financial assets in America. It also opened up a new group of profitable customers for banks serving the mortgage market.

Workforce Development: improving labor skills and earnings

Manpower Corporation developed its TechReach program in partnership with community-based organizations. The program provides businesses with a new source of work-ready skilled technical workers while offering a gateway to high-wage technical careers to the unemployed and underemployed. In May 2003, Manpower formed a National Business Partnership with the Department of Labor. This created formal links between Manpower’s network of 1,150 offices and nearly all 1,900 of the Department of Labor’s One Stop Career Centers. In 2001 and 2002, Manpower placed 1,270 program participants from 45 programs around the nation into information technology jobs. Manpower is now placing approximately 2,000 individuals per year into jobs through its TechReach program. The low-income individuals are gaining marketable and highly transportable skills and increasing their income and employment security. In addition, Manpower has been able to tap a new source of workers to help serve its 400,000 business clients worldwide.

Enterprise Development: supporting sustainable livelihoods

TransFair USA helps to support enterprise development among coffee farmers and cooperatives by certifying and promoting Fair Trade coffee. Fair Trade coffees are grown, marketed, roasted and sold in strict compliance with international Fair Trade standards – a fair price, direct trade, access to credit and support for sustainable agriculture. TransFair’s activities have helped to create benefits for both farmers and businesses. Since 1998, TransFair USA’s certification of Fair Trade coffee has generated \$45 million of additional income for family farmers compared to what they would have received under the prevailing international terms of trade. This leads to higher family living standards, thriving communities and more sustainable farming enterprises. TransFair’s certification also helps coffee roasters and retailers to differentiate their products and attract new customers. For example, companies offering Fair Trade coffee in both 2002 and 2003 reported average annual sales increases of 125% at a time when coffee sales overall were only growing at 2% per year globally (*International Coffee Organization, 2004*).

Regional Economic Development: creating thriving and diverse communities

The San Francisco-based Bay Area Council is a business organization of 275 major employers that seeks to promote progressive regional public policy. It is among an increasing number of regional business organizations that are supporting “smart growth” approaches to development. The business sector is recognizing that economically prosperous and environmental sustainable inner cities are essential for business competitiveness. In partnership with community groups and local government, the Council has raised more than \$170 million in investment funds to support business growth, commercial revitalization and brown-field cleanup in 46 of the poorest communities in the San Francisco Bay Area. This benefits communities by improving their asset base and creating new jobs for residents. It benefits business by revitalizing these inner-city markets, leading to increased sales and property values. It also helps to create more “smart growth” in the Bay Area, easing strains on housing, education, transportation and the environment.

Strategies To Address Market Barriers

Organizations involved in the CI Initiative sought to overcome market barriers that cause poor alignment between profit-seeking market goals and asset-building outcomes for low-income individuals. These market barriers include the following:

- **Information**
 - Misperceptions of risk of low-income people as consumers or employees
 - Lack of adequate information about low-income markets
- **Production costs and pricing**
 - High costs for serving low-income market due to low transaction sizes
 - High levels of industry concentration or outright monopolies
 - Ability of businesses to externalize social costs of their activities
- **Consumption preferences**
 - Lack of market mechanisms to integrate preferences of firm stakeholders
 - Low business interest in market segment because of low purchasing power
- **Organizational culture**
 - Cultural biases and prejudices toward low-income and minority communities
- **Market environment**
 - Poor business operating conditions (political instability, lack of infrastructure, poor factors of production)

Strategy 1: Create awareness, interest and leadership within the business sector

Aspen Institute’s Business and Society Program. The mission of the Business and Society Program (BSP) at the Aspen Institute is to increase the supply of business leaders who understand – and seek to balance – the complex relationship between business success and social and environmental progress. BSP uses multiple approaches to achieve this end. One approach has been to increase the teaching of social issue management in business school education. To this end, it has spearheaded the development of caseplace.org, a unique Web resource that lists hundreds of cases that business faculty can use to incorporate social issues management into business education; *Beyond Grey Pinstripes*, a bi-annual report highlighting and comparing the most innovative MBA programs and faculty incorporating environmental and social impact management into the business school curriculum; and, *Where Will They Lead?*, a multi-year longitudinal study of MBA student attitudes toward the role of business in society, and how these attitudes are shaped by business school education. BSP’s reports have gained wide media coverage, including stories in *The Wall Street Journal*, *Business Week*, *Time*, and *Harvard Business Review*. BSP’s efforts contributed to increasing the proportion of business schools that require one or more courses in ethics, corporate social responsibility, or business and society, which rose from 34% in 2001 to 45% in 2003.

