Launching the Working Capital Fund
A Case Study of Humanity United

Prepared by
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Preface: Hidden in Plain Sight—Eradicating Modern-Day Slavery in the Supply Chain

This case study examines the ways Humanity United, a private operating foundation, is confronting the challenge of modern-day slavery by creating the US$25 million Working Capital Investment Fund (Working Capital or the fund) to spur innovation that will enable companies to better address forced labor in global supply chains. Launched in early 2018, the fund is the first of its kind—a limited partnership housed within a foundation. While it is too new to gauge its impact, it is important to understand the conditions needed to launch a new innovative social finance product into the marketplace. The case will examine the start-up phase of Working Capital and share the perspectives of Humanity United and its partners as to what they hoped to achieve toward the goal of eradicating slavery in supply chains.

According to the World Economic Forum’s annual Global Risks Insight Report, poverty and the systemic and devastating consequences of income disparity, forced displacement, climate change, inequality in education, and food and water scarcity are among the threats that keep world leaders across sectors awake at night.¹

These same factors—combined with corruption, poverty, power imbalances, and a lack of transparency and accountability—create the conditions for modern-day slavery. Not limited to a few poor countries or isolated industries, modern slavery in one or another of its various
forms—including forced and bonded labor, child labor, and sex trafficking—is present throughout the world, impacting more than 40 million people globally. Of those, some 25 million are subject to one form or another of forced labor (the remaining 15 million are victims of forced marriage). The fruits of forced labor are hidden in plain sight. These extreme forms of labor exploitation occur in the supply chains of agricultural, mining, and manufactured products. The global community has become focused on this problem as never before, in part because the eradication of forced labor is among the United Nation’s Sustainable Development Goals (SDGs).

In this case, HU’s approaches to ending modern slavery are examined using a Wicked Problem framework, which offers leaders ways to tackle these seemingly intractable challenges. Since Wicked Problems were first described in the 1970s by social scientists, much has been learned about what it takes to successfully address the world’s most difficult problems. We have gathered these lessons together under the rubric of Deliberate Leadership, a suite of tools and approaches used in the business and social sectors to empower leaders to most effectively deal with complexity.

Because each problem is unique, leaders must choose their approaches carefully. Should they assume a command and control approach because they face a crisis? Should they manage the problem by calling on previous successful experiences? Do they face a challenge that requires them to be collaborative and adaptive leaders, adjusting their strategy based on clear-eyed understanding of what is and isn't working? Can they hold onto their vision while putting their preconceived notions aside, recognizing the strengths and limits of their expertise and seeking solutions where one might least expect to find them—including within communities affected by the problem and across disciplines?

Deliberate Leaders are leaders who act with intention and recognize that they must accept not only the risk of the challenges ahead, but also the consequences of their own actions. If Wicked Problems were easy, they would have been solved. When dealing with the world’s most complex challenges, it is a given that things will go wrong. What’s important is to learn, adapt, and move forward. This series of cases pulls together examples of Deliberate Leaders worldwide to help other business leaders solve the biggest challenges of our time. The goal of the case studies is not to prescribe answers but to stimulate discussion and ask the crucial question—what would you do in these circumstances?

The following case study was supported by Humanity United. The views expressed here do not necessarily reflect those of Humanity United as an organization. The methodology included a review of background materials provided by the foundation and acquired through desk research and 20 confidential interviews conducted with foundation staff and leadership as well as current partners. Although the interviews were confidential, interviewees agreed to have their statements attributed. Independent academic reviewers critiqued the case for adherence to academic protocols and to ensure its usefulness as a global teaching tool.
Introduction

“Forced labor can be understood as work that is performed involuntarily and under the menace of any penalty. It refers to situations in which persons are coerced to work through the use of violence or intimidation, or by more subtle means such as manipulated debt, retention of identity papers or threats of denunciation to immigration authorities.”

—International Labor Organization

The complexity of global supply chains, the lax enforcement of labor law in many countries, and the incentives for suppliers to keep labor costs low all help enable forced labor. Today, forced labor affects an estimated 25 million people worldwide. In absolute numbers, more people are enslaved today than at the height of the international slave trade in the early 1800s. While one very serious aspect of the modern-day slavery—sex trafficking—receives attention, the problem goes much deeper. A significant number of people in conditions of modern-day slavery are employed in the supply chains of global industries, from electronics and apparel to primary commodities like palm oil and seafood. And in some places slavery is passed down through generations—notably South Asia’s centuries-old practices of bonded labor, where debts pass down from parent to child.
Social Finance and the UN Sustainable Development Goals

In 2015, the world’s governments came together through the United Nations (UN) to commit themselves to a set of 17 ambitious UN Sustainable Development Goals (SDGs), with the overall aim of eliminating poverty in all its forms by 2030. The SDGs, also referred to as Agenda 2030, apply to all countries, at all income levels. Core goals include the eradicating hunger; providing good health and education; ensuring gender equality, clean water and sanitation; developing a more socially and environmentally sustainable economic system; taking action on climate; healthy land and marine ecosystems; and ensuring peace and justice (see Figure 1).

Figure 1: The UN Sustainable Development Goals

The SDGs are aspirational goals, not legally binding upon governments. But they nonetheless represent an audacious attempt to focus the combined efforts of government, business, and civil society around the world on the most intractable Wicked Problems faced by contemporary civilization. The 17 goals are accompanied by 169 subgoals that lay out specific targets under each main goal. Together, these goals and targets have the potential to serve as an enormously influential agenda-setting roadmap, which can guide multinational, cross-sectoral social impact endeavors around a common set of problems and shared objectives.

There is an estimated funding gap of US$2.5 trillion gap to meet SDG goals in developing countries. But social finance and impact investing, with their strong potential for leveraging private capital for positive social impact at scale, can play an important role in mobilizing money and solutions to meet SDG targets.

The SDGs provide additional ammunition for the fight against modern slavery. Forced labor and human trafficking are addressed three times within the SDGs. SDG 8 is specifically devoted to labor and employment, summoning every nation to “Promote sustained, inclusive,
and sustainable economic growth, full and productive employment and decent work for all.” Within SDG 8, Target 8.7 calls for countries to:

Take immediate and effective measures to eradicate forced labor, end modern slavery and human trafficking and secure the prohibition and elimination of the worst forms of child labor, including recruitment and use of child soldiers, and by 2025 end child labor in all its forms.6

There are two other relevant targets. Under SDG 5, Gender Equality, Target 5.2 calls on all nations to “Eliminate all forms of violence against all women and girls in the public and private spheres, including trafficking and sexual and other types of exploitation.”7 And SDG 16—Peace, Justice, and Strong Institutions—addresses child slavery under Target 16.2, which commits nations to “End abuse, exploitation, trafficking and all forms of violence against and torture of children.”8

It is too early to gauge the contribution of the SDGs to eradicating modern slavery. But analysis has already noted the potential, as yet unrealized, for using the blended capital from private, public and philanthropic sources to help spur progress toward reaching Agenda 2030 targets.9

**Context: An Overview of Modern-Day Slavery**

Social finance is the latest weapon in the centuries-old battle to end slavery, which has been a long, slow, and still unfinished fight. Abolitionists won their first success in 1777 when Vermont, then an independent republic, outlawed slavery.10 Two centuries later in 1981, Mauritania became the last nation on earth to ban it.

