UNIVERSITY OF OXFORD

Saïd Business School

MARS

Economics of Mutuality

Timberland

An Economics of Mutuality case study

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Timberland

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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.

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Executive Summary

Timberland and Smallholder Farmers Alliance (Sfa)

Established in 1973, Timberland is a global leader in the design, manufacturing and marketing of outdoor premium footwear, apparel and accessories. The company is known worldwide for its quality products as well as its commitment to environmental and social responsibility. It has approximately 7,000 employees worldwide and generated $1.8 billion in revenues in 2017.

The Smallholder Farmers Alliance (SFA) is a Haitian non-profit foundation that applies business solutions to help feed and reforest a renewed Haiti by establishing market-based farmer cooperatives, building agricultural export markets, creating rural farm businesses and contributing to community development.

Mutality Business Strategy

Timberland is partnering with the Smallholder Farmers Alliance (SFA) in Haiti to completely re-imagine a cotton supply chain in Haiti that maximises benefits to both smallholder farmers and export customers. The key is building this new supply chain around next generation data and blockchain technology to measure success for smallholders in terms of tangible economic, environmental and social benefits—while at the same time measuring success for eventual customers like Timberland, Patagonia and Vans in terms of increased transparency and efficiency.

This new supply chain uses a blend of philanthropy and commercial investment to incubate a social enterprise that will deliver both agricultural and community services to farmers from profits. At the same time, this new supply chain incorporates an innovative "tree currency" approach that allows farmers to reduce their cost of operation by earning agricultural credits for seed, tools and training by planting trees.

Timberland began as a sponsor of the SFA in 2010 and has seen the organisation grow to include 6,000 farmers. The company is now transitioning into becoming a customer of organic cotton. As no cotton has been grown in Haiti for 30 years, a recently-completed field study of several cotton varieties will inform the first commercial planting by up to 500 farmers this summer. Farmers will continue to earn seed, including cotton seed—along with tools and training—by planting trees.

Timberland has committed to purchasing up to one third of its annual global cotton purchase from the SFA's farmers, subject to organic certification, price, quality and volume.

Specific EoM Contributions

The data-driven smallholder supply chain being developed by the SFA and Timberland will initially focus on cotton and will determine how to track and measure the growing, selling and processing of organic cotton based on: 1) how it contributes to smallholder resiliency, 2) its effect on food security, 3) how it helps combat climate change, and 4) how it supports women's empowerment.

The goal of this data-driven model is to meet the needs of both smallholder farmers and global corporations, while building the capacity to track and measure social and environmental impacts. It will start simply with paper records and excel spreadsheets at the farmer level and will add complexity, including blockchain-readiness, as it moves towards the eventual consumers.

By fostering sustainable cotton production in Haiti and training farmers, Timberland has made a combined contribution to natural, human capital and shared financial capital.

Performance

The tree currency model, which was launched by SFA in 2010, has resulted in the planting of close to 7 million trees to date.

Smallholders continue to use tree planting to pay for agricultural inputs that result in improved crop yields (40% average increase) and increased household income (between 50% and 100%). Forty-six per-cent (46%) of farmer members are women. An estimated 13,520 number of farmers and their family members positively affected by the SFA's work, including 3,000 estimated additional children in school.

Prognosis

According to projections, within five years the net impact of this cotton initiative will encompass 34,000 farmers. These farmers will be united as owner-operators of a network of new social businesses that will more than double their current income and result in a minimum of 25 million trees being planted.

The cotton supply chain and data system being developed by the SFA and Timberland are intended to apply to other crops and to other countries. Starting with cotton makes sense because some 100 million smallholder farms throughout developing nations currently produce 75% of the world's cotton.

Timberland and the Smallholder Farmers Alliance: Creating a data-driven smallholder cotton supply chain in Haiti

Data-driven smallholder cotton supply chain in Haiti

The global outdoor brand Timberland[1] is partnering with the non-profit Smallholder Farmers Alliance[2] (SFA) in Haiti to completely re-imagine the cotton supply chain and to create a new system for producing cotton that maximises benefits to both smallholder farmers and export customers.

