Interview with Mal Warwick, July 28, 2011

By B. Yasanthi Perera, doctoral candidate in business, New Mexico State University

I am very excited to be speaking with you. You have a lot of experience in this area [of socially responsible business].

Well, I guess I'm a survivor.

[Laughs]. Obviously, you have thrived too. Could you tell me about yourself and how you got involved in social entrepreneurship and values-based businesses?

First of all, very early in life I had made a commitment to social justice; business was the farthest thing from my mind until I was nearly 40. I dropped out of graduate school in Latin American Affairs in the 60s and joined the Peace Corps. I spent nearly 4 years in Ecuador, where I worked with Quechua-speaking Indians in social justice projects. Later, I became involved in progressive politics in Berkeley, California, where I moved after I got out of the Peace Corps. For a period of 5 years, I was the sole staff person for the progressive political party in town, conducting community organizing and managing political campaigns. Eventually we won the Mayor's Office and gained a majority on the Berkeley City Council. That was my route to becoming intimately familiar with some of the underlying issues addressed by social enterprise. When I did get into business in1979, it was strictly an accident.

During the 1970s, I had been working as a volunteer for our then congressman, Ron Dellums. Ronald V. Dellums was the Congressman from Berkeley and Oakland from 1971 to 1998. He was regarded by many as "the conscience of the Congress." Ron was a leading advocate for single-payer healthcare in the 1970s and became the hero of the American Public Health Association. He had first been elected in 1970 on an anti-Vietnam War platform, and I had been a full-time volunteer in that campaign.

I was in the process of setting up Ron's reelection campaign for the 1980 elections when it became apparent that he would have well-funded opposition from the Right Wing, so we would unexpectedly need to raise a lot of money. I could tell you a longer story, but I won't. In brief, the situation required me to build a capacity for us to raise $300,000, which we had never done before. And to do so, I tried to hire a San Francisco-based company to do the work. However, the Congressman wouldn't sign the contract I brought him. He insisted that instead ***I*** do the work. So I had to set up a business to do so. That was my debut in business in 1979.

During the first decade or so, my company wasn't so much a business as a progressive political venture to support not just Congressman Dellums but a growing number of other progressive candidates and ballot measures, along with many single-issue progressive nonprofit organizations That was the character of our work throughout the 1980s. For example, we worked with most of the grassroots organizations that were active in opposing the US wars in Central America. In general, we were regarded as the go-to firm for any progressive effort that wanted to get into direct mail fundraising, our specialty.

Okay. Okay.

Then in 1986 we became the direct mail agency for Gary Hart's 1988 presidential campaign. That was a very high profile operation and a very large volume effort. When that campaign collapsed the following year, we quickly signed up with Jesse Jackson's presidential campaign, which became even bigger. So, throughout that period, I didn't really start thinking of the work I was doing as being a business. The turning point came in 1990, when I joined Social Venture Network.

When I joined SVN at the end of 1990, the network had approximately 100 members. It had been founded three years earlier by Josh Mailman and Wayne Silby as an effort to bring together like-minded people who were all trying to address social issues and social change through business. I quickly accepted an opportunity to become involved and began to learn a new way of looking at the work I was doing. I began to understand that I ***was*** running a business – a business that was motivated by many of the same impulses and feelings, motives, and values that animated other like-minded businesses. I came to understand that there was a lot more we could be doing to use our business as a platform to address issues of social justice and social equity in the world.

During the 90s, I attended most of the twice-annual SVN conferences, and I learned from the likes of Ben Cohen of Ben & Jerry's, Anita Roddick of the Body Shop, Gary Hirshberg of Stonyfield Farms, and others who were luminaries in SVN in this period. I gradually formulated a whole change agenda for my company. Then an opportunity arose to put into action what I'd been learning.

In the mid-1990s, I was coming off a period during which I had put the business in the hands of staff and was not working full-time for the company myself. When the then-acting CEO came to me, begging to be freed from the job and imploring me to replace her myself, I knew I had to return. I also knew I didn't want to continue operating Mal Warwick Associates on the same basis as I had in the part. So I made a proposal to the Board of Directors. (Though I was then the sole owner of the company, we had had a Board of Directors from the beginning.) I said I would come back as CEO and the other people who had been running the company could do the things they were more comfortable doing – but the catch was that I wanted to institute a wide-ranging series of changes in the way we did business. In short, I wanted us to become as closely as possible a model socially responsible business.

And what were some of those changes?

