

How Businesses Can Exist in the Humanitarian Space:

Challenging Paternalistic Charity and Going Beyond the “One-For-One” Model

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On my honor as a University Student, I have neither given nor received unauthorized aid on this assignment as defined by the Honor Guidelines for Thesis-Related Assignments

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Introduction

Traditional shareholder-centric businesses models have commonly been critiqued for their tendencies to produce inequities. Calls for new business models that are more equitable have emerged in recent years as systemic inequities in society continue to be unearthed and made more noticeable. These inequities have led to the creation of systemic barriers designed to maintain the current power dynamic that exists everyday life where the affluent and privileged maintain dominance over the disadvantaged. As a result, the gap between the haves and have-nots continues to widen as “business-as-usual” remains predominately single-bottom line driven.

Furthermore, intensifying climate change drives large structural changes and unearths many systemic inequities in society. The disparity between the privileged and the disadvantaged has become more apparent as climate change remains a dominant force in society. The product of traditional business models and a world where climate change threatens existence is an unsustainable society. Business-as-usual is not sustainable. In order to create a society that is more equitable, businesses need to become stewards of the communities in which they exist. This imperative goes beyond simply providing economic opportunity to the communities and improving the overall social welfare. Businesses must also be stewards for the natural environment that supports the built environment in which they operate.

These calls demand that a business that cares about the triple-bottom line and views sustainability in three lenses: economic, social, and environmental. As such, reimagining business has taken shape in multiple ways to benefit the people in which they operate. The most prominent way is when a business engages in humanitarian interventions. While in theory, humanitarian-driven businesses should meet the requirements of what business should look like, the question is

whether they are effective. By using TOMS as a case study, the one-for-one model will be explored as one form of humanitarian effort to showcase cautionary moments. Then, a discussion about another social enterprise Project 7 bridges into a conversation of better practices for all businesses and their respective shareholders.

The “One-For-One” Model

When these businesses enter the humanitarian space, though, they often rely on a model of philanthropy by means of the “one-for-one” model where they donate some commodity to a community in need per one product sold. At first glance, this model seems like a promising means to address certain needs in a community, but oftentimes, these interventions are done without any regard for the communities in which they inhabit. It’s common to see negative unintended consequences arise from these. The most prominent concern that arises from the “one-for-one” business model is that these free donations can outcompete local artisans and destroy local industries thereby hurting the economies of the localities that they were supposed to help. Another concern is that this model of charity creates aid dependence from these communities on the donating companies for their free commodity (Tracey et al., 2005; Taylor, 2018; Wharton, 2015; Wydick et al., 2016).

One enterprise that has been heavily scrutinized for their brand of humanitarianism is the shoe brand Toms. From their inception in 2006 through the end of 2019, Toms’s rise as a brand for good was built on their iconic “one-for-one” donation of a pair of shoes to a child in need for each pair of shoes sold in retail. In their study, Wydick, Katz, and Janet (2014) observed that Toms’s shoe donations did show a negative, although modest, impact on local shoe markets in El Salvador. It’s also been criticized that companies like Toms are solving the wrong problem and

the problem that they're trying to solve is not sufficiently being solved either (Taub, 2015). In another study, the impact of donated shoes from Toms was measured in El Salvador, and the study failed to find any significant impacts on the welfare of the people who received the shoes (Wydick et al., 2016). While Toms was able to effectively solve the problem of shoeless children, they did not achieve their intended and stated goal of improving the welfare of those children in communities in need beyond that.

Moreover, double bottom line companies like Toms may not be achieving their life-changing goals fully, but they are certainly in the right direction. They're not ill-intentioned; rather, they're misguided because their interventions are not being assessed properly. What they lack are proper metrics with which they assess their interventions. Their "one-for-one" models are judged on a static measure of impact and their evaluations are not committed to transparency and learning (Wydick, 2015). Instead of understanding their impact, being transparent about the results, and learning from them to adjust their interventions and their assessment of them, companies often find themselves beholden to their initial intervention as they can be too profitable to alter in order to meet their social goal of improved human welfare (Wharton, 2015; Wydick, 2015). To their credit, in 2019, Toms applied this framework of adaptive metrics and decided to move on from the "one-for-one" business model that they pioneered. After 13 years of donating shoes for each pair of shoes sold commercially, executive leadership decided that their interventions were not enough and that they have to do more for these communities (Stych, 2019). While more so financially motivated than through introspective analysis of their "one-for-one" model, Toms committed to donate one-third of their profits to humanitarian organizations that work on the ground in these

communities—arguably funding a more impactful intervention that engages with community members.

