

Prosocial Cost-benefit Analysis and Hybrid Organization's Social Impacts on The Extreme Poor: A Case Study of Lunapads, a B Corporation

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Abstract. Lunapads is a Vancouver-based B Corporation. A hybrid organization, Lunapads, manufactures and sells chemical-free washable cloth sanitary pads in developed countries; the use of the clean and affordable pads enhances reproductive health for women. To help alleviate gender-based suffering of the extreme poor, this for-profit company voluntarily abandons essential enterprise resources: inimitability and rarity. Transferring skills in designing pads and utilizing local materials, Lunapads operates programs that support the extreme poor in Uganda and other African countries through distributing locally-manufactured pads. An interview with the co-founders of Lunapads suggested that compassion influences social entrepreneurship and inclusiveness (i.e. involving the extreme poor/marginalized populations in business process). This study sheds light on the founders' prosocial cost-benefit analysis to explore the relationship between their compassion and its impacts on their organizational decision to select the segment of their beneficiaries. This study also explores how compassion-based management positively correlates with organizational survival. While traditional multinational companies mainly target the poor with purchasing power, the results of this study indicate that a highly compassionate hybrid organization is more likely to sacrifice short-term profits to maximize social impact. A compassion-based hybrid organization may be a solution to the widening the gap between the poor and the extreme poor.

Keywords: hybrid organization, compassion, poverty alleviation, global health.

1. Introduction

Lunapads is a certified B Corporation based in Vancouver, Canada. In 1993, Madeleine Shaw, a social entrepreneur, founded a for-profit organization to manufacture and market healthy and environmentally-friendly disposable sanitary products to women. The for-profit's mission is to, in her words, "promote healthier, more positive and informed relationships between individuals, their bodies and the Earth." To bolster the lack of her financial management skills, she invited a chartered accountant to join her as a Lunapads' co-founder. While expanding their market reach across North America was a primary business goal, the co-founders adopted a more "open source" social impact objective for their products in the developing world. Lunapads waived intellectual property rights on their products, and provided business mentorship to AFRIPads, a Ugandan-based enterprise, on the whole business process. Additionally, Lunapads encourages other companies to manufacture similar disposable pads out of local materials in other developing countries.

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Although Lunapads remains committed to a market-oriented approach, the co-founders intentionally abandoned two of four conditions that Resource Based View (RBV) regards as sustainable competitive advantage: inimitability and rarity. In addition, Lunapads donates 2% of its sales to social impact programs. As a result of the tangible and intangible contributions to AFRIPads, low-cost washable pads have been delivered to half a million women and girls in 18 developing nations as well as marginalized populations in Vancouver. The co-founders make compassion-oriented decisions based on their organization's primary objectives: to improve the health and to empower people who menstruate. Compassion for the vulnerable persons may be a key to make a decision to sacrifice personal and/or financial gain.

Based on previous research conducted by Miller, Grimes, McMullen, and Vogus, compassion differentiates social entrepreneurs from commercial entrepreneurs. An interview with the co-founders of Lunapads on Aug 13, 2015 allows this study to examine how compassion influences prosocial cost-benefit analysis (e.g., reducing risk aversion and increasing mental health) at the individual-level, how contagious other-oriented hope triggers social entrepreneurship, and how compassionate organization improves the quality of life of the extreme poor.

2. Literature Review

2.1. Definition and typology of hybrid organizations

Hybrid organizations are enterprises that combine two traditionally separate objectives: creating social welfare and revenue generation [1]. Hybrid organizations prioritize solving specific social or environmental issues while striving to remain financially sustainable [2]. Some authorities provide pragmatic legitimacy to hybrid organizations such as Limited Liability Companies (LLC), Low-profit Limited Liability Companies (L3C), benefit corporations in the United States, and Community Interest Companies in the United Kingdom. In addition to these legal structures, a non-profit B lab certifies B Corporations that exceed its high standards of social, economic, and environmental sustainability.