The changes included a number of things that raised hackles with some board members, particularly the accountants (laughs). I wanted, first of all, to introduce a genuine profit-sharing program – not one that would set aside some percentage of earnings in a retirement fund but one that would allow the rank-and-file employees to put cash in their pockets that represented a significant portion of the profit for that period. This was controversial, to say the least, because we were not making a profit then! I predicted that if we did institute this change, it was very likely we would begin to turn a profit again because the boost in morale and motivation for the employees would be significant. My original proposal was that we split the profit between employees and the company 50/50 on a quarterly basis. I was talked down to 45%. I did not want to make the bonuses proportional to salary level. Instead, I insisted that every full-time employee get the same amount of money. In other words, I would get the same bonus as the receptionist or an entry-level person doing data entry.

Okay, so very fair.

So, my CFO and the accountant were rolling their eyes. They predicted we would be bankrupt in short order if we did this, but that's what we did, anyway. That was the most dramatic of the changes, but there were a number of others. I also insisted on a genuine retirement plan, a 401(K). We had a reasonably good plan called a Simple IRA, but I wanted something more robust. I also wanted to do an environmental audit that would give us the specifics about our footprint on the environment and point the way to changes that would lighten it. I wanted to have employees as representatives on the Board of Directors. There were many other changes, including a very deep commitment to corporate philanthropy. (We took 10% of the pretax net and put it into a philanthropic fund which was available to employees on a 3 to 1 match at the end of the year for contributions to their favorite charities.)

Then, in the late 1990s, we instituted what was perhaps the most significant piece of the whole picture: an ESOP, or Employee Stock Ownership Plan. You know what an ESOP is, I am certain, so you know it's usually used as a mechanism for company owners to walk away with millions of dollars, right?

Usually.

That's how it's used in most cases. My case was somewhat different. I had no retirement plan of my own, so I wanted to ensure I would have enough income in retirement. I also wanted to give most of my money to charity. So, the short of it is that we began a process that has now been in place for more than a decade through which my stock is gradually being absorbed by the ESOP and the members of the management. Most of the money the ESOP and the company pay to me for my stock has gone directly into an irrevocable charitable trust. If needed, I can take the earnings from the trust as personal income during my lifetime, but the principal is designated for charity.

Ownership is now divided three ways. At this point, I own approximately half the stock in the company, but we are on our way to a point in three or four years when I will be down to 20% ownership.

Oh my goodness.

The ESOP will be at 30%, the CEO will be at 25%, and the balance will be owned by other people who have leadership positions in the company. Out of about 40 people at present, I think we have 13 shareholders. So, ownership is pretty widely dispersed – not to mention the ESOP, which covers all employees who have been with the company for more than a year.

Okay, so it's essentially very much employee-owned.

It's employee-owned now, and it will continue like that. I myself am still an employee even though I'm not working full-time there.

Okay. What prompted you to do [all] that?

Well, my original motivation, believe it or not, was ideological. I understand the gap between the rich and the poor in the country. I know that the most significant aspect is not the gap in income, it's the gap in wealth, or assets. I wanted to find a way that even the lowest-paid people I've hired over the years could gain access to an asset that would help them send their children to college and get a leg up in life. It's the lack of assets by poor people that has been the biggest obstacle to narrowing the gap. For example, African Americans in this country have an average net worth of $6,000. That is horrific.

I didn't know that.

Horrific. That's after the impact of the recession. Hispanics are not much better off. Whites average about $100,000, which itself is not all that great.

Yeah, wow. You did a very good thing there then, definitely.

Well, I thought it was important. One little company was not going to have that great an impact on society, but as an object lesson, it would be useful.

Exactly. And it's an example for others too, so I applaud you for that, and I am sure many other people have as well.

I know that a number of my friends in Social Venture Network have looked at what we've done. A few of them have told me they've copied at least some of the things we're doing, so in some sense, we are the model I'd hoped we would become.

All in all, this was a pretty thoroughgoing change in the way the company was doing business.

Absolutely.

The Board was very hesitant, but I held all the cards at that point. In fact, this was the very first time I actually ever insisted on doing something over the objections of many of my board members.

How did you persuade them?

Well, they were friends. They knew I had reasonably good judgment (or maybe they just didn't want to argue with me!). They thought I was going off the deep end, but they reasoned it was my company in the end.

[Laughs.]

The profit-sharing in place, the first quarter we did a little better than break-even. That was the first time in over a year that the company had turned a profit for even one quarter. However, the quarterly bonuses for everybody were only $30. I was the laughing-stock of the staff, because the word went around that $30 above zero was really zero. Then the second quarter bonus was about $300, and attitudes started to change. People said, "Hmm, this is interesting, this is almost as much as much as the Christmas bonus was last year" (which was $500). The third quarter bonus was about $1,000.

Ok, so it steadily went up.

Yes. And we didn't have a single money-losing quarter until 2002, which resulted from the recession in the Bay Area following the dot.com crash. I believe we lost $100 or so that quarter. And there's never been a money-losing quarter since then, either. So, something worked. In the meantime, we kept expanding our commitment to social and environmental responsibility. We became a Bay Area Green Business and shortly afterward a Founding B Corporation.

