

“SOCIALLY RESPONSIBLE” ENTREPRENEURS: ARE THEY DIFFERENT?

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ACADEMIC ABSTRACT

A study of 30 “socially responsible entrepreneurs” reveals that they at times employ unconventional management practices in key stages of the company’s growth. The socially responsible entrepreneurs found their companies to achieve idealistic objectives and pursue financial and non-financial objectives simultaneously. Most seek financing from nontraditional sources, hire employees for their shared values, and leverage their social identities to differentiate themselves. They make efforts to create strong organizational culture, run sustainable operations, and meet their self-imposed ethical standards in their business practice. The socially responsible entrepreneurs play an active role in their communities and volunteer themselves as role models for other businesses to follow.

EXECUTIVE SUMMARY

This paper examines the business practices of successful socially responsible entrepreneurs, i.e., entrepreneurs of for-profit (and for-profit-like) enterprises who also demonstrate significant environmental and/or social responsiveness. We develop useful insights into their entrepreneurial processes by rigorously studying the methods by which the entrepreneurs initiated, grew and built their companies. We examine case studies of 30 recognized socially responsible entrepreneurial firms from a wide range of industries. We analyze how and to what extent the entrepreneurs and their companies balance their profit objectives with their social or environmental goals.

Our results indicate that while the socially responsible companies pursue profits in manners comparable to those of most conventional businesses, they employ unconventional management practices in key stages of the company’s growth. The socially responsible entrepreneurs found their companies with idealistic objectives in mind and pursue financial and non-financial objectives simultaneously. Most seek financing from nontraditional sources, hire employees for their shared values, and shrewdly leverage their social identities to differentiate themselves. They make extraordinary efforts to create strong organizational culture, run sustainable operations, and meet their self-imposed ethical standards in their business practice. We find that the socially responsible entrepreneurs play an active role in their communities and volunteer themselves as role models for other businesses to follow.

This paper is one of the first that examines the business practices of for-profit, socially responsible entrepreneurs. It is also one of the few formal studies that identify commonalities among a relatively large and diverse sample – 30 companies of various sizes and industries. Most important, this research is not intended to be theoretical, but rather to suggest practical guidelines for aspiring entrepreneurs to follow as they build their socially responsible business ventures.

INTRODUCTION

The objective of our research is to bring to light the management practices of socially responsible entrepreneurs, who offer a different model of entrepreneurial pursuit. We develop useful insights into their entrepreneurial processes by rigorously studying the methods by which the entrepreneurs initiated, grew and built their companies. We specifically examine how they:

- Identified and evaluated their business opportunities
- Arranged the financing of their unconventional ventures
- Launched and grew their businesses in the face of harsh market realities
- Established cultures that reflected their values and strengthened their organizations
- Leveraged their social identity to create a strong brand and a profitable operation
- Balanced their idealism with issues of growth and other business requirements
- Harvested their successes in financial and social terms

LITERATURE

The field of corporate social responsibility has grown significantly since Bowen (1953) wrote his seminal book *Social Responsibilities of the Businessman*. In recent years, the management field has also begun to incorporate research on environmental sustainability. Paul Hawken (1994) has received wide support for his vision of a restorative economy in his widely influential book *Ecology of Commerce: A Declaration of Sustainability*. In the meantime, while the field of entrepreneurship continues to blossom into a legitimate field of academic research, there has been very little work on the interface with social responsibility, sustainability, and ethics. One significant exception has been the area of “social entrepreneurship,” which has been identified as a potential, innovative solution to many of the world’s societal problems (Bornstein, 2004; Leadbeater, 1997; Thompson et al. 2000; Dees, 1998).