Moving Beyond the “One-For-One” Model

One of the biggest critiques of the “one-for-one” model is that it only adds an asset, or a stock, to a community, and it fails to address the flow of these stocks in the community. The “one-for-one” model and other forms of corporate charity fail to address the systemic root causes that led to the conditions that they’re attempting to alleviate. A possible explanation is that these companies are not in the communities to which they’re donating to truly understand the problem that they’re trying to solve (Taub, 2015). They’re attempting to solve a complex problem without any input from the afflicted community.

Exemplary business models put the community members at the center of the conversation with philanthropic corporations. As discussed by Tracey, Phillips, and Hugh (2005), by changing the dynamics of socially driven businesses from a paternalistic one to a community partnership, community enterprises allow for more sustainable forms of interventions. These models empower community members and put them in the forefront. These community partnerships “build capacity and enfranchise communities”—allowing them to bring about sustainable and meaningful change in their communities.

The ideal business model builds on the idea that community members are valuable to the success of a corporation’s social mission and furthers their scope to environmental causes as well. The link between social welfare and environmental conditions are inextricable (Pearce, 1995; Pearman, 2016). A deteriorating environment driven by intensifying climate change has exacerbated social vulnerability, and without addressing the environmental stressors, then social

safeguards will never be sustainable (Bohle et al., 1994). One company that seems to execute a triple bottom line well is the chewing gum company Project 7. Their model is focused on seven actions in communities in need: planting new trees, providing malaria treatments, shelter, food, clean water, education, and antibullying programs (Feldman, 2017). Much like Toms, Project 7 donates a share of their profits to organizations that work to alleviate any of the seven focus areas. What differentiates them is that their business model also addresses environmental concerns and understands how an improved and sustainable social welfare cannot exist without addressing the structural changes brought upon by climate change.

It is becoming more and more imperative that businesses start with a social mission at its inception to be stewards of the communities in which they operate. It is also essential that these corporations engage with community members and create partnerships in order to create a socially sustainable relationship that addresses the ailments that actually afflict these communities. Furthermore, it is crucial that the linkage between social welfare and the environment is put to the forefront for long term sustainability and success of these communities. Without all of these considerations and redefining of current power dynamics, socially driven businesses will continue to inefficiently use their resources and potentially cause more harm than good in the communities they hope to help.

Toms Revisited

At the beginning of 2021, Toms has remodeled their website to reflect their executive changes to their giving model. The most significant change to the website is that there is no longer a “How We Give” tab that explains how they reinvest back into underserved communities. Now, it is an “Impact” that is located right next to the Toms logo, so it stands out and draws attention to

the tab. The major difference is that Toms is investing more than just money into communities. Their main focus is to assert a presence in the communities in which they hope to transform. They're investing human capital and time instead of solely money, and this human-centered intervention has become their main guiding tenet.

Furthermore, Toms shifted their attention from short term gain and short-term opportunity for these communities and for their business model. As their new website states: they're "in for the long-haul." They're forming partnerships with the individuals and groups within the communities they serve. Instead of funneling money into causes that Toms deems worthy, they are now consulting members of these communities and identifying where Toms should invest their resources to build up capacity in these areas. They're building coalitions within these communities that engages with diverse perspectives. Toms is building capacity in these communities—empowering community members and giving credence to their intrinsic human value.

Toms is focusing on creating interventions within these communities that are more diverse, equitable, and inclusive. By acting in this manner, Toms intends to minimize the negative externalities from commerce and the fruitless outcomes that have been ineffective in creating change. Instead of widening the gap between the haves and have-nots, Toms is attempting to promote a system in which more people are encouraged to take a seat at the table instead of a system that excludes others with insurmountable barriers to entry. Toms is committed to creating a society that can work and will work for people if diversity, equity, and inclusion are core tenets to commerce. This commitment is also seen from the top-down at Toms from their leadership team to their individual contributors as the company is led by and composed of people from

demographically backgrounds. Toms is a company whose workers reflects the demographics of America (TOMS, 2021).

The case study of Toms is very telling about economic opportunity. They've identified that many of the problems that plague so many communities stem from a lack of capacity or from insurmountable barriers. They've moved beyond serving solely their own costumers. Toms does not look outward to the consumer. They look inwards to their responsibility as a vehicle to change and opportunity. They're focused on ameliorating these barriers in underserved communities by working on the ground and empowering the individual in these communities. Perhaps focusing on the consumer is the wrong valence point by which companies use to judge the wellbeing of their communities.