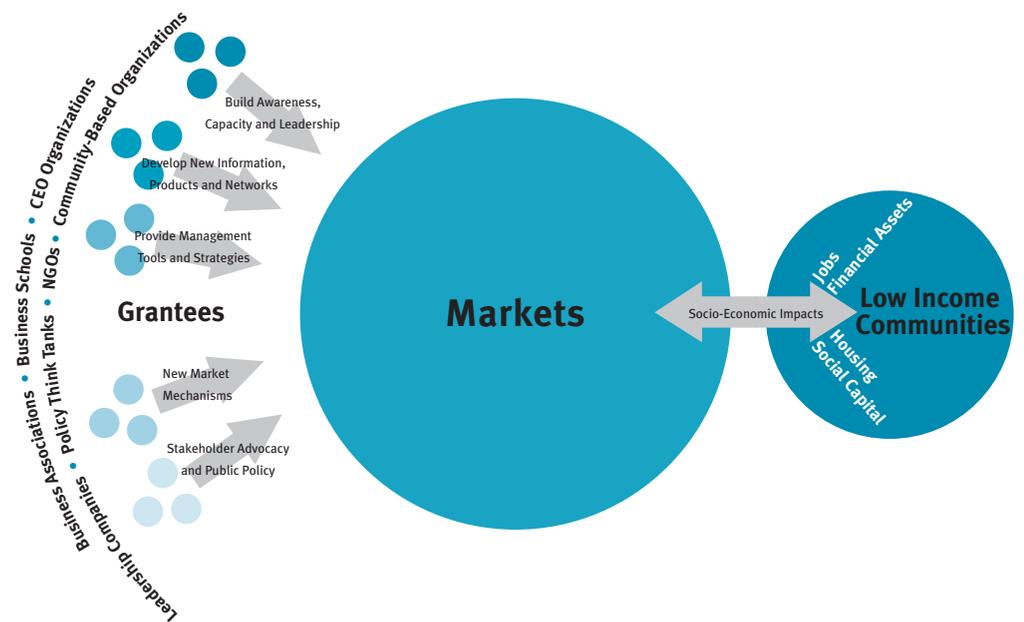
A range of organizations are needed to enhance market alignment, enabling businesses both to make money and to create assets and income for low-income individuals. These organizations include business associations, business schools, CEO associations, leadership companies, policy think-tanks, NGOs and community-based institutions. The Initiative found that there are five key strategies that these organizations pursue to remove market barriers:

1. Create awareness, interest and leadership within the business sector
2. Develop new information, products and networks
3. Address organizational and cultural barriers with management tools and change strategies
4. Create new market mechanisms
5. Organize for collective action and public policy

Strategy 2: Develop new information, products and networks

The National Home Safety Partnership.

A coalition of insurers, including State Farm, St. Paul, Travelers Property Casualty and Nationwide, worked with Neighborhood Reinvestment Corporation and the NeighborWorks® network (a national nonprofit organization focused on revitalizing communities) to develop the National Home Safety Partnership, a successful program for increasing home safety and reducing insurance losses. The program provided: education to low-income homeowners on safety hazards in the home, a free home safety assessment, and low-interest, long-term loans to enable homeowners to remediate hazardous conditions. This program was piloted in six cities and served approximately 3,000 individuals. It is being expanded to 24 cities. Initial evaluations show that this program helps to protect the financial assets and physical safety of low-income homeowners. It also enables insurance companies to increase the profitable sale of homeowner’s insurance in these neighborhoods, and mitigates the risk for insurers by improving the safety and security of these homes.