An emerging thrust in the literature focuses on for-profit ventures that are exemplary in addressing social or environmental issues. This includes Cohen, Greenfield and Maran (1997), Chouinard (2006 & 1995), and Roddick (2001) who share their own entrepreneurial experiences at Ben & Jerry’s and The Body Shop, respectively. Gray & Balmer (2004) is one of the few research papers that attempt to generalize findings from multiple entrepreneurial cases. It identifies 12 commonalities from an examination of 5 sustainability-oriented companies. Choi & Gray (2005) expands the previous research to examine the entrepreneurial processes of 21 socially responsible entrepreneurs.

METHODOLOGY

After extensive review of articles and books as well as referrals from colleagues around the world, we collected a list of small and large successful, for-profit (or for-profit like) entrepreneurial companies that were recognized for their exemplary dedication to social responsibility. These companies made noticeable commitments toward meeting *triple* (economic, environmental, and social) or at least *dual* (economic and environmental, or economic and social) bottom-lines. Specifically, we looked for companies that were:

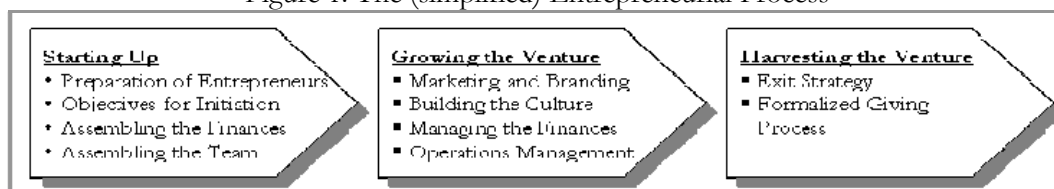
- Profitable or known to have had several years of profitability;
- Effectively supporting their social or environmental causes;
- Founded and operated by entrepreneurs for an extended period of time.

We gathered a diverse sample of companies to observe a wide range of management practices. Our sample of 30 companies as shown in Table 1 is diverse in terms of size, stage of development, location, and nature of business. We examine decisions and actions of the entrepreneurs through key stages of a venture’s growth curve – Startup, Growth and Harvest. The diagram in Figure 1 is a simplified version of the “entrepreneurial process” discussed in academic literature (Baron & Shane, 2003; Morris et al., 2001).

TABLE 1: SAMPLE SOCIALLY RESPONSIBLE COMPANIES

	Company	Main Business Area	Main Cause
1	AgraQuest	Pest Management	Environment
2	American Apparel	Apparel Manufacturing	Worker Rights
3	Aveda	Personal Care	Environment
4	Ben & Jerry’s	Ice Cream	Peace
5	The Body Shop	Personal Care	Environment & Human Rights
6	Berkeley Mills	Furniture	Environment
7	Chris King	Bicycle Components	Environment
8	Eileen Fisher Clothing	Apparel Manufacturing	Women’s & Worker Rights
9	EV Rental	Car Rental	Environment
10	Explore Inc.	After-School Program	Education
11	Green Mountain Energy	Energy	Environment
12	Honest Tea	Beverage	Social Equity
13	Iggy’s Bread of the World	Bakery	Environment, Worker Rights
14	IKEA	Furniture	Environment
16	Interface Carpets	Floor Covering	Environment
17	Magic Johnson Enterprises	Real Estate	Inner City Development
18	Migros	Food Retail	Social Equity and Community
19	Newman’s Own	Salad Dressing & Sauce	Social Equity
20	Patagonia	Outdoor Clothing	Environment
21	Rhythm & Hues	Entertainment	Work Environment
22	Seventh Generation	Household Products	Environment
23	Sterling Planet	Energy	Cleaner Energy
24	Starbucks	Coffee Retail	Worker Rights
25	Shorebank Pacific	Bank	Environment
26	Stonyfield Farm	Organic Yogurt	Environment, Community
27	Tom’s of Maine	Personal Care	Environment
28	White Dog Cafe	Restaurant	Community
29	Whole Foods	Supermarket	Environment
30	Working Assets	Telecom & Financial	Peace, Equality

