



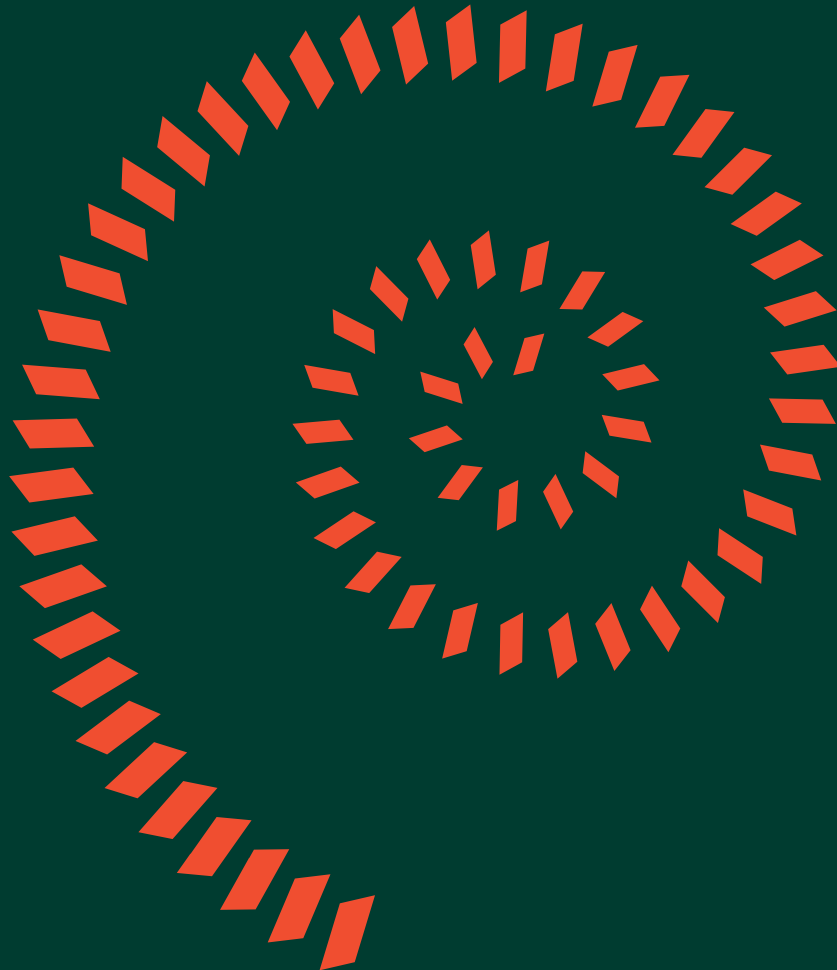
**MARS**



**Economics  
of Mutuality**

# Kate Spade

An Economics of Mutuality case study



**Responsible Business Forum: The Economics of Mutuality**

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# Kate Spade

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**Contributor**  
**Taryn Bird**



**Contributor**  
**Aida Hadzic**



**Contributor**  
**Kate Roll**



**Contributor**  
**Judith Stroehle**

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## About the Responsible Business Forum Case Studies

This series of case studies explores how mutual approaches to business can help companies and their partners tackle some of the most pressing global challenges. The businesses featured in this series share a commitment to objectives beyond purely financial performance, as well as a serious intent to implement mutual practices through new forms of ownership, governance, leadership, measurement and management.

In particular, these cases address the measurement of multiple forms of capital, ecosystem shaping approaches, leadership development, business education, and policy formulation through laws and regulation that promote mutual conduct. The authors appreciate the collaboration of participating companies in creating these cases.

These cases were first developed for the annual Responsible Business Forum, the convening event of the Mutuality in Business Project, a joint research programme between Saïd Business School, University of Oxford, and the Catalyst think tank at Mars, Incorporated. The Responsible Business Forum brings together global companies, MBA candidates, scholars and activists to share their experience in confronting key challenges in their ecosystems to generate financial, social and environmental value.

## Authors' Note

The conclusions and recommendations of any Saïd Business School, University of Oxford, publication are solely those of its author(s), and do not reflect the views of the Institution, its management, or its other scholars. These cases are based on information provided to the researchers by participating companies.