Going beyond legal-status based categorization, researchers have developed substantial typologies. Mair, Battilana and Cardenas focus on four forms of capital in hybrid organizations: social, economic, human, and political [3]. According to their typology, women-related organizations tend to emphasize economic capital, including material resources, to bring about social change. In addition, women-related and health-related organizations are more likely to put human capital at the center of efforts to raise awareness. Consistent with their findings, Lunapads donates pads and makes every effort to educate girls to improve their reproductive health.

Other recent research sheds light on enterprise-beneficiary relationships, illustrating how different levels of mutual reliance between social enterprises and their beneficiaries (i.e., involvement) would affect the depth of impact offered to beneficiaries [4]. Kennedy categorizes hybrid organizations into three categories: "general social and environmental benefit" cluster, "donation" cluster, and "social business" cluster. Within this typology, Lunapads pursues a donation model in Africa, maintaining a social business model in developed countries. Kennedy's donation model is that the individual beneficiaries may never have direct contact with the social enterprise, whereas her social business model is supposed to have at least one interaction with the individual beneficiaries. Lunapads had no direct interaction with their beneficiaries in Africa for the first four years, which fits with Kennedy's definition of the donation model. Once the co-founders visited Uganda and started to invest in AFRIPads, their enterprise-beneficiary relationship became more like the social business model in which the enterprise-beneficiary relationship is the most directly intertwined.

2.2. Hybrid organizations for poverty alleviation

Traditional aid agencies such as the United Nations and the World Bank Group identify the private sector as an important stakeholder for poverty alleviation. Particularly in the health sector, private companies play an important role in providing access to affordable products in developing countries, as the Millennium Development Goal (MDG) Target 8-E states. Technical and financial contributions by the private sector are more impactful on the vulnerable people in developing countries.

In terms of poverty eradication, international aid organizations pay significant attention to women as a nexus between global health and poverty alleviation. For example, the lack of access to menstrual products negatively affects a large number of girls and women in the developing countries. They typically use less-absorbent old cloth or other unsanitary means during their periods, which harms their health and dignity. According to the Girl Effect's and Menstrual Hygiene Day's websites, at least 10% of school-aged girls miss school fearing the embarrassment of soiling their school uniforms. Girls miss up to 20% of their education time, which causes a high drop-out rate and limited career choices. Reusable cloth pads are offered as a solution to this issue, with Lunapads as one of the many suppliers of low-cost and washable pads that contribute to solving this problem.

Serving the extreme poor without purchasing power is complicated not only for profit-seeking companies but also for hybrid organizations which are expected to be financially independent and sustainable. For-profit firms are able to sell low-cost products to the poor with purchasing power and/or decision makers in a household; however, the extreme poor including women whose husbands often make a decision on allocating family budget largely do not have access to the products and services provided by for-profits. The gap between the poor and the extreme poor who cannot afford fee-charging products and services might be widening. To tackle the income and gender gap, hybrid organizations, as the primary stakeholders of poverty alleviation, have the potential to achieve "no one left behind" goals, a post-2015 development agenda's central concept [5].

2.3. Prosocial cost-benefit analysis and social entrepreneurship

Compassion plays an important role in increasing perceived benefits at the individual-level when individuals make a career decision or an extra effort in their work. Previous research illustrates that compassion is a key-motivating factor for becoming a social entrepreneur [6]. Compassion is generated by the heartfelt experience of sharing the pain of another [7]. Compassion is a response to vulnerability and the desire to alleviate suffering of others [7]. Interpersonal contact with a vulnerable person strengthens compassion as well as commitment. From the perspective of management, interpersonal contact with beneficiaries benefits employees' motivation [8]. Compassion frequently leads to feeling hopeful for others, also called "other-oriented hope," which enhances the individual's psychological and mental health by reducing stress [9]. Additionally, other-oriented hope can counteract negative emotions [9]. Beyond the benefits generated by psychological effects, a previous study on motivation indicates that compassionate goals emphasizing on others' gains can be beneficial not only for beneficiaries but also implementers [10]. Thus, considering both the health benefits and potential self-gain from helping others, the results from prosocial cost-benefit analysis might be different from that of traditional self-focus cost-benefit analysis.