Figure 1: The (simplified) Entrepreneurial Process



STARTUP STAGES

Primary Objective for Venture Initiation

Similar to many conventional entrepreneurs, the primary motivation of the majority of entrepreneurs in our sample for starting their companies was rather modest and practical, i.e., to make a living while making a small social impact, not necessarily to generate great wealth or change the world. Anita Roddick started her retail shop after her husband decided to travel across the Americas on horseback for a period of two years (Roddick & Miller, 1991). Judy Wicks started her restaurant White Dog Café out of her home primarily to make a living after the restaurant she worked for had closed (Meyer & Bollier, 1996). Similarly, Pamela Marrone of AgraQuest turned to entrepreneurship after she found herself without a job when her employer was acquired.

Very few of the above entrepreneurs were interested in accumulating personal wealth. Many of the business ideas originated from the founders' drive to make a small difference in the world. The idea for Berkeley Mills began from an idealistic desire to forge a realistic harmony between a woodworker's livelihood and forest preservation. Similarly, Samuel Kaymen and Gary Hirshberg started Stonyfield Farms to raise funds for their education center created to teach organic farming (Gray, 2002b). John Hughes founded Rhythm & Hues with the vision to offer a stable and friendly work environment for artistic talents in the notoriously harsh entertainment industry (Choi, 2005).

Most, though not all, exhibited some sense of social or environmental consciousness before pursuing their entrepreneurial careers. Douglas Hyde, founder of Green Mountain Energy was an attorney for the poor (Choi, 2004e). Anita Roddick had been interested in issues of Third World women's rights and had worked briefly for the United Nations International Labor Organization (Gray, 2002a). Tom Chappell of Tom's of Maine was a devout Episcopalian with strong personal beliefs in people and nature (Chappell, 1999). Paul Newman was a self-proclaimed environmentalist, while Gary Hirschberg of Stonyfield Farm was an environmental activist (Gray, 2002b).

Assembling the Financial Resources

Considering their limited business experience, most of the socially responsible entrepreneurs would probably not have qualified for professional equity investments. Attracting investors would have been especially difficult given their unconventional views of business and interest in sharing profits with employees and communities. Furthermore, unlike conventional businesses, the socially responsible entrepreneurs were selective about the source or method of financing because they understood how professional investors with traditional views about business could affect their company operations.

Most of the entrepreneurs obtained financial assistance from family and friends, and very few received equity financing from professional investors. For example, Igor and Ludmillar Ivanovic of Iggy's borrowed money from family and friends to open their first bakery, Pain d'Avignon (Valley & Gendron, 2001). Ben & Jerry put in \$8,000 of their own money along with \$4,000 in the form of a loan from their parents. The \$500,000 seed money for AgraQuest came from the executives' family members, local farmers, real estate developers and friends at the University of California, Davis (Choi, 2004a). Even Encore, Inc., which successfully raised \$5 million in equity financing, did so from private investors who shared the founder's views.

As one might have expected, most of the socially responsible entrepreneurs had to “bootstrap”, i.e., started small with minimal financing and managed growth through tight cost controls. Tom’s of Maine started with a loan of only \$5,000 from a friend (Gray, 2002c). Judy Wicks of White Dog Cafe started cooking out of her apartment kitchen. Later when she obtained a \$75,000 loan from a friend, she built a small kitchen with a grill and expanded the restaurant into an adjacent brownstone (Meyer & Bollier, 1996).

GROWING THE VENTURE

Marketing and Branding

Most socially responsible entrepreneurs we examined deliberately marketed their values and sustainable business practices as means of differentiation in the market place to jumpstart sales. For example, Newman’s Own admitted to “shamelessly exploiting” Paul Newman’s celebrity status and its social message for a “greater good” (Newman & Hotchner, 2003). This creation of a differentiable corporate brand early on helped protect the socially responsible ventures from cutthroat price competition and allowed them to grow profitably. The brand allowed companies to charge higher than average prices for their products, thereby producing higher margins.