Yet slavery endures. In 2018, the Global Slavery Index found instances of human bondage in nearly all 167 nations it studied, with North Korea, Eritrea, Burundi, the Central African Republic and Afghanistan targeted as the worst offenders.11 Girls and women, many of whom are caught up in human trafficking, make up 71 percent of victims.12

**Hidden in Plain Sight: Six Most Common Forms of Modern Slavery**

The human rights organization End Slavery Now identifies six major forms of modern slavery:13

- **Forced Labor** refers to a situation wherein people work for little or no pay under the threat of violence or reprisal. This can be imposed by national or rebel governments, occupying armies and other military forces, or prison authorities. But private businesses account for 90 percent of cases, especially in the fishing, agriculture, construction, textile and mining industries. Migrant workers, whose quest for employment has taken them across international borders, are especially vulnerable to exploitation.14

- **Bonded Labor** is a form of forced labor under which people are forced to stay at a job until they have paid off a debt. This enslavement often becomes permanent as employers charge destitute workers for food, shelter and other necessities. Sometimes the debt is passed on from generation to generation. Bonded labor accounts for a sizable share of modern slaves, and is most common in India, Pakistan, Nepal and Bangladesh. The ILO estimates that debt bondage is a factor in half of all cases of forced labor imposed by private employers.15
Introduction

- **Child Labor** accounts for more than 25 percent of the world’s slaves. Children under the age of 18 are trapped working in the carpet mills of Afghanistan, in the cocoa plantations of the Ivory Coast, or as prostitutes, drug couriers, and domestic servants throughout North America and Europe. Some have run away from their families or been captured by invading military forces. Others, including many girls in India, have been lured by fraudulent recruiters promising a lucrative job far away.  

- **Domestic Servitude.** The widespread practice of live-in help—such as nannies, cooks and maids—can easily turn into a coercive situation, in which employees are no longer free to leave. This form of slavery is common in Haiti, but also occurs in wealthy nations like the United States and oil-rich Middle Eastern nations like Qatar.

- **Sex Trafficking.** End Slavery Now estimates there are more than 4.5 million sex trafficking victims today—children and adults—and numbers are rising with the growth of Internet sex ads.

- **Forced Marriage.** Poverty and patriarchal attitudes toward women force girls to marry against their will. The International Center for Research on Women find that one in nine girls in the developing world are married before the age of 15. Wives are sometimes “sold” by their husbands to other men and widows are “inherited” by other family members. Forced marriage is most prevalent in Africa, South Asia and former Soviet republics, but the Tahirih Justice Center found 3000 suspected cases in the US in 2012 and *The Guardian* found a similar number in the United Kingdom between 2014 and 2016.

**Why Is Slavery Still Around?**

Four sweeping global forces put a rising share of the world’s population at risk for enslavement: population growth, migration, discrimination, and corruption.

In many parts of the developing world, population is growing much faster than the economy, creating scarcity and fear that drive people into the clutches of slave labor. Natural disasters—including those caused by climate change such as drought, heat waves, fires, floods and storms—heighten these adverse conditions and force migration.

More people than ever before are moving from their traditional homelands to large urban centers or foreign countries in search of work. Many are driven by the need to send money home to support their families. Migrants are especially susceptible to slave labor because they are socially isolated, financially desperate, politically powerless, or don’t speak the local language.

And in an era of rising inequality and intolerance across the planet, increasing numbers of people are vulnerable because of economic status, ethnicity, religion, caste, sexual preference, or gender.

Governments that should be cracking down on illegal labor practices and human rights violations often are influenced by powerful interests who profit from the slave trade. These include organized crime and paramilitary groups, as well as seemingly legitimate companies. As an example of the prevalence of corruption, *The Guardian* reports that one in ten high-level politicians in Brazil have taken political contributions from firms accused of exploiting slave labor.
Slavery Is Big Business

Economic motivations are a big factor behind the persistence of forced labor. Quite simply, slavery pays. Unless the penalties for doing so can be made to outweigh the benefits, reducing labor costs through coercion means more profits for those employing forced laborers.

The ILO estimates 16 million forced laborers are in the private economy. This represents nearly two-thirds of the 25 million total forced laborers—the remainder are in forced sexual exploitation or enslaved by state authorities. Modern slavery is a big business, generating US$150 billion annually in profits across many industries, according to Thomson Reuters. The Global Slavery Index reports that more than US$350 billion is spent annually on goods at risk for being produced by slave labor in G20 countries, reports. The US accounts for US$144 billion, and the UK US$18 billion. Seven of those 20 countries—Brazil, China, France, Germany, Italy, the UK, and the US—have taken significant actions to curb slavery in supply chains. An eighth, Australia, has announced it will introduce legislation to address the issue in 2018.

The five products most likely to be produced by slave labor are:

- Electronics, such as mobile phones and computers (US$200 billion)
- Clothing (US$127 billion industry)
- Fish (US$12.9 billion industry)
- Chocolate (US$3.6 billion industry)
- Sugar (US$2.1 billion industry)

Growing Demands for Cleaning Up Supply Chains

In the past two decades, a number of advocacy groups have emerged that take on the various parts of this agenda, including efforts to motivate employers to act through public pressure and legislation. But until recently, a missing piece has been to not only provide businesses with adequate motivation to address forced labor, but also the means for doing so.

Of the 16 million forced laborers in the private economy, a significant proportion work in the supply chains of goods that are traded in the global economy. The connection of forced labor to global goods and global brands provides points of leverage and opportunity for intervening and pushing back against slavery.

Supply chains have become a key focus of impact investors, including Humanity United’s and Working Capital’s ambitious efforts. As supply chains for the global economy expand, with factories and other facilities located many time zones away from home offices, it is difficult to know under what conditions workers are creating a firm’s products. In some cases, management and shareholders are sincerely uninformed about the human cost involved; other times they choose simply not to find out. But in either case, it turns out to be a major problem for firms when the world finally discovers what is happening through a disaster or an investigative exposé.

One of the first companies to learn this the hard way was retailer The Gap, which in the 1990s became the target of public outcry about sweatshop conditions in its overseas factories. Many young patrons of the casual clothing chain were outraged, which compelled the company to move to improve its image. They worked closely with the Public Reporting Working Group (comprised of leading socially responsible investment firms and social justice organizations)
to cut ties with unscrupulous suppliers, with the result that The Gap is now seen as an industry leader in promoting humane labor practices.\textsuperscript{27}

In 2014, England’s \textit{Guardian} newspaper—respected for detailed international coverage—drew wide attention to the issue of human slavery in corporate supply chains. Its investigative report on the massive Thai firm CP Foods revealed that prawns sold at Walmart, Costco, Aldi and other grocery chains across North America and Europe had been produced using slave labor.\textsuperscript{28}

The Associated Press uncovered another slavery scandal in 2015 that helped spur impact investors into action. The story exposed how Burmese fishing crew members were confined against their will on an Indonesian island. Fish caught by these crews was processed in a Thai factory and shipped to the United States, the AP reported.\textsuperscript{29}

This led California investment advisor Monica Jain to found Fish 2.0, a pipeline for environmentally and socially sustainable seafood. The initiative is focusing on helping innovative seafood companies gain visibility, connecting these firms with global investors, embedding social and environmental impacts into all seafood companies, and vetting startups in the growing sustainable seafood field. More than 150 businesses submitted proposals for better practices and alternative sourcing for seafood, including some Thai entrepreneurs.\textsuperscript{30}

\textbf{Legal Repercussions}

But bad publicity is no longer the only risk for companies engaged directly or indirectly with inhumane labor practices—this year for the first time companies were penalized in the courts for slavery in their supply chains. The need for legislation in this arena has become clear, as pressure campaigns and voluntary corporate social responsibility initiatives—while necessary measures—have proved inadequate in the face of the massive scale of forced labor. Chocolate giants Hershey, Nestlé, and Mars found themselves in the crosshairs of negative publicity in 2010 when a documentary film highlighted the widespread use of child labor for literally backbreaking work on cocoa plantations. While the candy makers have taken meaningful steps to address the issue, the problems persist. A Tulane University report found that child labor in the industry rose 50 percent to 1.4 million kids between 2009 and 2014. These continuing problems led to a false-advertising lawsuit against the companies, which was later dismissed.\textsuperscript{31}

The global information firm Thomson Reuters, with a specialty in legal issues, warns in their report \textit{Ending Modern Slavery} about the repercussions of working with suppliers who use slave labor: “Beyond the reputational and moral implications of knowingly or unwittingly supporting slavery, the threat of penalties on this scale creates some incentive for multinational corporations to get serious about eradicating the crime from their supply chains.”\textsuperscript{32}

A number of governments around the world are passing laws that require companies to report what actions they are taking to make sure their suppliers are not using slave labor. The state of California broke ground for transparency in supply chains with a 2010 law, followed by the UK in 2015 and France in 2017. Many modern slavery practices are also prosecutable under the US Foreign Corrupt Practices Act.\textsuperscript{33}
Humanity United’s Approach to Forced Labor: Systems Thinking

In 1995, Pierre Omidyar founded eBay, the online auction and sales platform. The success of eBay’s IPO in 1998 generated the wealth that has enabled the Pierre and his wife Pam Omidyar to pursue their passion of creating positive social impact. They created what became the Omidyar Network, a group of nonprofit and for-profit social change organizations.