Success Factors

Last year, the Ford Foundation funded a study of the CI Initiative grants. A primary question was how to increase the speed and scale of Corporate Involvement. The study looked for patterns that would help explain why some grantee activities had achieved scale and impact, while others were less successful. A careful analysis of comparable strategies led to the finding of the following key factors contributing to success in implementing CI strategies:

1. **Identify and motivate business decision-makers.** Business case information is necessary, but not sufficient. The key issue is finding champions who can bridge the public and private sectors, and who are ready and willing to use the information to drive change. Business leaders respond to multiple drivers. In addition to market drivers, these include values, compliance, and intangibles such as reputation and image. CI activities that tapped multiple drivers were more successful and longer-lasting than those that tapped just one.

2. *Develop organizational competencies to bridge business and community.* Successfully implementing CI strategies requires being able to work effectively in both the business world and the community. Relatively few organizations that participated in the CI Initiative started with competencies in both worlds. The organizations that succeeded developed these abilities by adding staff and skills, or by creating partnerships with organizations with complementary competencies.
3. *Mobilize business networks and build effective partnerships.* Grantees that created relationships with opinion leaders in business networks were more effective than those that did not. Opinion leaders include CEOs of large companies, executives in key positions in leadership companies, management “gurus” and the business media.
4. *Engage stakeholders and influence public policy to support CI.* Since many markets are poorly aligned, engaging stakeholders and influencing public policy is critical to increasing the scale and pace of CI.
5. *Build scalable solutions.* A “scalable solution” is a new product, service, practice, or a new enterprise that meets a market need, and that has the ability to grow to affect a significant proportion of transactions in the market. The growth in scale can be accomplished in a variety of ways, including a growth in scale of the CI Initiative participant, adoption of the business solution by other organizations and the creation of new organizations to bring the solution to scale. The Initiative found that organizations that designed their intervention with a specific pathway for scaling up from the start were more likely to be able to produce scalable solutions.

Strategy 5: Organize for collective action and public policy

Social Investment Forum campaign against predatory lending. Social Investment Forum is a national nonprofit membership organization with a membership of more than 500 social investment professionals and institutions dedicated to promoting the concept, practice and growth of socially and environmentally responsible investing. In 2002, the issue of predatory lending – the stripping of wealth from low-income individuals through unscrupulous lending practices – burst onto the national screen as a significant problem. Working together with Self-Help and other members, the Forum was able to act quickly and help to build a coalition of institutional and individual investors to put pressure on banks. Their efforts were successful in persuading major banks to change these practices. This both helped preserve the assets of low-income homeowners, and also opened up a market for lenders that provide loans on reasonable and fair terms.

Strategy 3: Address organizational and cultural barriers with management tools and change strategies

‘Business and Community Development’ report by the Center for Corporate Citizenship. The Center for Corporate Citizenship at Boston College is a business membership organization providing research, executive education, consultation and convenings on issues of corporate citizenship. Its report, *Business and Community Development*, provides management tools for use in designing a business and community development strategy, and shows how to address the complex organizational issues that arise in implementing CI. It also provides diagnostic aids and case examples from companies such as Advanced Micro Devices, J.P. Morgan Chase, Cisco Systems and Texas Instruments. Managers in companies such as GE have used these aids and cases to help them align corporate performance with community economic development to achieve win-win impacts.

Strategy 4: Create new market mechanisms

Working Today. Working Today is a social enterprise that functions as a market intermediary. It works to remedy the failure of the health care insurance system to serve the needs of the growing part-time and freelance workforce. To increase their access to affordable health insurance, Working Today signs up part-time and freelance workers, and creates a pool of customers. It then brokers group health insurance directly to this pool. This enables health insurance companies to identify these customers as attractive, and provide them with insurance at affordable rates. Working Today is now serving 12,000 individuals, more than 60% of whom are low-income. It is enabling these individuals to get health insurance they can afford, while also creating a new market for profitable sales of health insurance at affordable rates.

The Role for Foundations

The experience of the CI Initiative has shown that foundations can play an important role in building Corporate Involvement. Because of the many market barriers described above, corporations do not perceive the benefit of investing in these low-income markets, particularly at the research and development stage. “First movers” often don’t capture the whole benefit from creating a market, and so don’t have incentives to improve the market as a whole. Accordingly, there are a number of enduring roles that foundations can play in building Corporate Involvement.