TOMS: A Unicorn?

TOMS has made their brand of humanitarianism profitable, which is not common in the for-profit space. Because TOMS has achieved success in providing humanitarian interventions and building capacity in communities that need it, they're often regarded as a unicorn in the commercial space. In a report to the World Economic Forum, Gasca (2017) explored the efficacy of social enterprises in Mexico and found that 38.3% of social enterprises in Mexico were not operational after one year, 45.2% lasted between one and three years, 8.7% last between four to six years, and 7.8% lasted for seven or more years. With an 83.5% chance of failing within three years, TOMS is rightfully deemed a unicorn in the humanitarian for-profit space.

Moreover, the conversation revolving providing humanitarian aid usually defaults to the idea that non-profits and government aid should be solely responsible for providing direct aid to communities. Government aid is often in the form of financial relief, and many of the interventions

include funneling money into a community instead of building capacity in these communities. As discussed in the previous section, building capacity within communities is the most direct way at combatting many of the barriers that prevent people from bettering their circumstances.

Furthermore, non-profits mean well. The ones centered around uplifting the stakeholders within a community and building resilience strive to build capacity in the areas in which they exist. The issue, however, is that non-profits are mostly ineffective because they're often starved of the necessary resources to achieve their mission. The sheer amount of human and financial capital allotted to non-profits pails in comparison when compared to the capital possessed by the for-profit space. Also, unlocking the capital to enable the work of non-profits poses another challenge. In a survey conducted by the Nonprofit Finance Fund (2018) that surveyed 3,400 non-profits in the United States, they found that 62% of the respondents stated that achieving financial sustainability was a top challenge, 66% found offering competitive pay a top challenge, and 86% saw demand for their services continuously rise with 57% unable to meet this increased demand. If non-profits were able to afford all of the overhead and operating costs to scale, then their effectiveness would ideally scale—making non-profits effective capacity builders in communities.

In a way to circumnavigate the challenges of being a starved non-profit, many organizations have looked into existing in the for-profit space but as social enterprises. While social enterprises have their own challenges—many of which are similar to non-profits—some have been able to find success in the commercial space such as companies like TOMS and Project 7. The success of these companies serves as a model that other social enterprises can attempt to emulate.

The most prominent challenge facing social enterprises is that operating a company through the lens of humanitarianism is not very palatable to shareholders. In the larger commercial system, traditional shareholder-centric models still dominate over more sustainable and humanitarian focused stakeholder-centric business models. The current incentive structures in play in this larger system do not encourage companies to sacrifice monetary gain and financial success for capacity building in communities. This tilt that favors shareholder-centric models remains the largest challenge facing social enterprises, but social enterprises such as TOMS and Project 7 should serve as optimistic, yet wishful, case studies that showcase the transformative power that businesses can have if they commit themselves to social cause focused on building capacity in disadvantaged communities.

Finally, the current commercial incentive structure that businesses adhere to must be reformed in order to have more sustainable businesses that serve people and communities. In a future where society is becoming more divided and the existential threat of intensifying climate change remains an inevitability, the imperative to reimagine business is profound.

Moving Beyond the Almighty Dollar

The problem doesn't necessarily stem from businesses themselves; rather, the root cause for these problems is that most of the global society—as a whole—conflates economic growth and productivity with the welfare of a nation. Since its inception, GDP was never meant to be a measure of social wellbeing nor general welfare of a nation. Rather, it was meant to be a singular piece of a much larger picture that describes a nation. While many have warned of the dangers of using a single metric to measure progress and welfare in a nation, GDP still remains the largest metric used by societies to determine their standing in the world.

In 1934, Simon Kuznets coined the modern term gross domestic product, or GDP, which refers to the monetary measure of the market value of all the goods and services produced in an area over a specified unit of time. It was created to assess America's wartime production potential. Fearing that GDP may be misconstrued, especially in times of relative peace, Kuznets famously warned: "The welfare of a nation can, therefore, scarcely be inferred from a measurement of national income as defined above," (Kuznets, 1934). Kuznets's concern was echoed 39 years later by the President of the World Bank Group Robert McNamara when he stated: "Progress measured by a single measuring rod, the GNP, has contributed significantly to exacerbate the inequalities of income distribution" (European Commission, n.d.). More recently, in 2004, Francois Laquillier, head of national accounts at the Organisation for Economic Co-Operation and Development stated that GDP is a "controversial icon" and that it "measures income, but not equality, it measures growth, but not destruction, and it ignores values like social cohesion and the environment. Yet, governments, businesses and probably most people swear by it," (Observer, 2004). All of these prominent and influential people with have criticized the use of GDP as an indicative measure of how a nation stands in the world, yet it still has a stranglehold on the world's economists, policymakers, and every-day people.