Some of our entrepreneurs sought to attract and retain customers through customer education. For example, Seventh Generation, a sustainable household product company, provided educational information to consumers so that they could learn about the harmful effects of traditional products as well as the benefits of using natural alternatives (Hollender & Fenichell, 2004). The company provided such educational materials through a wide range of channels that included product packaging, website, e-newsletter, company presentations and a new book by the CEO and founder Jeffrey Hollender. Although the company’s pitch was to educate customers to make informed choices, it was banking that informed customers would choose the company’s products. Similarly, Tom’s of Maine always listed all ingredients contained in their products on the packaging along with the source of the ingredients and an explanation of their purpose. They believed that this policy would not only inform customers, but also build customer confidence and loyalty (Gray, 2002c).

Building the Organization (and its Culture)

Most of the socially responsible entrepreneurs prided themselves on having a strong organizational culture that in return supported their mission and their companies’ growth. They utilized creative, often unconventional methods to earn employee loyalty and strengthen their organizations.

Some companies offered employee benefits that far exceeded their industry standard. For example, Rhythm & Hues offered its artists 9 weeks of paid-time-off per year – in an industry with a poor reputation for treating its employees (Choi, 2005). Patagonia offered the first corporate on-site childcare program when it opened its Great Pacific Child Development Center in 1984 (Maraga, 1998). Stonyfield offered an array of benefits to all employees including free massages as well as bonus and stock option programs (Gray, 2002b). Eileen Fisher provided her 400-plus employees a sense of ownership by sharing at least 10% of pre-tax profits with them each year. Furthermore, all her employees received a \$1,000 education benefit and a \$1,000 wellness benefit, to be spent on rejuvenators such as massages, spa visits, and gym equipment (Choi, 2004d).

For many of our sustainable entrepreneurs, the workplace provided an opportunity to create the type of community they believed in. Seventh Generation prided itself on having a workplace where the management viewed employees as valued partners in the business, respecting their right to fair labor

practices, competitive wages and benefits, and a safe, harassment-free, family-friendly work environment (Hollender & Fenichell, 2004). Tom Chappell of Tom's of Maine came to the conclusion that diversity in hiring was a moral responsibility and made it a critical element of the company's organizational design (Gray, 2002c). Chris King, a high-end bicycle component maker, wanted to make sure that his employees were happy and worked together like a family. In a dramatic move, founder Chris King relocated his entire company from Santa Barbara, California to Portland, Oregon, when he realized that his employees could not afford to live near work and were driving long distances everyday (Choi, 2004c).

Managing the Company's Finances

By in large, our socially responsible entrepreneurs worked hard to balance their principles with pragmatism. It is noteworthy that a significant majority of our sample companies (25 of 30, more than 80%) positioned their (high quality) offerings at the high-end of the market where they could charge premium prices. For example, a reputation for high quality along with an unprecedented 10-year warranty allowed Chris King Precision Components, a bicycle component manufacturer, to charge the highest price in the industry (Choi, 2004c). Similarly, the quality of its craftsmanship permitted Berkeley Mills to charge a heftier price than other comparable furniture designers (Choi, 2004b). Stonyfield Farm's organic yogurt, sold at premium retailers such as Whole Foods, demanded above-average prices for its healthier and safer ingredients (Gray, 2002b).

We found abundant evidence that most companies in our sample, like conventional businesses, were disciplined at controlling costs as part of their effort to survive and enhance profitability. Keeping overhead extremely low (while charging above average prices for their products) allowed American Apparel, a vertically integrated clothing manufacturing company, to be profitable despite paying above-market wages to its Los Angeles employees (Spunt, 2003). By producing high-volume products in-house in a vertically integrated fashion, IKEA reduced operating expenses and was able to offer its products at among the lowest prices in the industry (Bartlett & Nanda, 1990). Similarly, Migros produced 25% of its products internally to reduce costs and increase margins (Gray, 1993).