Regarding perceived costs, other-oriented hope reduces risk aversion [9]. Being less risk averse encourages individuals to be willing to take a risk to launch own venture. When an individual is hopeful for others, s/he is too passionate to postpone his/her goal pursuit due to fear of failure or other concerns. Moreover, compassionate individuals are more likely to underestimate costs. Compassionate individuals pay scant attention to costs such as frustration from dashed hope, lower controllability of other-oriented hope, and an opportunity cost of spending less to own hope. Based on prosocial cost-benefit analysis, compassionate individuals who underestimate their costs tend to take a risk to launch a hybrid organization to achieve other-oriented goals such as alleviating poverty.

When it comes to operating a socially motivated project at the organization level, compassion triggers a spiral of success. Firstly, an interpersonal contact with a person in suffering generates compassion. This compassion is generalized to others suffering from similar issues [6], which defines which vulnerable population is targeted in each project. Secondly, other-oriented hope, a contagious emotion, makes other people feel the same hope. This infectious behaviour is called "borrowed hope" [9]. A strongly compassionate social entrepreneur provides borrowed hope to co-founders and employees. Thirdly, their other-oriented hopes and borrowed hopes facilitate their commitments at the expense of their self-interests just as that of compassionate entrepreneurs does. Once a project starts creating social impacts, employees may have an opportunity to visit their beneficiaries. Then, this direct interpersonal contact also motivates them and strengthens their commitments. Lastly, the satisfaction derived from working compassionately to

help others transforms into personal utilities (e.g. less medical expense), and also enhances their perceived benefits [6]. In this way, compassion has a key role in making a decision on a project's beneficiaries, strengthening employees' commitment to its project, and gaining their satisfaction from the project.

3. Theoretical Framework and Hypothesis

Based on a literature review, these hypotheses emerge: H1 Compassion has influence on a social entrepreneur's cost-benefit analysis and consequential career choice (see Fig. 1) Also, the contagious characteristic of compassion influences a social entrepreneur's prosocial cost-benefit analysis as well (see Fig. 2); H2 An interpersonal contact with beneficiaries enhances entrepreneurs' commitment; and H3 Compassionate entrepreneurs tend to sacrifice self-interest to serve populations in difficult conditions, so a hybrid organization makes every effort to serve the extreme poor and/or the marginalized populations in extremely poor countries (see Fig. 3).

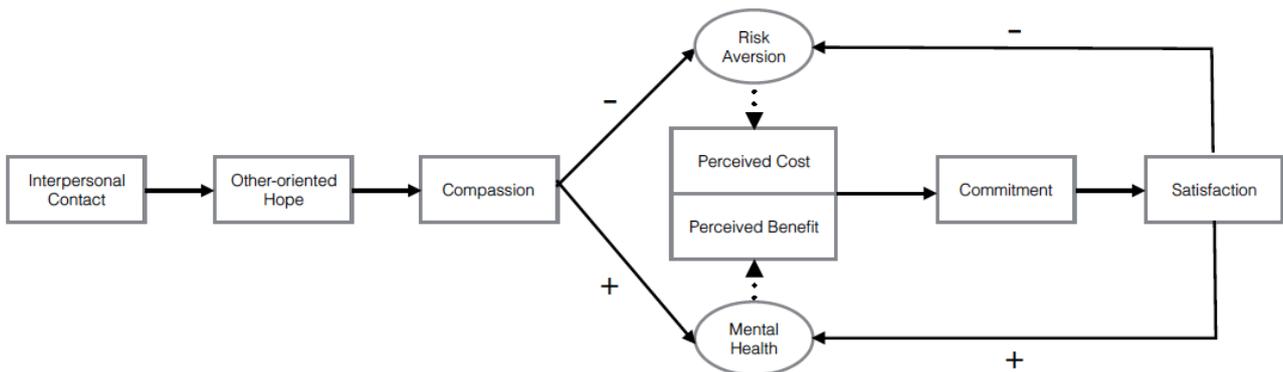


Fig. 1: The process model of social entrepreneurs' prosocial cost-benefit analysis.