Flaws in GDP as an estimator of wellbeing can be seen in the Human Development Reports of United Nations Development Programme (2019) where America ranks 17th in human development index (HDI), 28th in inequality adjusted HDI, 15th in percentage of income held by the top 1% of the population, 38th in life expectancy, 14th in education, and 47th in gender equality. By the International Monetary Fund's (2021) estimates, America ranks 2nd in purchasing power parity (PPP) GDP and 7th PPP GDP per capita. If GDP or GDP per capita were a true measure in

social wellbeing, America should be the one of the highest ranked nations in all of the categories listed above as well as all of the different indices used to calculate the composite HDI rank. Four categories where America does lead the rest of the world, though, are defense spending (1st), incarcerated population per capita (1st), alcohol and drug use (2nd), unipolar depression (3rd) (McPhillips, 2016; Stockholm International Peace Research Institute, 2019; World Prison Brief, 2021).

While the world has drastically changed since 1934, the major metrics by which nations are measured for their wellbeing and standing in the world have not. It has been 87 years, and GDP as the sole indicator has proven to be draconian and antiquated. The information that can be gleaned from GDP is simply the output or productivity of a nation in aggregate. It truly tells very little of a nation. Cobb, Halstead, and Rowe (1995) analogized GDP with a local police department. If the police department announced that “activity” had increased by some percentage, most people would not be impressed. They would ask what activity had increased before judging whether the activity had been beneficial or detrimental to their communities. GDP, on the hand, does not receive the same type of scrutiny even though its implications are arguably more consequential to a community.

Arguably, it wasn’t until 2018 when the movement to move away from a GDP dominated worldview started to take hold in the United States in America. Democratic presidential candidate Andrew Yang ran on a platform centered around disentangling economic value from intrinsic human value. Yang advocated for a system that is centered around human-centered capitalism in which human wellbeing and fulfillment are meant to be maximized rather than corporate profit. In

this system, each person's intrinsic value is the main driver of a human-centered economy, not a monetary denomination—prioritizing the value of humans to the value of money.

One way that Yang and others have attempted to revolutionize the current incentive structures that rule society is by suggesting that a universal basic income be implemented. Currently, GDP and the market economy grossly undervalue many activities that “are core to the human experience” such as child rearing (Yang, 2020). The market would suggest that a stay-at-home parent who raises a child contributes zero to the economy and could even provide negative value to the economy and are rewarded with nothing monetarily. While stay-at-home parents provide a much-needed service to children, they are not compensated, and in the case of single-parents, many have to work jobs that the market deems worthy to earn any income. As a result, a child rearing single-parent arguably works the same amount as a household of two parents while only being compensated for the half of the work. In these cases, people who serve such pivotal roles are not being recognized or compensated for this work. They are not valued in the current system.

With a universal basic income (UBI), though, everyone can be guaranteed enough money to stay above the poverty line (Santens, 2017). While it may seem to be a radical idea, forms of UBI have been explored in the United States. In Alaska, there is a Permanent Fund Dividend (PFD) where every Alaskan is given anywhere from \$1,000 to \$2,000 a year. This highly popular program in Alaska is a dividend program where the state's inhabitants are rewarded a share of the state's revenue generated from its mines and its oil and gas reserves. Because of the success of the PFD, poverty in Alaska has been reduced by up to 20% since the PFD's inception in 1982 (Sundlee, 2019).

At its best, UBI has the potential to eradicate poverty and close the gap between the haves and have-nots. At its worst, a UBI assigns a monetary value to humanity and begins to disentangle human values from economic values. While not perfect, a universal basic income is in the right direction in creating a system that is human-centered and not obsessed with maximizing a nation's GDP. It begins to compensate people for being people—valuing basic humanity at its core and making it a core tenet to society.

The Un-Consolidation of Opportunity

To echo Calestous Juma (2016): “The future therefore will be influenced by how well we can design social systems that allow humanity to harness the benefits of emerging technologies in inclusive ways. This is not pandering to socialist ideas but appeals to fundamental moral values that define who we are as humans”.