A key component of the Omidyar Group is Humanity United, a private philanthropic foundation that was founded by Pam Omidyar in 2005 and became an independent grantmaking entity in 2008.34 From the outside, the Omidyars furnished the motivating ideas behind Humanity United—human dignity, the unity of humankind, and the need for collaborative, cooperative actions in the face of Wicked Problems. Humanity United started with two of the world’s hardest, most fundamentally challenging issues—the prevention of genocide and the eradication of slavery.

This chapter examines how Humanity United has gone all-in to make progress against forced labor by applying a mix of philanthropic and investment capital. The story begins with a look at the early years of HU’s activity—from 2008 to about 2014—outlining the systems thinking that the organization’s strategy in the mid-2010s—and culminates in the launch of the Working Capital Investment Fund (Working Capital) at the beginning of 2018.
Values-Driven Engagement

Working Capital: It Starts with Values

Over a century ago, the German sociologist Max Weber differentiated between two forms of rationality—values-based, and instrumental, which focuses on the contrast between ends and means. Weber suggested that once an end—a goal—has been selected, which is based on a particular value orientation, the subsequent course of action is dictated by the instrumental form of rationality. But if modern history has taught us anything, it is that values and technical rationality are always intertwined.

Values come into play at all stages of Humanity United’s philanthropic engagement for social impact, from the selection of topics to work on, to the approaches taken, to the way feedback is used to inform course corrections.

From the outset of HU’s involvement on the issue of modern slavery, Pam Omidyar made it clear that this was one of the issues she felt most passionate about. In choosing this area of work, there was a clear sense of a hierarchy of human needs—and the guiding reasoning for focusing on slavery was the belief that, in the absence of basic human freedom, practically all other issues are secondary. For HU Managing Director Dan Viederman, choosing to work on slavery, specifically on forced labor in the supply chains of global companies, represents “an embrace of uncertainty and an embrace of challenge.”

Just as values motivated the choice of HU’s work, values continue to drive how the work is carried out, as detailed in the next chapter.

Deliberate Leadership and Humanity United’s Evolving Strategy

Early on in their work, Humanity United devised a guiding framework for strategy development that moved through stages of research, engagement, action, and confirmation—a framework that closely resembles the Deliberate Leadership Learning Process.

Starting in 2008, HU started making grants to increase available knowledge about forced labor. These included grants to investigate human rights abuses, and for pathbreaking research on supply-chain tracing carried out by the nonprofit Verité. HU also supported dozens of advocacy groups working in specific industries or locations, as well as direct impact activities such as “shareholder activism, lawsuits, lobbying legislatures or government agencies, advocacy campaigns, and so on.”

HU helped give shape and cohesion to a still-nascent anti-slavery movement in the US through its support for groups like the Los Angeles-based Coalition to End Slavery & Trafficking (CAST), whose work help pass anti-trafficking legislation in California, and The Alliance to End Slavery & Trafficking (ATEST), “a policy-focused coalition to advance US anti-trafficking efforts.” Founded in 2007, ATEST soon became “the pre-eminent voice in Washington, DC policy discussions on all aspects of modern-day slavery.” It successfully lobbied the US Congress for a significant increase in Federal funding for anti-trafficking efforts, and ATEST’s recommendations helped guide the Obama administration’s implementation of its 2012 Executive Order “Strengthening Protections Against Trafficking In Persons In Federal Contracts.”

To raise public awareness of modern slavery and put pressure on companies to examine their own forced labor risks, HU also supported investigative journalism, including an influential
series of articles published by the *Guardian*. More than 400 pieces of content have appeared as part of the “Modern Day Slavery in Focus” series, covering stories from the US, UK, Mauritania, Nepal, India, Middle East and Southeast Asia. And in 2011, HU sponsored a public forum hosted by CNN, featuring leading anti-slavery activists like Kevin Bales and an audience that included representatives from the State Department, federal agencies and Congress, as well as leaders in the anti-trafficking field, academia, leading donors of member organizations, and the private sector.

The theory of change that guided this initial phase of work was based on the idea of a “virtuous cycle” (see Figure 2). Humanity United’s goal was “to create a strategy that helps foster a virtuous cycle between consumers in the global north, the products they purchase, the companies that produce those products, and the supply chains of those companies.” In pursuing this goal, HU focused on specific “slavery-tainted commodities,” including palm oil, gold, and shrimp.

**Figure 2: Humanity United’s “Virtuous Cycle” (2012)**

![Figure 2: Humanity United’s “Virtuous Cycle” (2012)](image)
Lessons Learned

In a 2014 article in *Anti-Trafficking Review*, HU President and CEO Randy Newcomb focused on several lessons learned. One was the relatively uncoordinated nature of donor funding in this space, an issue that HU intended to address by cofounding the Freedom Fund in 2013. Other key lessons were the degrees of risk aversion among donors, which led them to focus funding on a relative handful of a few tried-and-true nonprofit organizations. Newcomb acknowledged the need to move beyond simply building awareness, and the need to increase transparency among brands and governments, as well as between donors and grantees.47

Newcomb concluded with an observation regarding the relative newness of the anti-trafficking movement when “compared with other human rights, public health and environmental efforts that have been around for decades.” In contrast to these better-established field of social impact work, Newcomb writes that in the fight against forced labor, “funding strategies are just beginning to form and gain traction.”48

Since Newcomb’s article, the HU staff have seen the anti-slavery field experience a shift in from awareness-building to the next step of getting companies to take responsibility for the problem of forced labor in supply chains.

Legislation has played a role in shifting this landscape. Kilian Moote, Project Director of KnowTheChain, explains the UK’s Modern Slavery Act of 2015 has had a “palpable and measurable” impact by making it a legal requirement that companies doing business in the UK must report on forced labor in its supply chains.49 This brings the issue to the governance level of company boards, which must sign off on a yearly report about the company’s compliance. There is still much work to do, however, in educating brands to become aware of forced labor risks in supply chains and educating the consumers and the market. The *Guardian* stories funded by HU are designed to reach both these audiences.

What Exactly Does Systems Mean?

As Humanity United began to work on recalibrating its strategies, its leadership decided to deepen its use of systems thinking. In 2012, HU hired Triad Consulting Group to conduct a pilot exercise applying systems thinking to the Foundation’s peacebuilding work in the Congo. As HU admitted in its *Performance Report* for 2012, “this pilot exercise challenged us to think differently.”50 In 2014, HU began to integrate systems thinking throughout its operations, and many of those interviewed for this case study explicitly pointed to the systems approach as now being central to HU’s strategy development and implementation.

What is meant by systems? In a 2017 article for the *Stanford Social Innovation Review*, Freedom Fund Program Director Dan Vexler explained how the term “system” has become very prevalent, but is being used in multiple ways by actors across the social change space. Sometimes “systems” is used to mean “addressing root causes; other times it signals “adapting to complexity.” Vexler focuses on a third meaning, which has become more prominent in recent years: “systems entrepreneurship—the notion that there is a particular set of skills and attributes that an organization can develop and perfect to turn the wheels of change”. He says that Freedom Fund seeks to play the role of systems entrepreneur in its place-based grantmaking on forced labor.51
In a formal sense, a systems approach is a mode of analysis that involves looking at interactions among a set of constituent parts—noticing how given inputs result in given outputs, how the changing characteristics of the external environment affect the behavior of the system, and how a system’s outputs feed back into the system (feedback loops). As this case study’s later chapter on learning makes clear, the Deliberate Leadership learning model—which assigns particular importance to feedback loops—is explicitly based on systems thinking.