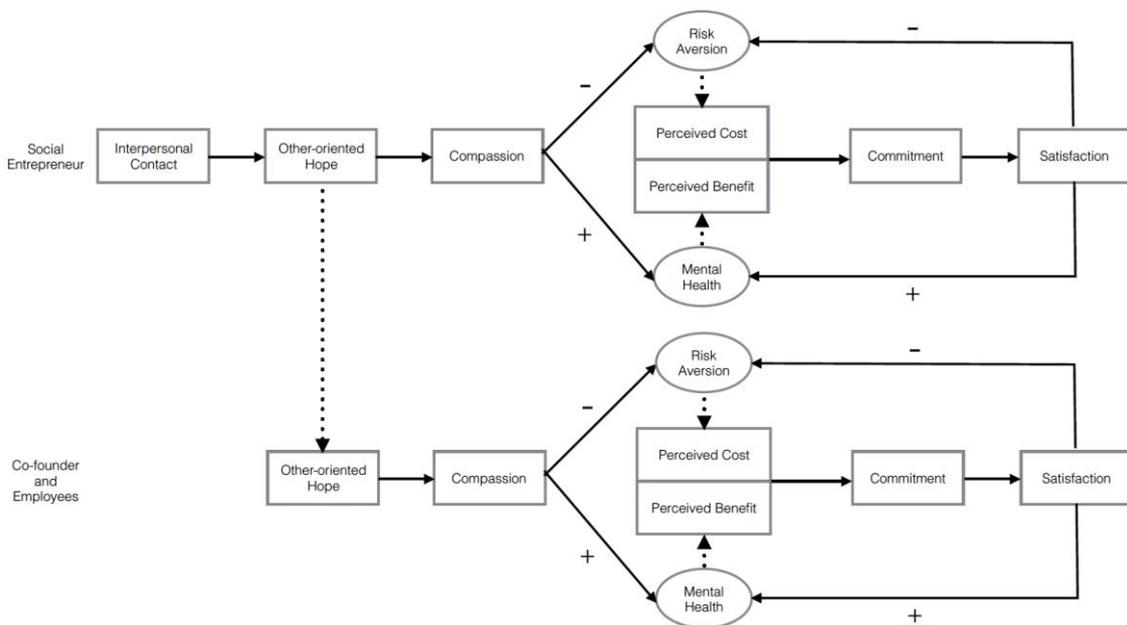


Fig. 2: How social entrepreneur's other-oriented hope affects a co-founder and employees.