Currently the majority of people in the world are not reaping the benefits of successful businesses. There are a select few who have been able to benefit in substantial ways when companies such as Amazon, Tesla, Google, Microsoft etc. increase their economic stature. The vast majority of people are not the ones who reap these benefits. In order to live in a society that is more humane, the current social systems that operate in society must be addressed. Businesses must become more human-centered, and stakeholders must take a more involved approach to force the hand of businesses to act in accordance to the will of the people.

The ideal definers and drivers of social progress in this system of commercial entities are the consumers, but the relationship between the consumer and business is complex. Companies should start with a social mission, so at their inception, they have a social cause that they want to further. If they fail to do so, then it is the consumers' responsibility to “vote with their dollars” and

to support a company that is working towards furthering a social good. Obviously, this is a very complex relationship between the two, but this should be a complex relationship where both influence each other in the name of social good. Also, another group that should be considered are legislators and regulators. They should reform the incentive structures currently at play that allow for companies to profit off of the degradation of society. This is also very complex and much easier said than done. Ideally, by empowering the individual, they can collectively act and be ultimate drivers and definers of social progress.

Finally, with the power of the individual growing because of social media and mass information campaigns, businesses that appeal to the consumer through their social or environmental mission can achieve virality which pulls people away from traditional businesses to these new, exciting, and promising ones. The question isn't if businesses derived from human or environmental-centered values can succeed in promoting social progress. The question is if they can become a more viable option in the near future. The current system can only change in a meaningful way if there is a systematic reevaluation of how to derive worth in a commodity and service. The current incentive structures must be changed to promote these values rather than solely the values of the almighty dollar.

The United Nations' climate report stated that climate change poses a serious existential threat to humanity where catastrophic damages will occur if anthropogenic contributors to climate change are not curbed by 2050. Business-as-usual is simply not sustainable, and businesses must have their hands forced to move in a more socially and environmentally sustainable direction immediately. Ideally, commercial sustainability will be a consequence of socially and environmentally sustainable practices.

Humanity can only flourish if and only if the current economic incentive structures that rule the world are radically transformed, businesses truly become stewards for the people and the environment, and if metrics that measure economic wellbeing and social welfare are disentangled. We must commit ourselves to pushing more human-centered interventions to the forefront. The hands of those in power must be forced. Radical systematic change must occur so humans become the most valuable asset in society.

If and only if those conditions are met that everyone will have the opportunity to succeed in the world. The system in which the world operates must work for people. It must work for humans. The democratization of opportunity among all people will be actualized. Opportunity, once consolidated to the privileged, will be available to anyone. The gap between the haves and have-nots can narrow. The world will be a better place. Humanity will be able to thrive. However, without rapid radical change, then human flourishing will be impossible. We must collectively act. Until then, economic opportunity and human dignity will remain a luxury that only the privileged can afford.

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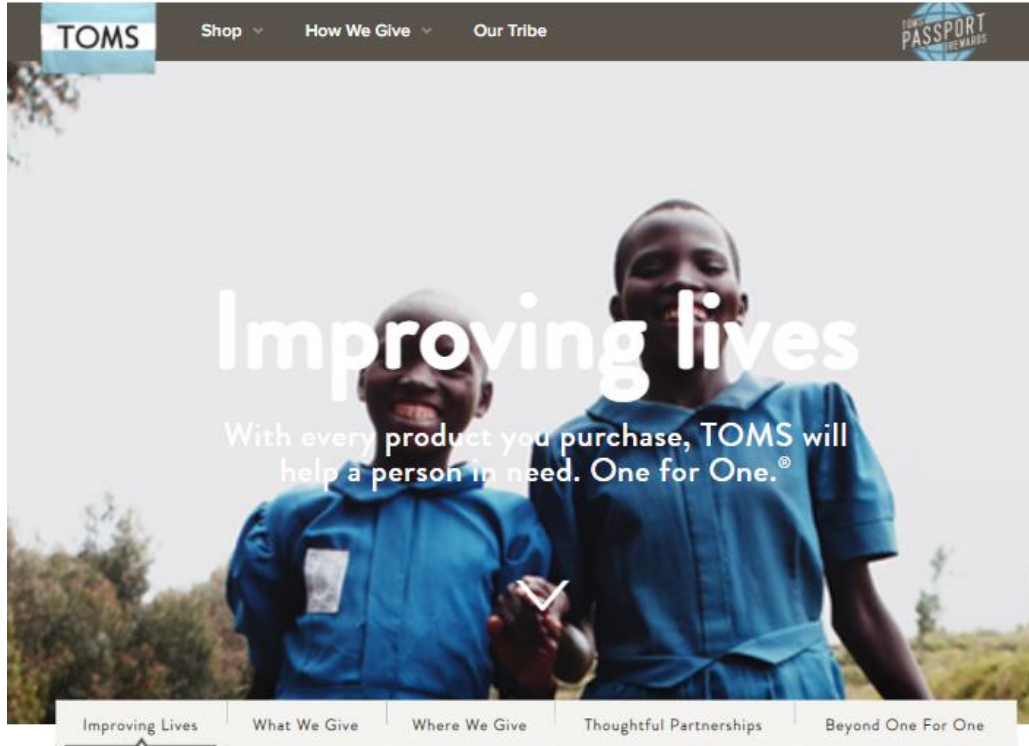
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Appendix A: Toms Website with the One-For-One Model