In the real world, a daunting level of complexity can arise when analyzing any given system, because systems are always embedded in, and interact with, other systems. The challenge is to capture enough of what is going on in any combination of economic, legal, social, and environmental dynamics in order to be able to understand how and where to exert leverage for change, without making the analysis so complicated that it defies operationalization.

Social impact work based on a systems approach begins with mapping out the system one wishes to impact. This almost always means following flows of capital, goods, information, and personnel through multiple interrelated systems—where the outputs of one system represent inputs or feedback loops into another. The major contextual factors and actors within the system—the policy environments, markets, consumer preferences, firms, governments, and nongovernmental entities—must all be mapped out. One next looks at the leverage points within the system where deliberate efforts to alter key variables, notably the incentives and constraints facing specific players, might be expected to contribute to the desired impact.

**Humanity United’s System Map**

As Humanity United noted in its *Performance Report for 2016*, the foundation embarked on a “deliberate journey” in 2014—“to step back, reassess some of our past work, shared beliefs, and strategies, and ultimately uncover new perspectives.” And central to that process was “developing and implementing a practice of ‘systems thinking’” that “provided us an opportunity to deepen our understanding of the environments we seek to change and strengthen our capacity to create enduring impact.”

The *Performance Report 2016* provides clear definitions of HU’s own use of the terms “systems thinking” and “systems practice:”

- **Systems thinking** is a general term for viewing the world as a series of complex interconnections that each influence one another. A systems practice uses this approach to better understand complex environments in order to address important, though intractable, social problems over time.

- **A systems practice** involves deep exploration and detailed mapping of the key components of a given system as a way to identify leverage points, which have the potential to yield positive impact at scale.

According to that same report, the Foundation carried out the difficult task of integrating systems practice throughout the organization—a process that began with mapping. “One of the first steps in the systems journey is the development of a holistic understanding of the environment in which you are operating, which usually takes the form of a dynamic systems map.”

The end point of the mapping process was the creation of the “System Map” that currently guides HU’s work. Figure 3 shows an overview version of the map, as finalized in 2016.
Admittedly complicated, this map reflects a much more thorough application of systems thinking than HU’s preceding “virtuous cycle” diagram. The left side of the map, with its blue circles, represents the private sector, where HU sees its opportunity. The map’s right side, with green circles, depicts in-country dynamics, upon which HU aims to make its ultimate impact. And the tan circles in the middle represent the “deep structure” of the Wicked Problem of forced labor in supply chains. (See Appendix B for a larger chart.)

Through systems mapping, HU has produced a state-of-the-art schematic diagram of the complex reality of the phenomenon forced labor in supply chains and how they plan to disrupt it. Their accompanying documentation goes into detail on the many points in the system where the foundation seeks to exerts leverage. A sample of this detail—and the leverage point most relevant to the theory of change behind the Working Capital Investment Fund—is that of developing third-party solutions for supply-chain transparency, as shown in Figure 4.
Humanity United’s Approach to Forced Labor

Figure 4. Area of Leverage: Third-Party Solutions

AREA OF LEVERAGE
Growing corporate demand, insufficiency of current tools and emergence of promising but not yet viable alternatives presents an opportunity to accelerate the development and deployment of tools to make supply chains more transparent.

Theory of Change: Supplying the Means and Motivation to Eliminate Forced Labor

The process of creating the system map was at the same time a process of refining HU’s theory of change. What will it take to eradicate modern slavery—specifically, that part of the slavery equation that has to do with forced labor in supply chains? The following box shows the current HU theory of change.

THEORY OF CHANGE
We aim to alter the corporate risk/reward calculus (the motivation) and reduce barriers to better corporate practice (the means) by…

1) Supporting the third-party solutions leverage area in the map by accelerating the development and deployment of socially responsible supply chain tools;

2) Strengthening the investor differentiation leverage area in the map by benchmarking corporations and educating investors;

3) Increasing the brand and reputational risk leverage area in the map by documenting and building awareness of labor abuses;

4) Heightening the legal risk leverage area in the map by advocating for laws that reinforce corporate responsibility
Humanity United’s Approach to Forced Labor

In the course of its strategic review, HU made hard choices not to prioritize several potential leverage points: government scrutiny and enforcement, internal corporate leadership, corporate collective pressure, the power of recruiters, and government-to-government pressure.57

The implementation of newly refined theory of change occurred through a set of existing and new HU initiatives. Grantmaking continued as part of the mix—much of it carried out through a new pooled philanthropic vehicle, the Freedom Fund, which funded local community groups and larger NGOs helping to build awareness of labor abuses and keep up advocacy pressure. HU built out KnowTheChain, a project operated by HU that carries out benchmarking of corporate practices, thereby further raising awareness of the forced labor exposure of specific firms. Another initiative, the Partnership for Freedom, supported by HU with a set of public and private donors, began funding innovative local approaches to fighting human trafficking through a set of three funding competitions, one of which focused on forced labor in supply chains. And HU set up the Working Capital Investment Fund to develop the third-party solutions—technological tools to help firms monitor and improve their own performance in combatting forced labor—that are a key component of its theory of change.

The remainder of this chapter looks at recent developments in Humanity United’s Forced Labor and Human Trafficking Portfolio, with an in-depth look at the Working Capital fund and a focus on HU’s innovative blend of philanthropic and financial capital.

Launching The Freedom Fund

Humanity United’s work on the philanthropic side has evolved over time. After several years of initial grantmaking on forced labor in supply chains, HU took note of the low level of philanthropic involvement on this issue. With the goal of significantly increasing the amount of philanthropic capital devoted to stopping forced labor, HU and two other foundations—the Legatum Foundation and Minderoo Foundation—set up the Freedom Fund (FF) in mid-2013. The Freedom Fund began operations in January 2014, with Nick Grono as CEO.

The Freedom Fund targets countries with a high prevalence of forced labor in supply chains. They work with a cluster of frontline NGOs by funding advocacy groups working in places like Thailand, India, Ethiopia, and Nepal. In Thailand—the site of what Grono characterizes as the Freedom Fund’s most successful intervention, FF has pursued a three-part strategy, working with a set of eight to ten NGOs, plus business and government.

The Freedom Fund also does “classic” philanthropic advocacy funding, pushing for stronger disclosure regulation and improved enforcement of existing disclosure laws: the California Transparency and Supply Chain Act (2010), the UK Modern Slavery Act (2015) and France’s Devoir de Vigilance regulation (2017). According to HU Managing Director Ed Marcum, the Freedom Fund is (as of the summer of 2018) “already on a trajectory to hit its US$100 million threshold” of funding to fight forced labor.

Launching KnowTheChain

Alongside the Freedom Fund, Humanity United launched KnowTheChain, a project that engages in “benchmarking of current corporate practices and providing practical resources that enable companies to operate more transparently and responsibly.” Initially aimed only at benchmarking corporate compliance with the California Supply Chain Transparency Act,
KnowTheChain was expanded in 2015 to look at the global supply chains of the largest firms in several consumer-facing sectors.\(^{58}\)

KnowTheChain focuses on publicly traded companies—evaluating their own public reporting to assess what positive steps they are taking, and what more they need to do to address forced labor in their supply chains. The goal motivating HU’s establishment of KnowTheChain was to try “to create a bit of a race to the top for the larger companies in sectors where we knew there were risks—apparel, ICT and food and beverage.”\(^{59}\) As Ed Marcum explains, “With our partners, we identified almost 50 different criteria that we thought should be part and parcel of a responsible statement and score them accordingly.”\(^{60}\) This effort began in 2016, focusing on the top 20 companies in each of these sectors. In 2018 KnowTheChain conducted a second round of benchmarking, broadening its scope to the top 40 companies in each sector.