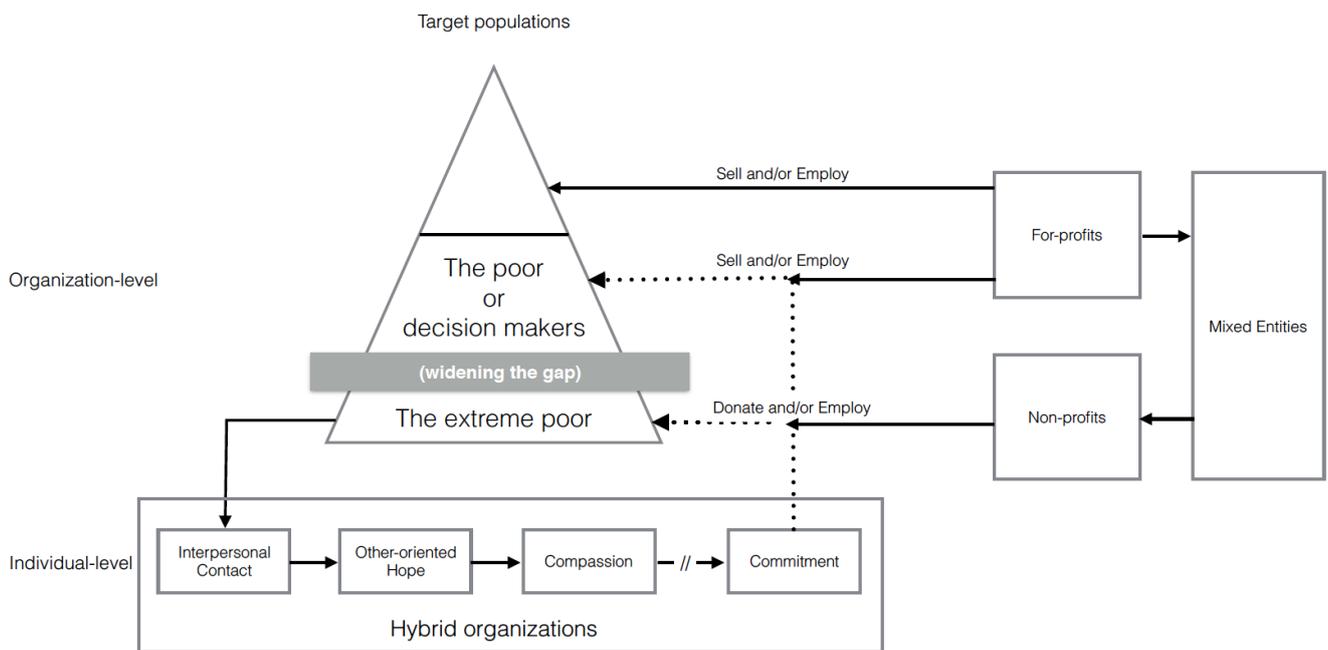


Fig. 3: Organizational level decision-making on targeting populations.

4. Methodology

This paper analyses a case involving Lunapads as a representative of hybrid organizations that alleviate poverty through enhancing global health. From the perspective of pragmatic legitimacy, Lunapads is chosen from the list of certified B Corporations. As of August 2015, 82 out of 1,366 B Corporations are self-reportedly categorized as “home & personal care” in the health sector. Five out of 82 B Corporations in that category operate projects in developing countries. Lunapads is the oldest company among the five companies, and has been certified as a B Corporation longer than the other four companies. In order to analyse durability of a compassionate hybrid organization, the oldest company is chosen as a case study.

Data collection included desk research on Lunapads’ and AFRIPads’ websites. A key informant interview was conducted on August 13, 2015 in Vancouver, Canada. A semi-structured interview was conducted, recorded, and transcribed. The interview was 55 minutes in length. The key informants are Lunapads’ co-founders: Madeleine Shaw and Suzanne Siemens. Prepared questions were used to initiate the discussion, but the interview did not constrain interviewees’ scope of discussion. Questions asked covered experiences in their previous employment, life events related to Lunapads, a four-point scale for risk aversion on a self-reported basis, a seven-point scale for compassion for humanity, their perceptions of competitors, and their criteria for making decisions for serving the extreme poor at the expense of financial gain.

5. Results

The results strongly supported H1, which states that compassion has influence on a social entrepreneur’s cost-benefit analysis and consequential career choices and that the contagious characteristic of compassion influences a co-founder’s prosocial cost-benefit analysis. H2, which states that an interpersonal contact with beneficiaries enhances entrepreneurs’ commitment, was also supported. Contrary to the author’s assumption, the results did not support H3, which states that a hybrid organization makes every efforts to serve the extreme poor and/or the marginalized populations in the extremely poor countries because compassionate entrepreneurs tend to sacrifice self-interest to serve populations in difficult conditions. A less strategic beneficiary targeting and the co-founders’ belief have more influence on organizational inclusiveness than compassion.

Madeleine Shaw, one of the co-founders of Lunapads, is a socially and environmentally motivated entrepreneur. In her early 20’s, she developed a strong compassion for women who suffer from gender-based violence and gender inequality. In addition to her anger-based compassion for those women, her compassion

was generalized to women as a whole when she developed a series of allergic reactions to disposable tampons. Her medical history motivated her to spread a good word about the effectiveness of reusable menstrual sanitary pads instead of disposal products. Her knowledge on fashion design enabled her to create washable pads without chemical and synthetic materials. Madeleine shows relatively less risk aversion (2 out of 4), saying that “(taking risks) is necessary if you pursue a social change.” Madeleine’s strong compassion might make her less risk averse and tolerant to potential loss. Her concern for reproductive health and the planet are successfully formed into Lunapads, a hybrid organization; however, the lack of experience in for-profit organizations and the absence of financial knowledge made it difficult for her to deliver her products to women at a large scale.