## Mutuality in Business

Tel: +44(0)1865 422875

Email: [responsiblebusiness@sbs.ox.ac.uk](mailto:responsiblebusiness@sbs.ox.ac.uk)

Web: [Economics of Mutuality](#)

Web: [Oxford Saïd Mutuality in Business](#)



## Executive Summary

### Kate Spade New York: the on purpose initiative

Kate Spade New York was founded in 1993, debuting with just six handbag silhouettes, which combined sleek, utilitarian shapes and colourful palettes in an entirely new way. Kate Spade has grown into a global lifestyle brand, aiming to inspire colourful living through the collection's handbags, clothing, jewelry, shoes, stationery, eyewear, baby, fragrance, tabletop, bedding and gifts.

#### Mutuality Strategy

Kate Spade New York, has two channels of the company dedicated to empowering women. The Kate Spade New York Foundation focuses on distributing philanthropic grants to non-profits in the New York and New Jersey areas. The on purpose initiative utilises the power of the brand's supply chain to empower the women who make that collections' products. In 2013, the on purpose initiative was launched in Masoro, Rwanda.

Through the on purpose initiative, Kate Spade New York built a for-profit social enterprise supplier. The supplier, Abahizi Rwanda,<sup>1</sup> employs over 207 talented female workers and has helped them to establish a worker-owned and globally competitive business. This initiative aims to be a sustainable model, focused on both creating economic returns through the production of high-quality products and social impact by improving the livelihood of Rwandan women and their families.<sup>2</sup>

#### Unique contribution to EoM

As an example of mutuality, Kate Spade New York has found a way to realise its commitments to empowering women through building and sourcing from a new social enterprise supplier.

The employees (owners of that supplier) have full-time benefits, including of PTO, maternity leave and health insurance, as well as rights and fair share of the profit gained through their work. The full-time employment also has spill-over effects. The participating women are able to become more active members of the society due to their increased financial capabilities. Both social and shared financial capitals are built.

#### Performance Review

Kate Spade New York initiated a study with Georgetown University to assess the impact and sustainability of the project. The study examined the compensation adequacy, improvements in spending and similar metrics, and was able to show that the on purpose supplier provides employees with 40% higher wages than average Rwandan salaries. The study also found improvements in non-financial metrics, including psychological empowerment and decision-making power.

#### Prognosis

Due to the novelty of the programme, it is still too early to make final conclusions regarding Abahizi Rwanda's long-term financial sustainability. However, evidence suggests that Abahizi Rwanda has key elements of a sustainable business as well as realistic prospects of achieving its commercial purpose, namely to prosper as a supplier to multiple fashion brands. Abahizi Rwanda does have new clients. It will be producing for Kate Spade New York's outlet brand in summer 2018 and will be manufacturing for Coach, Inc. starting in the summer of 2019.

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1. "Home," Abahizi Rwanda, <http://www.abahizi.com>

2. "Collections," on purpose, Kate Spade & Company, <http://www.katespade.co.uk/collections/the-on-purpose-story/icat/onpurpose>

# Kate Spade New York: Integrating social purpose into core business operations

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## About Kate Spade

Kate Spade & Company's history begins in 1993 with the decision of Kate Brosnahan Spade to design her perfect handbag.<sup>3</sup> With positive responses to the design and colourful palettes from both clients and fashion editors, the brand was able to open its first shop in 1996 in New York City. With the takeover from Liz Claiborne, Inc. in 2007, the brand expanded its product portfolio to clothing, jewellery, bedding, fragrance and legwear. In 2017, Kate Spade became part of its former competitor Coach, Inc.

Since its establishment, Kate Spade & Co. has grown into a worldwide brand with 140 retail shops and outlet stores across the United States, and more than 175 shops internationally, selling the brand's colourful designs in more than 450 locations worldwide.<sup>4</sup>

In addition to gaining a reputation for colourful and innovative designs, Kate Spade & Co. is committed to maintaining high ethical standards. The company ensures that its products are ethically sourced, with particular attention to the protection of the environment and a range of international labour rights.<sup>5</sup> Since Kate Spade does not have any of its own production sites, the company, as of 2016, held contracts with 66 independent suppliers across 10 countries.