Kilian Moote, Project Director for KnowTheChain, emphasizes that on the public equity side, their approach is to work through the lens of investors and using shareholders’ leverage as owners to get companies to take action on abuses of labor rights. Beyond ethical and moral concerns, Moote argues that mitigating these risks may be part of the fiduciary duty of institutional investors to their shareholders, and he is exploring what it would mean to frame labor abuses as a material risk.

Moote also points out that companies with consumer-facing brands are “more responsive…because of the perceived reputational risk issue.”\(^{61}\) Those sectors whose exposure to these issues has been in the public eye for a longer time—including apparel and electronics—are further along the path of confronting labor abuses. And where a company is headquartered matters, with companies based in the United States or other Western countries further along than others—perhaps due to differing level of awareness and expectation among consumers.

**Launching the Working Capital Investment Fund**

With the Freedom Fund and KnowTheChain in place to provide philanthropic capital and technical assistance, Humanity United’s next step was to set up Working Capital to address another very specific gap—the lack of technical tools to provide visibility and enhance accountability for corporations into their own supply chains. The gap was not only about tools, but also about forms of capital available to work on forced labor issues. HU Managing Director Ed Marcum says that HU saw the philanthropic capital that it and others had invested as important, but inadequate; there was a need for a venture capital approach, through which investors could be more directive in the use of funds, including taking on a governance role in with investees.

The outlines of the Working Capital Investment Fund were presented to the Humanity United board in October 2015, and after a further period of development, the fund was publicly launched in January 2018 with six partners and US$23 million. The Working Capital is a separate legal entity, but is uniquely “embedded” in HU. A key decision was that Working Capital’s employees would be Humanity United employees, and HU is the general partner of the fund. There is an investment committee, and limited partners sit on an advisory committee. The Fund launched with six initial limited partners: The Walmart Foundation, C&A Foundation, Stardust Equity, Open Society Foundations (Soros Economic Development Fund), The Ray and Dagmar Dolby Family Fund, and The Walt Disney Corporation. In addition, the UK Department for International Development contributed 2.4 million British Pounds (about
US$3.5 million) in “sidecar” funding, to provide for grants to projects not yet ready for equity investment. By September 2018, Working Capital reached its final close with the addition of two more limited partners, the Children’s Investment Fund Foundation (CIFF) and Zalando.62

Considerations of market timing and ways policy shapes markets influenced the decision to establish Working Capital. By the time Working Capital’s public launch in January 2018, there was a growing body of legislation on human trafficking, and unlike a decade earlier, there were significant levels of awareness among corporations, who were, as HU Senior Manager of Investments Sandy Tesch Wilkins says, “no longer totally ignoring or denying that there’s an issue.”63 HU Managing Director Dan Viederman puts it this way: “Disclosure requirements for companies are getting stronger and that has driven more companies to pay more attention to the issue than we’d seen in the previous decade.”64

HU Senior Counsel Joel Beck-Coon characterizes Working Capital as “a charitable, program-related investment vehicle that sits within a private foundation.”65 The fund capitalizes on a very specific type of flexibility enjoyed by private foundations because it was set up as a “program-related investment” (PRI). Under the US tax code, foundations may carry out their charitable activities through program-related investments as well as grants. PRIs are also used in the United Kingdom (UK) and Canada. To be qualify as a PRI, an investment must be made to further one or more of the foundation’s tax-exempt (charitable) purposes, and such investments must not be undertaken with the goal of financial gain (neither can they be made for carrying out lobbying activities or in support of political campaigns). PRIs are otherwise quite flexible, and foundations can use them to invest in for-profit businesses as well as nonprofits, so long as the investment is made to substantially further a qualifying exempt purpose.66 Figure 5 illustrates the legal structure of Working Capital.

Figure 5. Fund Legal Structure of Working Capital
PRIs also offer foundations a means, other than grants, of financing charitable activities. They allow foundations to place early, risky bets on enterprises that do not expect to be forever dependent on foundation grants or other unearned income, but which are experiencing a financing gap they are as yet unable to fill by securing debt, equity financing through financial markets or by generating sufficient earned income. The tool also provides specific financial advantages to foundations, the most significant of which is that funds invested through PRIs are counted, alongside grants, as part of the minimum qualifying distributions that a private foundation is required to pay out. Under US regulations, foundations must distribute a mandatory minimum of roughly five percent of their assets each year.67

In structuring Working Capital as a PRI, and opening the fund to other investors, Humanity United made innovative use of the PRI tool. Sean Hinton, CEO of the Soros Economic Development Fund, is one close observer of the Fund. He says that while it constitutes philanthropic capital, the Fund shares important commonalities with early-stage venture capital funds, including a pipeline of potential deals. The largest difference is that—as required for PRIs under the US tax code—social returns are primary, and financial returns are secondary. This set of priorities is made clear to investors through covenants specifying the fund’s goal of mitigating forced labor that the Fund draws up and signs with each of its limited partners (investors) and each of the portfolio companies in which it invests. (Note that at least one partner investor in Working Capital has chosen to structure its investment as a grant.)

Housing an investment fund within a philanthropic foundation is unusual; it aligns with HU’s decision, implemented in 2016, to change its status from a non-operating to an operating foundation—a move motivated by the fact that while it still makes grants, HU operates many of its own programs, and the operating foundation status provides certain tax benefits.

Working Capital’s Limited Partners
The limited partners represent a range of economic scales, funding priorities and philosophies. Here’s a brief look at each of them.

The Walmart Foundation is headquartered in Bentonville, Arkansas. It is a private foundation supported by—and closely aligned with—its parent corporation (the Foundation’s board is made up of Walmart corporate executives). A global retailer, Walmart is the world’s largest corporation in terms of annual revenue (US$500 billion) and workforce (2.3 million). The Walmart Foundation disbursed $US166 million in 2016; combined charitable giving by Walmart and the Walmart Foundation was over US$1.4 billion (US$1.1 billion of this was in-kind giving).68 The foundation organizes volunteer activities for Walmart employees and gives grants in three categories: Opportunity, Sustainability, and Community. In its Opportunity grantmaking, the Foundation supports workforce development and economic mobility initiatives. Through its sustainability funding, the foundation aims to create a more environmentally sustainable supply chain, and has “three aspirational goals: to create zero waste, operate with 100 percent renewable energy and sell products that sustain our resources and the environment.”69 And community funding supports scholarships, disaster relief, civic institutions, and other charitable activities in communities where Wal-Mart has a presence. Apart from Working Capital, the Walmart Foundation currently (as of tax year 2017) is involved in one other program-related investment, the Closed Loop Fund, which provides low- or no-interest loans to private companies and municipalities to encourage recycling of consumer products and their packaging. Note that Walmart’s PRIs take an overall product
lifecycle approach, addressing production supply chains (Working Capital) and post-consumer recycling (Closed Loop Fund).

The C&A Foundation is the corporate foundation of C&A, an international clothing retail chain founded in 1841 which includes H&M stores among its holdings. The Foundation, which disbursed 61.7 million euros in grants in 2017, takes a strategic approach to creating a more just and sustainable apparel industry worldwide. Its efforts rest on a theory of change which begins with a “systemic challenge”—that “the global apparel is experiencing a race to the bottom which…perpetuates unjust working conditions and poverty, especially for women” and “degrades the environment.” C&A supports work in four areas: Circular Fashion (promoting sustainability throughout the production and consumption lifecycle of clothing), Sustainable Cotton, Working Conditions (including support for worker collective action to raise wages), and Forced and Child Labor. In the latter area, C&A supports 11 initiatives totaling 4.5 million euros. The C&A Foundation is a learning organization that emphasizes the importance of learning from failure as well as success.

Stardust Equity is part of Stardust, a hybrid philanthropic/investment entity founded and led by artist and activist Molly Gochman, whose family wealth originated from the sporting goods stores. Stardust Equity describes itself as “mission-driven investment fund deploying capital to accelerate economic and social power of people exploited and excluded by markets.” Its partner entity, the Stardust Fund, is a donor-advised philanthropic fund operated by the Great Houston Community Foundation. It invests in a number of social impact projects focused on the rights of women, children, and workers, including the Polaris Project, a leading anti-human trafficking NGO in the United States. In December 2014, with a three-year grant of US$6 million, the Stardust Fund became the first non-founding donor-member of the Freedom Fund. Both Stardust Equity and the Stardust Fund bring a gender lens to their investments, which means they pay close attention to how problems—and solutions—affect women differently than men.