Suzanne Siemens, the other co-founder of Lunapads, brought a complementary capability as a chartered accountant who worked in for-profit organizations. At her previous employment she experienced frustration with her organization’s focus on shareholder value. Her moral conflict, combined with a health scare that took her away from work for five months, caused her to rethink her career aspirations in the corporate world. In spite of her past experiences, she still believes that business can be a good force for society. Suzanne met Madeleine at Community Leadership Program and she became infected (i.e., moved) by Madeleine’s strong compassion for women and offered to support Lunapads. Regardless of her relatively strong risk aversion (3 out of 4 on the self-reported basis), Suzanne left her stable job with higher salary in order to join Lunapads’ mission.

Lunapads, which is incorporated as a for-profit in Canada, has no patent or other intellectual property on Lunapads’ design. “Lunapads” is a registered trademark hold by the company in Canada and the United States. This is because their primary objective at the organization-level to provide a choice of sanitary products to women in the developing countries. Madeleine is not concerned about competitive products because “(girls in the developing countries) deserve lots of choices like Western consumers. Developing the best product is not a point.” Upon receiving a request by the co-founders of Uganda-based AFRIPads, an organization that has delivered reusable pads to half a million girls in Africa, Madeleine let AFRIPads use the design patterns of Lunapads. Suzanne also provided administrative advice on finance and marketing to AFRIPads since 2008.

Following a visit to Uganda in 2012 to meet the AFRIPads founders, team and their beneficiaries, Lunapads launched the “One4Her,” a program with AFRIPads which allotted a portion of the proceeds of Lunapads sales to donate AFRIPads for girls unable to attend school during their periods. In doing so, they are helping create employment in Uganda and no longer part of an inefficient model of sending products from Canada. Lunapads donates 2% of online sales, which are made mostly in U.S. and Canada, to philanthropic projects that include cloth pads donations to the marginalized population of Vancouver. In 2012, Madeleine and Suzanne visited Uganda and met the AFRIPads team and their customers. At Lunapads’ office in Vancouver, Madeleine and Suzanne keep pictures of AFRIPads’ employees and handwritten letters received from them to remind them of the impact of their compassion. They saw the life of the Ugandans and felt compassion for a local employee who said that “now I can send my brother and kids to their school.” They also thought that “we can make their lives better, and so we have to keep going.” Lunapads became a shareholder of AFRIPads in 2013 to support their growth and address the importance of investing in a social business where capital is difficult to obtain. This is how their compassion-led other-oriented hope strengthened their commitments to the vulnerable populations in Africa.

However, the co-founders compassion would not sufficiently drive Lunapads to serve the extreme poor in extremely poor counties. In other words, their compassion is not necessarily correlated with inclusiveness at the organizational level. In spite of the co-founders’ willingness to sacrifice self-interests, Lunapads would serve the extreme poor only when its financial sustainability would be ensured. Madeleine desires to make use of for-profit business models as an enabler for scaling and Suzanne has a passion to prove that a new form of capitalism can demonstrate that business can be a force for good. The co-founders have explored their organizational identity over and over, and have concluded that Lunapads’ legal status should be for-profit rather than not-for-profit. Based on this decision, Lunapads prioritizes financial independence at the organization-level, and therefore serves a limited number of extreme poor.

6. Conclusions

Compassion for women suffering from gender-based violence and inequality made Madeline a social entrepreneur. Her compassion for a specific population was generalized to a potential group of people suffering from similar gender-based issues. Her compassion and other-oriented hope reduced her risk aversion. Despite the fact that she has no background in for-profits, she founded a for-profit organization to create social benefits for women at a large scale. Combining Madeline's strength in creativity with Suzanne's expertise in finance, Lunapads keeps its hybridity at the organization-level to pursue dual objectives simultaneously.

Suzanne made a rational career choice as a result of her prosocial cost-benefit analysis. She is moderately risk averse and felt less compassion for women compared to Madeline; however, Suzanne's borrowed hope was generated by Madeline's other-oriented hope because compassion has contagious characteristics. Her commitment to Lunapads might have increased her perceived benefit eventually because other-oriented hope reduces stress and promotes her psychological health. Her willingness to invest time and money resulted in expanding Lunapads' business. Suzanne may have felt satisfaction that enhances her psychological well-being. Based on her prosocial cost-benefit analysis, her perceived personal utility from contributing to women in suffering might overcome her risk aversion.