## "On purpose"

In 2013, Kate Spade & Co. initiated an innovative value chain approach, its on purpose model, which helped to form the for-profit social enterprise Abahizi Dushyigikirane, Ltd. in Rwanda.<sup>6</sup> The project was designed to enact the company's vision of promoting ethical values throughout its business. According to CEO Craig Leavitt, the company seeks to target two groups with its corporate social responsibility (CSR) actions: core customers and key internal constituencies, many of whom are women. Accordingly, women's empowerment has become Kate Spade's top CSR priority.

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3. "About Us," Kate Spade & Company, 2018, <http://www.katespade.co.uk/about-us/page/aboutus>

4. "About Us," Kate Spade & Company, 2018, <http://www.katespade.co.uk/about-us/page/aboutus>

5. See outlined policies under <http://www.katespadeandcompany.com/web/guest/standards-of-engagement> and <http://www.katespadeandcompany.com/web/guest/ethical-sourcing>

6. "Home," Abahizi Rwanda, <http://www.abahizi.com>

## Economics of mutuality strategy

Labour rights have become an increasingly important issue in the global apparel industry. As such, ethical fashion projects have gained enormous global attention among international organisations, human/labour rights activists, states and consumers. By focussing its CSR strategy on women's empowerment, Kate Spade made an early effort to contribute to this ethical fashion movement. However, early CSR projects targeting women's economic empowerment largely failed. The support women were receiving from Kate Spade & Co. was often strongly dependent on the capacities of other organisations in the ecosystem, which made such a model inefficient and unsustainable.

To achieve a longer lasting and self-sustainable model, Kate Spade & Co. decided to shift its focus away from the common per-product donation approach to a more business-oriented one. By building a new business with female entrepreneurs in Rwanda, Kate Spade & Co. internalised the pain points of a specific group of women in the global apparel industry and was thereby able to create new human capital and shared financial capital in the process.

### Why Rwanda?

In poverty-affected countries like Rwanda, women often face many barriers to greater financial autonomy and decision-making power. Women often lack not only the financial capacities and skills needed to run a business, but also confront issues such as the lack of familial support and weak self-confidence. Additionally, employment opportunities for women in the local labour market frequently exacerbate these existing vulnerabilities.

### Abahizi Dushyigikirane, Ltd. (ADC)

With these challenges in mind, Kate Spade & Co. applied a broad strategy of human and financial capital creation through investing in a new business strategy: women would not only produce Kate Spade & Co. handbags, but also own the venture.<sup>7</sup> The social enterprise Abahizi Dushyigikirane, Ltd. (ADC) was established by Kate Spade & Co. in 2013 through its on purpose initiative. Started in the Rwandan village of Masoro, the company is employee-owned and advised by a council of experienced businesspeople to compensate for the lack of business experience of the artisans.<sup>8</sup> Although Kate Spade & Co. has been essential in building the capacity of these suppliers, the company has set up the enterprise to take on other clients and encourage buyer diversification as a "sustainable path for long-term financial growth."<sup>9</sup>

The enterprise is committed to creating a supportive work environment for women and addresses specific needs by investing in employee well-being through empowerment and

training programmes. To make the enterprise sustainable and address relevant needs of women, Kate Spade & Co., in cooperation with Georgetown University,<sup>10</sup> used its access to assess which additional factors are crucial for women's success. They found that improving the social status and overall position of women would reduce factors that make women vulnerable to external shocks, such as single motherhood, hunger, sickness and poor nutrition.

### Operation and Industry

	Net (\$/month) <sup>12</sup>
ADC team leader, sample-making department	103
ADC assistant team leader, sewing department	84
Construction trades (masonry, plumbing & electrical)	83
ADC sewing machine operator	78
Nurse	76
ADC base (lowest) artisan salary	72
Primary school teacher	57
Construction laborer	42
Miner (variable piece rate)	42
Agricultural day labor	28

The world of apparel supply chains involves both low and high-level skills and capabilities. Low-skill level firms exercise simple assembly tasks, while high-level tasks, such as design, production planning, and marketing are generally performed

elsewhere. Whereas more advanced markets usually perform "full-package" activities, less developed markets often only host tasks of little added value, such as assembly and sewing.