The key is building the new supply chain around next generation data and blockchain technology. This enables the parties to measure the success for smallholders (farmers who own less than two hectares or five acres of land) in terms of tangible economic, environmental and social benefits—while at the same time measuring success for eventual customers like Timberland, Patagonia and Vans in terms of increased transparency and efficiency.

The new supply chain in Haiti uses a blend of philanthropy and commercial investment. The partnership is incubating a social enterprise, which will deliver both agricultural and community services from profits. It has also built an innovative "tree currency" approach that allows farmers to reduce their cost of operation by earning agricultural credits for seed, tools, training and financing by planting trees.

About the partners

Timberland is a global leader in the design, manufacturing and marketing of premium footwear, apparel and accessories for the outdoor lifestyle. Best known for its original yellow boot introduced in 1973, Timberland today outfits consumers from toe-to-head, with versatile collections that reflect the brand's craftsmanship, function and style. Timberland's dedication to making quality products is matched by a commitment to environmental and social responsibility. The company has over 7,000 employees and over $1.8 billion in revenues.

The Smallholder Farmers Alliance (SFA) is a Haitian non-profit organisation co-founded in 2010 by Hugh Locke and Timote Georges with the objective of planting trees in Haiti. The SFA applies business solutions to help feed and reforest Haiti by establishing market-based farmer cooperatives, building agricultural export markets, creating rural farm businesses and contributing to community development. The SFA is organised as a foundation under the laws of Haiti.

1. "Home," Timberland U.K., https://www.timberland.co.uk
2. "Home," Smallholder Farmers Alliance, http://www.smallholderfarmersalliance.org

Phase I: Tree planting and tree currency

Haiti is one of the most deforested countries in the world, and the severe lack of tree cover reduces agricultural productivity, raises average temperatures and makes rural areas more susceptible to flooding. Further complicating the situation, low agricultural productivity means farmers turn to cutting trees and making charcoal to supplement their low incomes. This locks rural Haiti into a cycle of deforestation, low productivity and poverty.

Locke and Georges thought the best way to break this cycle was to pay farmers to plant trees. This would make trees worth more in the ground than cut for charcoal. They approached Timberland for funding, the rationale being that the company had a factory in the neighboring Dominican Republic and a history of sponsoring tree planting in various countries. Timberland agreed to be the SFA's corporate sponsor, but with two conditions. First, Timberland challenged the organisation to plant five million trees in five years to meet a commitment the company made to the Clinton Global Initiative. Second, SFA had to figure out how to plant trees without paying the farmers in cash since this would mean the project would end when Timberland's funding eventually stopped.

In rethinking this model, Locke and Georges realised there were three things that almost every farmer in Haiti needed but could not access: good quality seed, basic hand tools and agricultural training. They asked farmers if they would plant trees and accept payment in the form of seed, tools and training. The answer was yes, and the next step was to build tree nurseries where the farmers could work and earn these agricultural services. SFA also developed a plan to make the resulting operation self-financing over a period of years through a combination of establishing seed banks and training the farmers from the outset to eventually take over the operation.

In 2010, within weeks of launching, hundreds of farmers got involved and, soon after that, more than a thousand participated in the programme. The SFA was building tree nurseries as fast as possible, but finally had to limit the programme to 1,500 farmers. Over the next few years, SFA expanded to around 6,000 members on 3,000 farms. The SFA is now established in five locations throughout Haiti and it operates 30 tree nurseries.

The initiative met the original Timberland challenge to plant 5 million trees in five years. Now, close to 7 million trees have been planted. Farmers also have access to fruit tree seedlings, which they plant on their farms and in small orchards. They plant trees as living fences to stabilise deforested slopes that contribute to flooding. They have reforested large tracts of community land that what will eventually be connected to form the first green belt of its kinds in Haiti. All these trees in the ground have earned farmers better seed, tools and training that has, in turn, resulted in a minimum yield increase of 40% for their crops, all raised using organic principles, and an average increase in household income that ranges from 50% to 100%.