Open Society Foundations (OSF), a private foundation headquartered in New York, is the umbrella organization for the worldwide philanthropic engagement of George Soros. OSF is the second-largest philanthropic foundation in the United States, with an endowment of over US$18 billion and annual grantmaking of over US$500 million. The foundation is engaged on a broad range of social impact issues around the world, with strong emphases on human rights, migrants, and refugees, alongside dozens of other issues in education, health, governance, media, and justice. Through its Soros Economic Development Fund, OSF makes private-sector impact investments that complement OSF’s programmatic goals. The budget for these program-related investments is about US$85 million in 2018, including $US 60 million in new investments and a total investment portfolio approaching US$200 million. The Fund is part of OSF’s broader Economic Advancement Program, which also supports “civil society actors advancing economic justice, [advises] governments on economic policy, and [builds] coalitions to foment progressive change.”

The Ray and Dagmar Dolby Family Fund, based in San Francisco, was established in 2002. Its endowment derives from the fortune amassed by Ray Dolby, inventor of recording noise reduction technology and co-inventor of videotape recording. Ray Dolby died in 2013, and in 2017, his widow Dagmar Dolby confirmed her commitment to give away most of her fortune of over US$3.5 billion. The Fund has focused on a range of issues important to the Dolbys, including women and girls, “reproductive rights, stem cell research [and] brain health research, with a focus on mood disorders and Alzheimer’s disease.” Beginning in 2016, annual
grantmaking by the Dolby Fund jumped from under US$6 million to over US$20 million. Before joining Working Capital as a limited partner, Dolby provided support for the Freedom Fund. Working Capital represents one of the Fund’s first forays into program-related investing.

**The Walt Disney Company**, a venerable entertainment brand, is today the “world’s largest media company,” with properties including the Disney Channel, the US television network ABC, and the ESPN sports network. In 2017, Disney made nearly US$350 million in charitable contributions as part of an overall CSR strategy that includes significant emphases on environmental stewardship, workplace conditions, and healthy living. Disney has a sizeable footprint in work on international labor standards, including a commitment to monitor and address workplace health and safety, compensation, and forced and child labor risks in its own supply chains, as well as engagement with a number of multilateral and cross-sector initiatives, including the ILO’s Better Work Program.

**Children’s Investment Fund Foundation (CIFF)**, a London-based charity founded in 2002, is the world’s largest private foundation focused on children. In 2016, with an endowment of US$4.7 billion, CIFF makes over US$200 million in grants worldwide across portfolios on children and adolescents, child protection, and climate change (which it views as a fundamental threat to the future lives of children). It its work, CIFF takes a systemic approach, emphases the use of data to measure impact, and sees its “catalytic role as a funder and influencer to deliver urgent and lasting change for children at scale.” In 2015, CIFF made a US$10 million grant to the Freedom Fund.

**Zalando** is a Berlin-based e-commerce fashion retailer. Founded in 2008, Zalando now operates in 17 European countries and had net sales of €4.5 billion in 2017. In the mid-2010s, Zalando was the subject of two high-profile German TV news exposés about working conditions in its distribution centers. It has a robust suite of Corporate Social Responsibility activities, including environmental sustainability, refugee integration, data protection, and efforts to improve employee health and well-being and worker safety in supply chains, Beginning in 2017, in accordance with Zalando’s “commitment to avoid human trafficking and forced labor in [their] supply chain,” the company carried out “a comprehensive risk analysis identifying the impact that [its] operations have on forced labor and modern slavery.” Zalando joined Working Capital in 2018 as part of the company’s “zIMPACT” CSR initiative.

**Working Capital’s Priorities and Early Investments**

The main focus of Working Capital is to invest in early-stage ventures that are developing scalable tools and technologies to meet the growing demand for transparent and ethical supply chains. Working Capital makes a very specific contribution to the broader theory of change. The fund invests in tools to make the interplay between market signals and policy enforcement function more effectively, essentially by reducing the costs of compliance. As HU Managing Director Dan Viederman puts it, “Part of the challenge, the one that we’re really trying to address with the fund is make the tools cheaper and more effective and therefore more scalable. And if they are cheaper, more effective, more scalable, then they should be more affordable for suppliers, employers, Small and Medium Enterprises (SMEs).”

The Fund is meant to complement HU’s philanthropic approaches by making forced labor violations more visible and compliance more feasible. However, as Marcum makes clear, the availability of tools won’t guarantee that companies will use them—or will use them in more than a cosmetic way. So as important as those tools are, they are saying Marcum, “no substitute for the motivation to truly address the problem in a meaningful way.” Through its
more traditional philanthropy, HU continues to fund advocacy NGOs and media aimed at generating corporate and consumer awareness, and stimulate policy and enforcement pressure that will help furnish the motivation for brands to act.

The Fund is open to a range of potential investments. To quote from its prospectus, these include tools designed to facilitate the following:

- **Worker Voice**—The existing social audit sector is on the verge of being disrupted by tools that facilitate anonymous, real-time worker voice, which enables corporations to continuously monitor labor conditions in far-flung workplaces.

- **Ethical Recruitment**—Policy and legal changes require companies to address the risk of exploitative recruitment practices that make migrant workers more vulnerable to abuses.

- **Risk Assessment Tools**—The use of risk assessment tools can help companies identify where they face the greatest risk of non-compliant working conditions in their extensive supply chains.

- **Traceability Tools**—Industry initiatives like the Conflict Free Smelter Initiative and the Better Cotton Initiative have experimented with innovative approaches to establishing clear chain of responsibility from the bottom of the supply chain to the finished product.

- **Emerging Technologies**—[Working Capital] will also explore other areas of investment to promote emerging, disruptive technologies in areas such as mobile payment technologies, ethical procurement and ESG platforms, blockchain technologies and reputational crowdsourcing products.87

The Fund also looks for breakthrough technological innovations; including, as Working Capital Partner Chemain Sanan explains, solutions “that digitize and automate collection of risks in the second to fourth tier supply chain [in other words, the suppliers that sell to a global brand, and the suppliers further down the chain who sell to those suppliers], and technologies that automate traceability and validate proof of origin in new ways.”88 These tools are meant to complement HU’s philanthropic efforts and work hand-in-hand with legislation and enhanced consumer awareness.

Some of the tools are “worker-facing,” providing ways for workers themselves to help increase supply chain transparency by monitoring and reporting risks. Other tools are aimed at helping companies with transparency, risk assessment, and ethical sourcing. These are not directly worker-facing, though in many cases they involve partnerships with NGOs who interface directly with workers and employers.

At the time of writing, Working Capital has invested in three portfolio companies:

- **Provenance** is a traceability solution, based on blockchain technology, that enables “brands, suppliers, and stakeholders to trace products along their journey from producer to consumer,” accompanied by verified data on labor conditions that are attached to the blockchain ledger. The tool also provides workers with a secure and confidential platform for reporting on working conditions.89

- **Ulula** is a cross-platform, multi-language software solution that incorporates a survey tool—a cross-platform messaging capability that allows workers to submit anonymized grievances and feedback on working conditions—and data analytics “for seamless global auditing and engagement.90
• **QuizRR** is an ed-tech company whose worker training platform utilizes short films and quizzes to educate workers as to their rights and responsibility, and aggregates and analyzes training results to help companies measure their compliance with CSR objectives. Training modules cover a range of health and safety, worker engagement, and (for managers) wage management issues.91

Like many in the IT sector, Working Capital’s stakeholders are particularly attracted to the potential for blockchain-based tools to overcome previous barriers to supply chain transparency.

One interviewee thinks that “blockchain has some promise, because when you're talking about trying to manage information across distributed parties, trying to have some cloud-based standard to which everybody writes information that provides…transparency of information across all of the constituencies.” By consolidating in one place all the information about a product's journey through the supply chain—including labor practices, blockchain could be a breakthrough for traceability.