When we were first certified as a B Corporation, we had what I was told was the highest rating for any company in the whole country. I think our score has gone down a little, because we had to make a number of uncomfortable changes in the course of the current recession. Generally speaking, though, our rating remains extremely high. And we're continuing to move forward. The Board continues to insist that the CEO – not I, but, since 2005, Dan Doyle – is continue to improve our environmental and social performance as well as our financial performance.

Okay, so the whole system changed. I am curious, you mentioned some uncomfortable changes. Would you mind describing some of those?

Well, for example, we had made a particularly strong commitment to corporate philanthropy, if only because our company was in the business of promoting philanthropy. We had started off as an essentially political operation, but the proportion of our work that was represented by political campaigns declined sharply over the years. By the mid-90s, politics represented a small percentage of our overall work. By that point, we were working predominantly with 501(c)3 tax-exempt, nonprofit organizations, helping them secure greater donations.

I thought it was very important we maintain our commitment to reserve 10% of pretax net profits for philanthropy. However, as the recession began to unfold, the CEO requested we cut that commitment in half from 10% to 5%. After a discussion of the pressures on our cash, I went along with that, as did the whole board. Now, even 5% is unusually high for any business other than those built on the Newman's Own model. So, the change was uncomfortable, but it was necessary to conserve cash.

We also had to reduce the percentage of our pretax net profits that went out in the form of quarterly bonuses. Until 2009, we had paid out 35% in cash each quarter in the form of profit-sharing bonuses to employees. We reduced that to a range of 10% to 25% at the discretion of the board. We also moved from a quarterly payment to an annual payment for cashflow purposes. In truth, we were pulling in our horns in the wake of a recession that proved, in the final analysis, to be very kind to us. But if we had not taken these cash-conserving steps, we might well have been in a pickle. As it worked out, we ended up being consistently profitable, and significantly so, throughout the recession, unlike some of our competitors, most of whom cut jobs, froze salaries, and even instituted furloughs without pay. We cut no jobs and took none of those other steps. In fact, we increased our head count.

Okay, thank you for that, for explaining that further. That leads me to jump to a question that is further down on my list. You know the trade-offs that happen in socially-conscious, value-based businesses. Could you talk about that in terms of whether you think they are an inherent part of the landscape?

In general, as I've explained to my colleagues, I believe that all business is a question of tradeoff. The trade-offs become particularly difficult at socially-responsible businesses. We always measure our performance against a triple bottom line, but there is no formula to guide us as to which of the components of the triple bottom line is paramount under any given set of circumstances.

Yes.

It's always a judgment call. In reality, there are always tradeoffs. Any business decision may affect employees, customers, the community, and the environment as well as the owners. So, in making any major business decision, we try to take all those things into account. As a result, we come up against hard choices from time to time. For example, we knew that employees had come to count on the bonuses we were paying out on a cash basis, even though there was no guarantee of them as they varied with the level of our profits. This was particularly sensitive for those people who were at the lower end of the pay scale, people who were making $25,000, $30,000, $35,000. For them a $3, 000-per-year bonus was a significant piece of their income. We knew that cutting back on that during the recession would be very difficult for many employees. Deciding to do so took a great deal of discussion. However, the staff understood that their counterparts in other companies were being laid off. We explained that, in order not to have to lay off people or to resort to such things as furloughs or salary cuts, we simply had to cut back on the bonuses. We needed to have cash on hand in order to be able to meet all our obligations.

I understand. Now, to follow up on something you said earlier about tradeoffs. You've seen so many models, you've had experience with your own ventures, and others as well. Do you see these issues of tensions and tradeoffs arising more so in certain business models more so than others?

I think it's really a question of what people are willing to do. It seems to me that in a traditional business, what I regard as tradeoffs would not be under discussion with as much frequency. Most of the time, I don't think that a businessperson who is in business exclusively to make a buck would even take into account the impact on employees of the price he or she sets for a product or service.

Absolutely. You may be correct.

Lowering the price to a desirable client, for example, knowing that this could mean there could be less profit available for employees, implies that they would have to work harder for less, which seems to be the unfortunate pattern for much of industry.

Absolutely. Now, in terms of what can be done more to further this space of values-based business and social entrepreneurship, what things do you think are necessary?

I think the most significant thing, and it is ***necessary***, is the work that is being done by B Lab to advance benefit corporation legislation in states around the country. B Lab's goal is to get this legislation into place in all 50 states. There are now [July 2011] 5 or 6 states, I believe, where it has been signed into law, and there are two others where it has been passed by the legislature and is about to be signed into law by the governor. In California, it will probably be passed and signed later this year. So, you can expect to have 8 states come to fruition in the first serious year of effort on this legal strategy by B Lab. And there are many other states where there is some effort under way.