The dynamics of global value chains (GVCs) play a significant role in the context of ADC. The ability to leverage benefits of value chains for developing countries often depends on whether the operations take place at the higher or lower level (of added value) of the value chain.<sup>11</sup> In response, Kate Spade & Co. tries to leverage the opportunities of supply chains to benefit ADC. Most of the suppliers of Kate Spade & Co. are full-package suppliers and are thus able to lift ADC artisans to higher levels within the global value chain.

ADC is currently developing its capacities to source material through its active engagement, currently primarily focussed on "cut and make" supplier tasks. ADC fabricates and embellishes its handbags in accordance with customer specifications, while using buyer provided materials. The quality principles demand consistent supply of fine leather, fabric, fasteners, and other components that could not be sourced in Africa and are thus being brought in from vendors in China and Korea. By training ADC in high-quality trades, the initiative enables the artisans to also produce for other fashion suppliers, making the social enterprise more independent and self-sufficient.

7. "2017 Social Impact Report," on purpose, Kate Spade & Company, [https://cdn.katespade.tech/na/assets/img/ks-categories/IMPACT\\_REPORT\\_24.pdf](https://cdn.katespade.tech/na/assets/img/ks-categories/IMPACT_REPORT_24.pdf)

8. Edward Soule, Catherine Tinsley, and Pietra Rivoli, "A Social Enterprise Link in a Global Value Chain: Performance and Potential of a New Supplier Model," McDonough School of Business, Georgetown University, 2017, [https://giwps.georgetown.edu/wp-content/uploads/2017/10/Social\\_Enterprise\\_Link\\_In\\_A\\_Global\\_Value\\_Chain\\_01.pdf](https://giwps.georgetown.edu/wp-content/uploads/2017/10/Social_Enterprise_Link_In_A_Global_Value_Chain_01.pdf)

9. "2017 Social Impact Report," on purpose, Kate Spade & Company, [https://cdn.katespade.tech/na/assets/img/ks-categories/IMPACT\\_REPORT\\_24.pdf](https://cdn.katespade.tech/na/assets/img/ks-categories/IMPACT_REPORT_24.pdf)

10. Edward Soule, Catherine Tinsley, and Pietra Rivoli, "A Social Enterprise Link in a Global Value Chain: Performance and Potential of a New Supplier Model," McDonough School of Business, Georgetown University, 2017, [https://giwps.georgetown.edu/wp-content/uploads/2017/10/Social\\_Enterprise\\_Link\\_In\\_A\\_Global\\_Value\\_Chain\\_01.pdf](https://giwps.georgetown.edu/wp-content/uploads/2017/10/Social_Enterprise_Link_In_A_Global_Value_Chain_01.pdf)

11. Richard Baldwin, "Global supply chains: Why they emerged, why they matter, and where they are going," in Deborah K. Elm and Patrick Low (eds), "Global value chains in a changing world," World Trade Organization, 2013, [https://www.wto.org/english/res\\_e/booksp\\_e/aid4tradeglobalvalue13\\_e.pdf](https://www.wto.org/english/res_e/booksp_e/aid4tradeglobalvalue13_e.pdf)

## Unique contribution to economics of mutuality

Although the economic empowerment of women in Rwanda represents a key contribution, the on purpose initiative also strengthened human capital in three additional ways.

First is the ownership structure, which views the artisans as owners of ADC, while Kate Spade remains as a mentor and major buyer at the premises. The second contribution is the attempt to shift the artisan's contributions up the value chain to make them reach potentially higher added-value and higher benefits from within the supply chains. Finally, Kate Spade also ensured that the empowerment of women has an impact on different areas of the artisans' lives, yielding spill-over effects across a larger spectrum of the Masoro society, including the ability of women to provide for children's education and nutrition.

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## Performance

Georgetown University was tasked with conducting a thorough study on the business model and the impact on female empowerment.<sup>12</sup> The main metrics used were focused on the financial, economic, social and psychological empowerment of artisans.