But Leslie Johnston, Executive Director of the C&A Foundation, offers skepticism about the transformational potential of blockchain. She explains. “Everyone is so obsessed with blockchain, but at the end of the day it's a tool. What's important is how that tool is used.”92

For Humanity United and its partners, Working Capital's investment in Provenance is part of a learning process. Before Working Capital made its investment, Provenance was an HU grantee, receiving US$85,000, which enabled a pilot application of the tech platform focusing on Indonesian fisheries. HU Senior Manager of Investments Sandy Tesch Wilkins notes, this grant “helped us learn what blockchain meant for supply chains from a practical perspective.”93

Engagement with local communities is an important prerequisite for the success of tech solutions.

Ulula’s website notes that its founders started the enterprise after years of talking to communities and extractive industry professionals in the “in the Niger River Delta, the steppes of Mongolia and Kazakhstan, and the highlands of Peru.”94

And partnerships with local NGOs is a key part of making Provenance work. HU Partner Chemain Sanan cites the example of Unilever’s use of Provenance to track tea from Malawi through the supply chain:

Provenance is launching a new pilot...that is actually going to these small holder farmers who often are illiterate, or don't have access to mobile apps, and they go farm to farm, and collect the data, and they're inputting it into data collection mobile tool, which then gets inputted into the blockchain. Without that NGO on the ground, who gets part of the funding of the Unilever project, the efficacy of the solution wouldn't be as high, or the penetration rate to the really vulnerable group of small holder farmers wouldn't be as high, and you'd maybe just get larger scale producers.95

In deciding where to invest, Working Capital focuses on places and/or commodities where the risk of worker abuse is the highest. Monitoring the policy environment—looking for where and when new laws and regulations are taking effect, implemented, and enforced—will help Working Capital identify opportunities for early adoption of new technologies that can help firms keep up with a changing set of compliance challenges.
Humanity United’s Approach to Forced Labor

The success of the Working Capital ultimately relies on the notion of a tipping point at which, as HU Senior Manager of Investments Sandy Tesch Wilkins says, “enough corporations will do business in a certain way that then that becomes the norm.” The fund’s ultimate financial goal is that the companies that the fund invests in will find their way to the traditional investment community, and begin to have a real impact on the market. For that to happen, their tools will have to be taken up and implemented at scale by major multinational corporations.

Ulula: Focus on One of Working Capital’s Early Investments

To present a fuller picture of the size, scope and scale of Working Capital’s approach to impact investing, we’re focusing on Ulula—whose motto is “Stakeholder Engagement for Responsible Supply Chains.” The Toronto-based company has raised $325,000 from Working Capital and another $325,000 from the Canadian impact investing firm Good & Well. (It was the firm invested in by Humanity United in which we gained access to interview the CEO.)

The name “Ulula” means “reveal” in the Southern African language of Chichewa—and that’s apt for a company whose mission is amplifying community voices to shed light on abuses in supply chains serving mining, manufacturing, and agribusiness firms. Ulula employs mobile phone platforms, community engagement strategies and sophisticated survey techniques that enable workers and community members to provide data on child labor, working hours, missed paydays and other significant problems. (For case examples of Ulula’s work, see appendices C and D.)

Their operations span 20 countries around the world, from mining in Peru and South Africa to food retail in the UK to Palm oil in Malaysia. Besides proactively managing employee grievances, they also monitor labor and human rights risks in innovative ways. Ulula CEO Antoine Heuty explained:

  We’ve tried to build a tool that is agile and that can really travel the distance to really work with any person. That means being able to reach illiterate populations and reaching them in their preferred languages…. The point is that you can see how we do that at scale and at a cost that makes it easier to adopt for the companies.”
Heuty cited his long experience in international mining and oil development as the motivation to form the company in 2009.

I could see that business was unable to understand its negative social and environment impact. I could see it blowing up in its face too late most of the time, and I really felt that there was something that could be done about that by integrating the voices of the rights holders.... We are trying to change the way working conditions are measured and acted upon.98

Ulula’s data collection approach is to capture real-time insights that help improve the effectiveness of companies and human rights organizations for incident management and social impact metrics.

So that’s a model where I have the data, and I can collect that and then...we can go back to the companies that are sourcing from there and saying, “Do you think you are better?” We are not trying to publish the data to name and shame because it is not our mandate, but I think it is interesting to use as benchmarks to also motivate greater action from some of the companies.99

Here is one example of Ulula’s work in the field. Partnering with the nonprofit sustainable sugarcane advocate Bonsucro, they developed two special surveys to collect from workers and farmers associated with a Mexican sugar mill. A Bonsucro consultant said, “With Ulula’s worker voice tool, I was able to collect sensitive information more quickly and frequently. Before, workers would be nervous to speak with me but with Ulula, they can participate at their convenience and have the assurance that their insights are anonymous and confidential.”100

Regarding work with Working Capital, Heuty stressed that it makes a difference that Working Capital’s partner with corporate giants like Walmart, even if it is the Walmart Foundation and not the main headquarters. “In one case we’ve directly benefitted from...the fact that around the table there was a company, and now we’re working with them.”101
Questions for the Field

- Which comes first, the system map or the theory of change? Can you begin to engage in social impact work without understanding the system that enables the problem?
- What are the relative advantages of philanthropic and investment capital?
- What do the different characteristics of Working Capital's limited partners suggest about the range different motivations and entry points for engagement on forced labor in supply chains?
- What are some of the ways Humanity United recalibrated its work on forced labor in the mid-2010s? What are some of the others choices it could have made?
When addressing a Wicked Problem, which tools of traditional philanthropy are the right ones, and when does an impact investment approach make the most sense? This case pays particular attention to how Humanity United’s way of fighting slavery brings both sets of tools to bear on forced labor in supply chains. This hybrid approach is particularly relevant to a problem of great complexity, where significant social change requires changing the risk calculation for major corporations through application of both “carrots” and “sticks.” The case analysis also examines how Humanity United’s core values and organizational culture fit the purposes to which the foundation has devoted itself in its work on forced labor.

Using the Wicked Problem and Deliberate Leadership frames, the following chapters describe the context in greater detail, and show how Humanity United developed and recalibrated its strategy. These case analyses and chapters home in on key facets of their approach: systems thinking, the values that animate the work, mapping potential partners, issues of risk and alignment among partners, and HU’s has deployment of developmental evaluation to capture lessons in real time.

**Case Analysis 1: Leadership, Culture, and Values.** As a mission-driven, social impact organization, Humanity United’s work is animated by a clear set of clear values. We look at those values, how they originated with HU’s founders, and how they contribute to a culture of purpose and learning.
Case Analysis 2: Mapping the Organizational Landscape. Humanity United places a heavy emphasis on partnership. What is the universe of current and potential partners for Humanity United’s work? We look at several categories of partners, including corporations, non-governmental organizations, and foundations. How does HU’s own status as a foundation help enable it to bring together different sectors?

Case Analysis 3: Risks, Threats, and Opportunities. How are threats—anticipated and otherwise—addressed in the Deliberate Leadership model? We look at some of the specific risks and opportunities that HU and its partners encounter, including reputational risks and the trade-off or complementarity between impact risk and financial risk.

Case Analysis 4: Alignment among Partners. Humanity United’s ability to project clarity about its mission, values and strategy helps bring its partners into alignment. But are there significant disagreements among stakeholders working together on forced labor. How does the work proceed under conditions of imperfect alignment?

Case Analysis 5: Learning While Doing Social Finance. The Deliberate Leadership Learning model emphasizes double loop learning. We will examine this practice and its application. We will also look at Humanity United deployment of Development Evaluation (DE). What are the particular characteristics of HU’s forced labor work that make DE an attractive option?

Deliberate Leadership in Action. Returning to the Deliberate Leadership model and the 7 Cs, we will look at how well HU’s leadership lives out these approaches.