Benefit corporation legislation permits any business to take into account the interests of others than the shareholders, which is a limitation now in the law in nearly all the states. Benefit corporation laws allow officers and directors to take into account the interests of all ***other*** stakeholders without exposing themselves to shareholder lawsuits. This legislation has attracted precisely one negative vote in one state in all the legislative debate around the country so far. Everywhere else, it has passed unanimously. And this is at a time when partisanship is rampant in this country.

Yes, absolutely.

So, I think it is a testament to the universal appeal of this concept now, understanding that it would have gotten no traction 20 years ago. I think it would have been laughed out of every legislature 20 years ago.

Okay, so the world has changed?

The world ***has*** changed. When SVN was founded in 1987 and for several years thereafter, the words "socially responsible" were basically a pejorative term in the business press and the mainstream business community. SVN did a considerable amount of work to publicize the advantages of socially responsible business policies and practices and attract the academic studies that would help establish it as a norm. Then some of us in SVN founded Business for Social Responsibility in 1992 as a way to reach mainstream business with the same message by repackaging it as CSR. Of course, there were many other efforts underway at the time. We were hardly on our own. Together, we all brought about a sea change. It's reached a point now where the more forward-looking corporations in the United States and worldwide are coming to understand they will not survive in the long run if they don't adjust to this sea change.

And do you think this sea change is being cause by the people themselves, by the average person, by the environmental issues, or, what do you think is driving this?

Certainly the environmental issues are a factor. I think that a lot of the credit is also due to those activists who've publicized the problems of sweatshops and child labor in developing countries. In addition, there has been a considerable amount of negative press about bad corporate practices, and this has had a cumulative effect. It has become essential for companies to be able to prove that they act in responsible ways towards the environment, their communities, and their employees. Those companies that continue to operate as if those stakeholders don't matter are finding themselves increasingly at a disadvantage in the marketplace.

Absolutely. Thank you for expanding upon that. What advice would you give somebody who is in the early stage of starting a social enterprise, a values-based business?

First of all, while it is true that the social mission, properly framed, will prove to be a major asset, you must realize you are running a ***business***. You've got to keep your eye on the cash like any start-up company, and you really have to pay attention to business fundamentals of all sorts. That is particularly true about customer service and quality. Those fundamentals will get you if you forget them.

So business must be taken care of with the social responsibility woven in?

Yes.

Do you see a difference between values-based businesses and social enterprises? It seems to me that they are different labels, but we are talking about the same thing. I am curious about what you think.

My take on this question is, firstly, that there is a difference between a for-profit company that is basing its operations on the values of its founders, and a non-profit business that starts off with a commitment to social change or social justice and then finds a way to use business as a way to generate revenue and not necessarily pay attention to its social or environmental responsibility. There are people, and Bill Drayton of Ashoka is apparently one of them, who insist that a social enterprise has to be nonprofit. There are others who insist that a social enterprise has to be a for-profit. There are even those who insist that a social enterprise is a business started by a nonprofit organization to support its mission and the way that it operates has nothing to do with values. It's all very confusing.

That's interesting.

Well, it's silly [both laugh]. It doesn't make a lot of sense to me to be so limiting.

So, if all these distinctions are somewhat artificial and they are subjective, what do you hold dear when you are looking at this space? How do you decide whether a certain business is a values-based business or whether it is a social enterprise? What do you look at?

I'm not concerned about labels. What matters to me is what the business ***does*** and how it operates. When I am first looking at a venture, which I do as the early stage investor I've become, I am most interested first of all in the mission. Is this a company that is engaged in some work that I think is calculated to make a difference to a significant number of people in a meaningful way? Then, is this a business that may actually be able to make a profit and become sustainable? And that is quite a separate question, as you well know. Finally, I'll want to know how the company is structured, what sorts of relationships it has both internally with employees and externally with customers, suppliers, the community, and the environment.

But I have to start with the fundamentals. There are a lot of very well intentioned operations that are based on wonderful ideas and could make a very big difference, but they will never be able to get the kind of traction they would need to be really profitable.

So, the social mission-driven piece is important, but so is the business piece, and they have to be in balance?

There does have to be a balance, because without profit the company will not be able to carry out its mission.

Thank you so much. I really appreciate this time.

You are very welcome.

<u>Postscript</u>

Mal Warwick Associates – now doing business under the name Mal Warwick | Donordigital – is an employee-owned company in which Mal retains less than ten percent of the stock. It has been recertified as a B Corporation. And Benefit

Corporations – the legal term for “B Corp” – are now enshrined in law in 20 states, with legislators in 16 additional states preparing bills for submission.