### Financial empowerment

The financial aspect was assessed in terms of adequacy of compensation and spending power. The lowest artisan salary at ADC was shown to be considerably higher than the median salary for the private sector – up to 40% of the average compensation in Rwanda.

The adequacy of the compensation of the artisans was further assessed on ground of the living standards in Masoro, and the study suggested that the salary enabled a “decent life” for one adult plus one school-aged child. The definition of this “decent wage” included a consideration of the ability to save. Additionally, the spending patterns of artisans have been found to improve, and the on purpose model was found to overall provide a stable and sound financial system.

As intended by Kate Spade & Co., the financial empowerment of women through the on purpose project was shown to have positive spill-over effects into the community of Masoro. Women were able to contribute to their households. Strengthening human capital, as well as designing and supporting institutions, has helped to catalyse further development. Future results from the on purpose project are expected to be seen through overall higher rates of educational attainment and a total growth of social participation of women, not only of those working at ADC.

### Social and psychological empowerment

The Georgetown University study also found that artisans of ADC showed higher levels of self-confidence in comparison to the rest of the Masoro community. This was measured through various personal assessments (such as the so-called ladder test) with the artisans and the other members of the community. Participants were asked to rank their own social position on three ladders which are associated with their past, current and future social status. All participants evaluated their past similarly as very low. However, in both current and future assessment of their “position on the ladder,” artisans assessed their social status significantly higher than the community members did.

Several factors contributed to this difference between ADC workers and other members of the community, amongst the most important being a caring management, the opportunity to learn and progress, and growing self-esteem through economic and social empowerment of employees.

In particular, opportunities for self-development were found to be important in the Rwandan context. Moreover, the empowerment of women with regard to their freedom of decision-making in both personal and family finances was shown to improve as compared to other Masoro women.

Finally, building new networks within the global market and forming relationships with companies in the supply chain of other global buyers than Kate Spade was seen as an additional social empowerment of the artisans on the business side.

### The business case

Since the on purpose model was designed specifically as a mutual project, Kate Spade & Co. expected both good business performance and the self-sustainability of ADC. Indeed, the production period for March 31, 2017 was able to generate positive net income results.

To make ADC even more competitive in the global market without compromising its quality represents a high priority for the coming years. The strategy for this is to achieve price competitiveness by increasing the output with a modest increase in headcount. Management aspires to achieve this by relying heavily on the benefits of increased worker experience and continuous staff training.

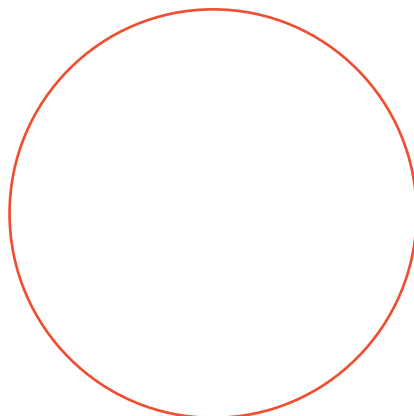
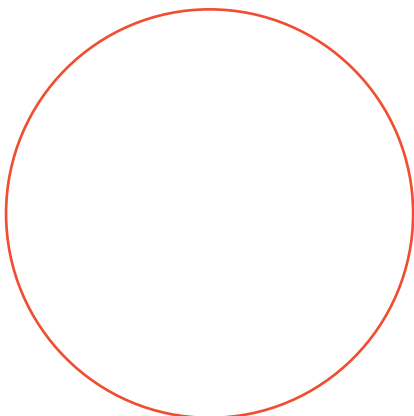
12. Edward Soule, Catherine Tinsley, and Pietra Rivoli, “A Social Enterprise Link in a Global Value Chain: Performance and Potential of a New Supplier Model,” McDonough School of Business, Georgetown University, 2017, [https://giwps.georgetown.edu/wp-content/uploads/2017/10/Social\\_Enterprise\\_Link\\_In\\_A\\_Global\\_Value\\_Chain\\_01.pdf](https://giwps.georgetown.edu/wp-content/uploads/2017/10/Social_Enterprise_Link_In_A_Global_Value_Chain_01.pdf)

## Prognosis

Over the last five years, Kate Spade has put considerable effort into the on purpose initiative and has received a lot in return. Since the fashion industry is under strong international scrutiny – from not only activists and non-profit organisations, but also consumers – programmes such as the one in Rwanda can achieve invaluable reputational benefits for a brand. For this reason, Kate Spade & Co. sought to meet stakeholder expectations, pursue female empowerment, and uphold the reputation and quality of the Kate Spade brand.