- **Seed Capital Investor:** In its role as seed capital investor, a foundation can provide R&D funding for untested business strategies and provide credit enhancement for testing new financial models. It can support nonprofit capacity building, promote dialogue across sectors, and support research and evaluation to identify best practices.
- **Building a Field of Practice:** Foundations are uniquely positioned to build a field of practice¹ — helping to create the social and intellectual capital that can then be used to harness the energy and creativity of managers, researchers, advocates and regulators in more productive and coherent ways. In its role in building a field of practice, a foundation can help to develop a community of practitioners, and to create a strategic approach to knowledge-building and communications within the field and between the field and the broader business and policy communities. Finally, it can play a unique role in providing core support for the organizations that make up the infrastructure for the field.

The Challenges Ahead

The CI Initiative has shown that Corporate Involvement has substantial promise as an effective strategy for mobilizing private sector resources to increase assets for the poor. At the same time, CI faces significant challenges. Problems born of poverty and lack of opportunity continue to grow around the world at an alarming rate. With the role and resources of governments continuing to diminish, the participation of the business sector, in alliance with nonprofit leaders in economic development, is a matter of urgency. Key issues to be addressed in the future to enable the expansion of Corporate Involvement include:

- *Increase business leadership for Corporate Involvement*
- *Improve the evidence showing the financial benefits of Corporate Involvement*
- *Continue capacity building for nonprofits working on Corporate Involvement*
- *Empower stakeholders*
- *Build supportive public policy*
- *Develop long-term funding sources*

Business will continue to play a prominent role in society. As such, tapping its strengths for social good is a worthwhile challenge for all who are concerned in creating a just and prosperous world.

Description of Report Contents

Part One provides an overview of the context and design of the CI Initiative. It starts by describing the focus of the CI Initiative and the key lessons learned. It then notes the Initiative’s goals and the analysis underlying its design. It places the Initiative into context by discussing both the external environment in which the CI Initiative was developed as well as the programming context in which it was set at the Ford Foundation.

Part Two provides an overview of achievements of the CI Initiative. It reflects on the Initiative’s progress toward demonstrating win-win strategies that create benefits for both business and community, and notes examples of progress made. It also discusses the state of CI at the inception of the CI Initiative, and notes the progress in building CI as a field.

Part Three presents a series of useful frameworks that help to organize the complex world and activities of CI. These frameworks provide both practitioners and funders with useful insights into how to develop CI strategies, what changes are required to enable CI to succeed, and the range of CI strategies that can help to create those changes.

Part Four describes the findings regarding key factors contributing to the successful development of CI. These success factors apply across all types of CI. The report details each factor and provides several case studies showing how the success factor was embodied in specific strategies and approaches to CI.

Part Five describes the role for foundations in CI. It starts by discussing the specific ways in which foundation capital and support can help to spur the development of particular strategies within the CI field. This section continues by discussing the foundation role in developing a field of practice. It defines what a field is and notes why building a field is an important activity for foundation support.

Part Six closes the report by noting the challenges ahead. It details the continuing need for increases in assets, income and wealth for low-income people. It highlights areas in which the CI practice needs to grow and develop in order to attain the scale needed to make a large-scale change in the lives of low-income people. It ends by giving suggestions for future directions of work in this area.

The report has two appendices: a listing of all the CI grantees profiled in this report and a discussion of the methodology.

Individuals interested in obtaining more information may visit www.fordfound.org and search the e-library for the report entitled “Part of the Solution: Leveraging Business and Markets for Low-Income People” and the companion PowerPoint presentation. In addition, a rich body of resources can be found at www.winwinpartner.com, which contains information about organizations and publications relevant to building cross-sector partnerships that contribute to economic development.

1. A “field of practice” is defined as any set of activities and actors that share three characteristics:
 - **Domain.** There is a specific set of issues that are identified as being at the core of the field.
 - **Community.** There is a set of individuals who are working on, or concerned about, these issues. Individuals are able to identify the extent to which they are part of this set.
 - **Shared practice.** The individuals in the community have developed similar methods of addressing these issues.

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