3. "Moringa: Export Market Potential for Smallholder Farmers in Haiti," Smallholder Farmers Alliance, February 2015, http://static1.1.sqspcdn.com/static/f/1740404/25934922/1423443135730/SFA+Moringa+Study+-+February+2015.pdf?token=2JIbF6JRr%2B7i2vJ2TYOWicTawiI%3D

Tree currency financing agriculture

The participating farmers helped Locke and Georges realise that, in designing the operation based on planting trees to earn agricultural services, they had actually created a form of currency: tree currency.

This realisation came as the farmers began asking for additional services in exchange for their tree credits. Some of these requests were directly related to agriculture, such as using credits to buy livestock or improve irrigation. However, increasingly, they were asking to exchange credits for community services including: adult literacy classes; basic business training; and a micro-credit bank with loans for women farmers. It was the farmers themselves, with just a bit of guidance and support from SFA, who implemented all these services.

Introducing export crops

In early 2015 the SFA published a feasibility study for moringa.[3] The leaves of this fast-growing tree are unusually high in protein. Timberland and the Clinton Foundation helped make the connection with a U.S. company called Kuli Kuli that asked if the SFA's smallholders could grow moringa trees and have women farmers process the leaves into dry powder form. Kuli Kuli's Moringa Green Energy shots, made with SFA sourced moringa, are now on shelves at more than 400 Whole Foods Markets across the U.S. This marked an important transition towards producing export crops.

Phase II: Timberland as customer

Seeing the success of the moringa crop led Timberland to switch from being the SFA's sponsor to becoming a customer of organic cotton.

The first challenge was that although cotton had once been a mainstay of the Haitian economy, it had been absent from the country for over 30 years. In response, Timberland sponsored a feasibility study to determine if it made sense even to consider cotton's possible return. The final study was published in late 2016 and it was clear that cotton left because of politics and policies rather than for agricultural or climatic reasons.[4] The study recommended that cotton be reintroduced as a crop for smallholder farmers, who had grown at least 80% of the crop historically.

The next challenge was that there was no seed stock left in the country. To address this need in 2017 the SFA set up a field trial with annual cottonseed varieties from Brazil, India, the U.S. and one perennial variety still found in Haitian gardens. Six months later the trial varieties were harvested and the results published in March 2018.[5] The first commercial planting by up to 500 farmers is set for the summer of 2018.

In its new role as a potential customer for the SFA, Timberland has made a commitment to purchase, through its fabric suppliers, up to one third of its annual global cotton purchase from Haiti on the condition that it is certified organic and subject to price, quality and volume. Timberland anticipates making its first purchase when this summer's crop has been harvested and is ready for shipping in the spring of 2019. Timberland has also helped to secure interest from Patagonia and Vans to help ensure a receptive market as the SFA sets out over five years to have 17,000 farms growing organic cotton with an estimated annual output of around 15 million pounds for export.

Farmers will be restricted to use only half their land for cotton, with the other half seeing yield increases of 40% or more when they are newly introduced to the SFA. On the cotton half, they get one additional food crop in a year, so the overall result will be that food security is maintained.

Additionally, the basic SFA tree currency model remains intact—that is, farmers working in nurseries to grow, transplant and look after trees as a way to earn cotton and food crop seeds, tools and training. The SFA estimates that an additional 25 million trees will get planted during those five years.

Transitioning SFA to a Business

The whole operation was getting too big to manage, so the decision was made to transform SFA into a business. The SFA is creating a new for-profit company in which the SFA and farmer cooperatives will be minority shareholders. Over the course of the next five years, the non-profit SFA will work alongside a new for-profit company called Haiti Rekòt, which translates as Haiti Harvest. During these five years a blend of grants and capital investment will support the combined operation. At the end of five years of blended operation and blended funding, Haiti Rekòt will take over the entire operation and will implement all agricultural and community services entirely from profits and without the need for any further grant funding. It is important to note that the business for the for-profit entity and model is based on real world prices for cotton and other crops, with no subsidies.