In the future, Kate Spade & Co. aims to make additional improvements to catalyse ADC's growth and potential. The brand plans to increase ADC output to 12,000 units per production period, while decreasing costs through increased training and offering a broader scale of products. At the estimated future production rate, costs are predicted to fall from \$19.24 to \$12.06 per unit. Kate Spade & Co. looks to achieve financial viability of ADC and make the enterprise self-sustainable in the long term.

ADC has some distinct competitive advantages. One example is the source for differentiation, as artisans have demonstrated a capacity and flexibility to innovate in meeting the differing needs and preferences of suppliers. There are also advantages in terms of Rwanda's overall competitiveness for the production of handbags compared with other countries like China, whose labour costs are increasing relative to Rwanda due to demographic changes. Furthermore, ADC artisans possess skills of embroidery and sewing, which are closely linked to local culture and which makes Rwanda an attractive place for fashion suppliers. Further steps planned include efforts to improve ADC's ability to source materials and enhance its full-package production capacity, as well as the employment of better resource planning systems.







Saïd Business School at the University of Oxford blends the best of new and old. We are a vibrant and innovative business school, but yet deeply embedded in an 800-year-old world-class university. We create programmes and ideas that have global impact. We educate people for successful business careers, and as a community seek to tackle world-scale problems. We deliver cutting-edge programmes and ground-breaking research that transform individuals, organisations, business practice, and society. We seek to be a world-class business school community, embedded in a world-class university, tackling world-scale problems.

### **Mars Catalyst and the Economics of Mutuality programme**

Mars' approach to business has long since been guided by five principles – quality, responsibility, efficiency, freedom and mutuality. Together they inform and guide the actions of all Mars associates every day as they do their jobs and interface with the outside world.

The origins of the Mutuality principle go back to 1947 when Forest Mars Snr, who led and grew the business through the 1920's to the 1960's, wrote a letter to all 500 associates of the company that said "the sole purpose of the company is to create a mutuality of benefits with all stakeholders that the company touches; from suppliers to customers as well as governments and competitors and naturally associates and shareholders." This far-sighted thinking, that the company could only be successful if everyone around the company was being successful, has been a cornerstone of Mars' business philosophy ever since.

Mars has therefore always been interested in how it can best live up to this principle; and to find new ways of driving mutuality with all stakeholders it touches. This led to Mars'

leadership tasking its economic research unit, Catalyst, to start new work into unexplored territory for business; to identify critical drivers of mutuality and, using business pilots, to develop and test new metrics and management practices that can help boost mutuality in business situations. This work has been called the Economics of Mutuality.

This work has established promising links between increasing social, human and natural capital (that can be measured with simple & stable metrics) and a corresponding increase in financial capital – demonstrating how a company can do both good and well at scale. A number of pilots have now been completed in the areas of micro-distribution, the employees of Mars and in agricultural development that suggest that these relationships are true in different places and situations.

### **The Oxford Mars partnership**

On the back of these promising findings, a multiyear partnership with Oxford University's Saïd Business School was established in 2014 to focus on the development of a business management theory for the Economics of Mutuality with corresponding teaching curriculum, new management practices, and case study research. The research programme has combined the pursuit of normative questions – what is

mutuality and how should it be enacted? – with grounded, ethnographic research on current thinking and practices. This has led to the development of field experiments and case studies examining how large corporate actors conceive of and pursue responsible business practices, and how these relate to their financial and social performance.

### **Mutuality in Business**

Tel: +44(0)1865 422875

Email: [responsiblebusiness@sbs.ox.ac.uk](mailto:responsiblebusiness@sbs.ox.ac.uk)

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