Interestingly, we also observed situations in which socially responsible companies took deliberate actions that reduced their profits. Many in our sample were willing to incur higher than necessary material costs to protect the environment. Approximately 75% of the lumber Berkeley Mills purchased was certified by the Forest Stewardship Council, which significantly increased the material cost to the company (Choi, 2005). Similarly, Patagonia used the more costly post-consumer recycled (PCR) fleece and organic cotton in its products because of their environmental benefits (Gray, 2002b). Although Stonyfield Farm could easily have purchased cheaper milk from large corporate dairies, its policy was to purchase strictly from family farms in New England (Gray, 2002b).

HARVESTING

Exit Strategies

Our research of the 30 socially responsible entrepreneurs indicates that their exit options were often constrained by their self-imposed social and environmental goals – a situation very different from those of most conventional entrepreneurs. These constraints, in turn, limited their options in terms of pursuing investment, acquisitions, and public offerings.

A large majority (26 of 30) of the companies in our sample were privately held at the time of the study or until their acquisition by a public company. Even some of the larger companies in our sample including IKEA, Eileen Fisher and Seventh Generation preferred to remain private. The general consensus among our entrepreneurs appeared to be that they could exercise the balance between financial and social goals more effectively as private entities.

Several of the companies were eventually acquired and became subsidiaries of larger, in some cases, public corporations. They were acquired for their brand recognition, their ability to generate cash and, in some cases, their reputation as socially responsible entities. Aveda, for instance, was bought for \$300 M by Estee Lauder in 1997, in an effort, among other things, to boost its environmental reputation. Danone, the number two yogurt seller in the world, acquired 80% stake in Stonyfield Farm to participate in the organic food trend.

A few other entrepreneurs we examined had considered selling their companies for profit, but changed their minds when they discovered that this would be inconsistent with their values. The Chappells eventually concluded that they could not sell their business without compromising their own values, which they were unwilling to do (Chappell, 1999).

Formalized Giving Processes

For many of our socially responsible entrepreneurs, donating company profits and other resources was considered not an afterthought but an important function of business. Yvon Chouinard of Patagonia, for instance, made it very clear that providing money for environmental causes was one of the principal reasons he was in business in first place (Chouinard, 1995). To institutionalize its giving, Patagonia established an Environmental Grants Program in 1985, which dispersed over \$14 M to more than 900 groups by the year 2000. The program was funded by what the company called its “Earth Tax,” a yearly levy of 1% of sales or 10% of pre-tax profits, whichever was greater.

In 1985, Ben and Jerry’s established a foundation with a one-time gift of \$45 M and 50,000 shares of common stock (Cohen & Greenfield, 1997). The firm’s annual contribution to the foundation was set at 7.5% of pre-tax profits. Stonyfield Farm created a “Profits for the Planet” program under which the company donated 10% of pre-tax profits annually to organizations that served to protect and restore the environment (Gray, 2002b). In the like fashion, “Tom’s of Maine Grant Programs” committed the firm to giving 10% of its profits to worthy environmental and social organizations (Gray, 2002c).

Note that our sample companies’ giving significantly exceeded those of most corporations in percentage terms. According to Giving USA Foundation, companies on the average donated only 1.2% of their profits (BusinessWeek Online, 2005).

CONCLUSION

The broad purpose of this study was to gain insights into the business practices of socially responsible entrepreneurs. We learn that socially responsible entrepreneurs found their companies with idealistic objectives in mind and pursue financial and non-financial objectives simultaneously.

The stories in the paper furnish illuminating examples of how entrepreneurial companies can simultaneously achieve their economic, social and environmental objectives. Our socially responsible entrepreneurs above, in spite of their limited business experience and financial resources,

were able to launch and grow their companies successfully. They were able to maintain a sensible balance between profit and the environment and social causes – an achievement of which they were most proud about.

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