4. "Cotton: Export Market Potential for Smallholder Farmers in Haiti," Smallholder Farmers Alliance, 9 November 2016, http://static1.1.sqspcdn.com/static/f/1740404/27324810/1478617284297/Cotton+-+Export+Market+Potential+for+Smallholder+Farmers+in+Haiti.pdf?token=6633LjCdd7Ldqtkb2T3%2F8QbVpmY%3D
5. Piterson Joseph, "Réalisation d'une Parcelle Expérimentale de Coton aux Gonaïves, Haïti," Smallholder Farmers Alliance, March 2018, http://static1.1.sqspcdn.com/static/f/1740404/27894856/1524902410927/SFA+-+Ralisation+dune+Parcelle+Exprimentale+de+Coton+aux+Gonaves+Hati.pdf?token=Y%2FbRtEaJCqHxdddqAoVxn10q7IQI%3D

Supply chains, redefined

The transition from a grant-based model to the creation of a new, financially viable supply chain demands new approaches and more robust data management. The classic definition of an agricultural supply chain is that each step of a product going from a farm to the end consumer is tracked and measured to improve efficiency and manage overall costs. Haiti Rekòt's has revised this definition by adding the tracking and measuring of social and environmental impacts.

Initially this new model of a supply chain will focus on cotton and how the growing, selling and processing of organic cotton can be tracked and measured based on:

1) how it contributes to smallholder resiliency,
2) its effect on food security,
3) how it helps in combatting climate change,
4) how it supports women's empowerment.

Supply chains require data tracking to manage efficiency and costs. At the same time, smallholder farmers themselves need access to data. To help create a data system that incorporates the seemingly disparate goals and modes of operation, the SFA put together a team that includes Timberland along with two groups—the Better Sourcing Program and RCS Global—that have pioneered the real time capture and reporting of quality data from small scale miners. Into this mix, the team added blockchain to determine how this form of a secure digital ledger could potentially be incorporated.

The data system exploration began by engaging seven graduate students from Columbia University's School of International and Public Affairs. These students canvased the world to identify data management systems that is specifically designed—or could be adapted—for use by smallholder farmers and could at the same time accommodate the more complex needs of a supply chain that included blockchain technology or something similar.

After studying 44 possible systems, there was only one that showed promise and that was an e-voucher system developed by FAO in Mozambique. This e-voucher system is based on each farmer having a unique digital ID that is biometrically accessed, rather than requiring a password: an important factor for a sector of the population with historically low levels of literacy.

The SFA realised that with the exception of the FAO example, which they plan to adapt, none of the other systems were ready to incorporate blockchain. This led to the realisation that when it comes to designing a data management system that can accommodate both smallholder farmers and global corporations, the key is to design something simple and then gradually add layers of complexity as the basic data get combined in different ways.

Prognosis: The Potential To Scale

Although the initial focus has been on organic cotton in Haiti, this smallholder supply chain design and its related data management system will eventually be applicable to any smallholder crop grown in any country. The implications of blockchain data, moreover, are compelling for retailers like Timberland that imagine a time when consumers will be able to scan a code on a hang tag on a shirt to access information about individual farmers, organic protocols, environmental impact, and community benefit. To this end, in the spring of 2018, the SFA tested an initial beta version of its farmer-level data system that is based on excel spreadsheets. By 2018, the SFA will have completed the technical specifications necessary for a programme developer to design a new unified data management system that is blockchain ready. This will be followed with a pilot test focused on organic cotton in Haiti.

Timberland believes that customers will increasingly want a new kind of radical transparency – to be informed about the supply chain that brought them a given product and be inspired to make more responsible choices. Currently, some 100 million smallholder farms produce 75% of the world's cotton. Adjust the lens to include any kind of crop and the final count is 500 million smallholder farms throughout the developing world. Add up the people who live and work on those farms and that translates to 2.5 billion individuals, which is a third of humanity. In this way, data-driven smallholder supply chains have the potential to create major change.

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 sincebeen 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 the1960'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.

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