Once their prosocial cost-benefit analysis determined their career, interpersonal contacts with the Ugandan beneficiaries in 2012 strengthened the co-founders' compassion for local women in Uganda. Their compassion resulted in their stronger commitments to serve the extreme poor. Thanks in part to Lunapads' financial contribution, AFRIPads has delivered reusable menstrual products to, as of March 2015, 500,000 African girls who had used old cloths during their periods. Furthermore, AFRIPads now employs 150 local people, 135 of them women, whose families can now afford personal care products and basic education.

The Lunapads case shows that compassion significantly influences the co-founders' prosocial cost-benefit analysis and thus triggered social entrepreneurship. Also, their interpersonal contacts with their beneficiaries strengthened the co-founders' commitments. Their commitments enabled Lunapads to create more social benefits, which brings greater satisfaction at the individual-level. This satisfaction positively influences the co-founders' mental health that enlarges perceived benefits in prosocial cost-benefit analysis.

At the organization-level, the co-founders' mental health ensures Lunapads' stable workforce. Running a hybrid organization requires persistence and resilience because compassionate organizations such as Lunapads waive inimitability and rarity of their products. Lunapads' compassion-based management puts more emphasis on alleviating women's suffering than protecting inimitable and rare resources that are traditionally defined as the essential enterprise resources. Regarding competitive strategy, compassion differentiates a hybrid organization from a traditional company that is reluctant to disclose its recipe for success in business. This difference forms the identity of hybrid organizations; however organizational sustainability requires the co-founders' physical and mental wellness because they intentionally put themselves at a disadvantage in the marketplace. In addition to the co-founders' managerial skills of balancing social and economic objectives, durability of compassion at the individual-level may have contributed to their hybrid organization's survival since the late 1990s.

Regarding H3, contrary to the assumption, a hybrid organization does not always make every effort to serve the extreme poor and/or the marginalized populations in extremely poor countries. Lunapads' co-founders have a strong compassion for women in suffering; however, Lunapads' inclusiveness does not necessarily reflect their high degree of compassion. Although their compassion positively influences the efforts that the co-founders make to serve the extreme poor, two decision-making factors would negatively influence their organizational inclusiveness, i.e., the poverty level of their beneficiaries; a random-meeting based targeting and the co-founders' beliefs in for-profit models.

The co-founders' random meeting with AFRIPads made Lunapads target Uganda, so Lunapads did not strategically target Uganda. If the co-founders of AFRIPads did not email Madeleine and Suzanne to ask for their help, Lunapads' target could have been India, Brazil or other emerging countries. Yet, by chance, Uganda is categorized as a "low-income country" by the World Bank Group and ranked at 164 out of 187 countries in the Human Development Index of 2014. Moreover, AFRIPads serves the extreme poor in last

mile communities and girls without purchasing power through selling its products to NGOs, whereas it employs women to sell and deliver its products to the poor with purchasing power. Considering Uganda's poverty level and AFRIPads' business model, it is fair to say that Lunapads' investment model and One4Her program serve the extreme poor and marginalized populations. In spite of the random meeting-based targeting, the compassionate co-founders enhance dignity of women, promote reproductive health, raise girls' attendance rates at school and work, and increase their income level in the extremely poor countries.

Second, the co-founders' beliefs prevent Lunapads from serving the extreme poor. Although a large number of hybrid organizations change legal status, Lunapads' co-founders' belief in for-profit model determined its legal status. This organizational constraint, along with their beliefs, would allow Lunapads to invest its resources in the extreme poor only if a project was financially sustainable. In conclusion, compassion plays a significant role in prosocial cost-benefit analysis at the individual-level and sustainably creates social impacts at the organization-level; however, compassion is not the sole factor in defining the scope of beneficiaries. Random-meeting and personal beliefs play an intricate role as well.

Regarding limitations of this study and the direction of future research, quantitative research on a larger sample is required to fully support the hypothesis. Also, future research will examine the difference between anger-based and compassion-based entrepreneurship, the relationship between mission-drift and founders' beliefs on business as a force for good, and the survival risk regarding the lack of RBV's conditions.

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