ONE FOR ONE

Through your purchases, TOMS helps provide shoes, sight, water, safe birth and bullying prevention services to people in need. Learn more about what we give.

WHAT WE GIVE



Beyond One for One

*We are committed to more than just Giving. Learn how
TOMS MAKES AN IMPACT beyond ONE FOR ONE®.*

Improving Lives

What We Give

Where We Give

Thoughtful Partnerships

Beyond One For One

700+

jobs supported by
TOMS Giving Shoe
production

6

countries where 10
different styles of
Giving Shoes are
produced

20+

companies with a
social mission
provided with startup
funds by TOMS

100%

of TOMS coffee is
sustainably sourced

HOW WE INVEST

Over the last eight years, we've identified five key ways that we're helping people and communities around the world to succeed.



PRODUCTION

We're helping create jobs by establishing manufacturing and sourcing in the countries where we give.



SOCIAL ENTERPRISE

From TOMS Marketplace to Start Something That Matters, we're helping new social enterprises get their start from the ground up.



PROGRAM INTEGRATION

When TOMS Giving is incorporated into our Giving Partners' programs, we're contributing to an entire community's access to health, education and well-being.



INVESTMENTS

Along our journey, we've built a Giving Team, supported eradication of diseases and launched cause-related products to support and raise money for organizations around the world.



PRODUCT DEVELOPMENT

Launching a new One for One give always starts with identifying a need.

Appendix B: Toms Website After Disbanding the One-For-One Model

1/3 OF PROFITS FOR

GRASSROOTS GOOD

We believe in a future where all people have the chance to thrive. That's why we invest 1/3 of our profits in grassroots efforts, like organizations creating change at the local level, and driving progress from the ground up.

What is grassroots good?

Grassroots good is the result of a community mobilizing to address an issue they're all impacted by, like services that are scarce, or statistics that are too high. These efforts are highly effective because they're led by members of the community. These leaders have passion, creativity, and insights rooted in a shared experience. What they too often lack is access to financial resources that can breathe even more life into their ideas.



Photo courtesy of Think Outside Da Block



Photo courtesy of LIFE Camp, Inc.

Why invest in grassroots efforts?

We believe progress begins on the ground through efforts led by those closest to a community's obstacles and opportunities. We've also seen how wonderfully different every community is, which means there's no such thing as a one-size-fits-all solution. By investing in grassroots efforts, we can support solutions designed to address a community's unique needs, making them scalable and sustainable.

Our areas of focus

Our vision is that of a thriving humanity—something we can only achieve through the relentless pursuit of equity. Equity, versus equality, takes into account individual circumstances, providing people and communities with the resources they really need. We invest in three key issue areas because we believe that together, they help lay the groundwork for equity. These are promoting mental health, ending gun violence, and increasing access to opportunity.



Photo courtesy of Brave Trails

GOOD 1/3 OF PROFITS FOR GRASSROOTS GOOD 1/3 OF PROFITS FOR GRASSROOTS GOOD 1/3 OF PROFITS FOR GRASSROOTS GOOD 1/3 OF

How we give



Photo courtesy of Homeboy Industries

We create two-way partnerships

We co-create our impact grants, meaning we don't come to the table with a grant in mind. Instead, we ask our partners what they need to deliver on a specific goal, and determine where we can be helpful.



Photo courtesy of Cities United

We're in for the long-haul

It's not just about cutting checks. We work to build relationships that are meaningful, seeking out opportunities to learn from or volunteer with our partners.



Photo courtesy of Brave Trails

We look for diverse perspectives

We are in the process of developing a Giving Advisory Council to support our team. We'll tap experts from the many communities our partners serve, like the LGBTQ+ community.

Ground-up change starts with us