Conclusion—Working Capital and Lessons Learned So Far. Humanity United’s new systems approach has only been in place for a few years; its Working Capital Fund is even newer. Without yet knowing what the ultimate impact of this work will be, what provisional conclusions can we draw about its chances of success?

These questions get to the core of what it means to be a Deliberate Leader. The case study provides insights into leadership and learning in at the nexus of philanthropy and social investing.

A Definitive Wicked Problem

Modern-day slavery is the very definition of a Wicked Problem. The concept of Wicked Problems emerged from the field of urban planning in the early 1970s when Berkeley professors Horst W. J. Rittel and Melvin Webber sought to describe “wickedly” complex social problems. It is now used widely by business leaders, particularly in the development field. Wicked Problems are large, messy, complex, and systemic, and include many of the most challenging issues we face today, from global issues of poverty and climate change to local issues of failing education systems and lack of financial security and stability. There are no easy solutions to Wicked Problems, and though enormous progress can be made in alleviating them, they will remain with us.

Some scholars distinguish between Critical, Tame, and Wicked Problems. The first are urgent and require command-and-control leadership (the house is on fire). The second are technical and have been solved many times before and require technical expertise (the road must be built). The third feel as though they are always being approached for the first time, and require adaptive leadership.
Rittel and Webber put forward 10 characteristics to identify Wicked Problems:

1. They have no definitive formulation.
2. They have no stopping rule or are never completely solved.
3. Their solutions are not true-or-false, but good-or-bad.
4. The repercussions of their solutions can never be fully appraised.
5. Every attempted solution counts significantly, leaving traces that cannot be undone.
6. They do not have an exhaustive set of potential solutions and it is not possible to prove that every solution has been identified and considered.
7. Each one is essentially unique.
8. Each one can be considered a symptom of another problem.
9. One’s choice of explanation for them determines the nature of the problem’s resolution.
10. Those who attempt to solve them are held liable for the consequences of the actions they generate.

How Deliberate Leadership Overcomes Wicked

Deliberate Leadership is a response to the challenges posed by Wicked Problems. It is a framework for leaders to use in tackling problems with no easy or consensus solutions. Each characteristic of Deliberate Leadership is based on proven business and social sector theory and practice. They are recognized leadership strategies used in creating lasting positive change not only within companies and organizations but in the lives of people most affected by the consequences of Wicked Problems.\(^{105}\)

The Deliberate Leadership learning process consists of three phases:

- **Phase I: Partner and Plan.** The organization maps stakeholders and potential partners, listens to the community, conducts a threat-opportunity analysis, and develops a theory of change along with a learning framework.
- **Phase II: Act and Assess.** Moving into implementation, the organization puts the framework into action, while instilling honest feedback and risk-taking among its team and partners. Indicators are tracked to provide ongoing documentation of impact.
- **Phase III: Reflect and Recalibrate.** Lessons learned are shared with partners. The organization uses what it has learned to recalibrate, as necessary, its strategies and assumptions.
When leaders, their organizations, and the communities they serve band together to reflect on complex issues, they can find a way to work through even the biggest problems. This deeper and more adaptive form of assessment rests on several principles: commitment to robust learning, testing hypotheses, openly sharing results, and recognizing that program outcomes are shaped by values, beliefs, and assumptions, as well as by strategy. It encompasses profound life-cycle examination and learning.

In this case study, pfC uses the Wicked Problem and Deliberate Leadership frame to present the perspective of a number of Humanity United’s staff, investment partners and grantees as they recount their perceptions of HU’s successes, challenges, and lessons learned in efforts to fight modern-day slavery.

This analysis yields insights into how Deliberate Leaders can and should embrace the seemingly small or soft considerations, which if overlooked get in the way of positive impact: values and beliefs; organizational development and culture; accepting and celebrating risk and failure; alignment between funder and intermediary; and, ultimately, deep recalibration based on knowledge and lessons learned.
The Seven Characteristics of Deliberate Leaders

The seven core characteristics (7Cs) of Deliberate Leaders can guide institutions, and individuals, to consistently demonstrate flexibility and maximize learning:

• **Courage**—to embrace risk and live with ambiguity. Deliberate Leaders recognize that simple solutions are insufficient to address complex challenges. They also realize that risk is inherent to Wicked Problems: solutions must be tried, tested, and allowed to evolve.

• **Collaboration**—to seek out and listen to divergent viewpoints. Deliberate Leaders recognize that building collaborative solutions may be slow and uncomfortable, but the process is essential to understanding options, gaining new knowledge, and building powerful solutions.

• **Community**—to build solutions together from the ground up. Deliberate Leaders seek uncommon answers to difficult situations and put people at the center of decision making. Such leaders recognize that answers to tough issues may already reside in the community, in who are “Positive Deviants. This term, derived from nutrition scholarship of the 1960s, is defined by the Positive Deviance Initiative at Tufts University as “individuals or groups whose uncommon behaviors and strategies enable them to find better solutions to problems than their peers, while having access to the same resources and facing similar or worse challenges.”

• **Candor**—to speak and hear the truth about what is working and what is not. Deliberate Leaders embrace failure and success equally—internally and among partners—to manage risk and allow for recalibration and innovation.

• **Creativity**—to imagine a new future and move beyond the constraints of the past. Deliberate Leaders look for “big ideas” and evolving practices through scenarios that envision a different future.

• **Capital**—to examine how financial and non-financial resources are invested and impact is analyzed.

• **Compassion**—to understand how empathy and partnership—not ego—strengthen the capabilities of an organization and its partners.

We will return to the 7Cs at the end of the case, noting the extent to which the Humanity United leadership has lived out these characteristics.
Case Analysis 1: Leadership, Culture, and Values

“Humanity United was created around the belief that everybody's created equal on this planet, and should be given equal opportunity to survive, to have a dignity of work, to have the ability to support their families.”

— Chemain Sanan, Partner, Humanity United

What are the values and beliefs that shape HU’s culture and how are they manifested in its Working Capital Investment Fund (Working Capital or Fund)? Almost all interviewees had strong feelings about Humanity United’s culture, and agreed that the foundation is grounded in a culture of humility that starts at the top. The humility of the Omidyars—especially Pam—is firmly part of the cultural landscape, as are the qualities of candor, compassion, and creativity. The organization realizes that the issues it faces are Wicked Problems and will require risk-taking and candor to make progress.

Organizational Culture

Deliberate Leaders understand that organizational culture isn’t a “soft” or incidental dimension of their work, but that culture permeates everything the organization is and does—its formal
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structures, policies, and procedures, as well as its strategies, theories of change, and their implementation.

As illustrated in Figure 8, Deliberate Leaders give as much attention to the development of their organization as they do to its programs, and they recognize that even the smartest strategy needs an effective organization to implement it. In dealing with Wicked Problems, not only the programmatic approach but the organizational infrastructure itself should align with the values, culture, and beliefs of the institution.

**Figure 8. Syncing of Organizational Culture and Program Strategies**

This model of the interrelationship between values and organizational strategy aligns closely with recent findings in the field of management studies. “The Leader’s Guide to Organizational Culture” is an authoritative study of the linkages between organizational culture and outcomes published in the Harvard Business Review in early 2018. This study was carried out by lead author Boris Groysberg, the Richard P. Chapman Professor of Business Administration at Harvard Business School, together with Jeremiah Lee and Jesse Price of the executive search firm Spencer Stuart and Harvard doctoral candidate J. Yo-Jud Cheng. Their research looked at more than 230 companies and the leadership styles of more than 1,300 executives from a wide range of industries and across world regions.

Groysberg and his colleagues note the distinct realms of culture and strategy: “Strategy offers a formal logic for the company’s goals and orients people around them. Culture expresses goals through values and beliefs and guides activity through shared assumptions and group norms.” According to this study, organizational culture has four key characteristics: it is shared, pervasive, enduring, and implicit. Groysberg and his co-authors chart eight types or styles of organizational culture—Caring, Purpose, Learning, Enjoyment, Results, Authority, Safety, and Order—and array these along two axes: “How people respond to change,” which ranges from stability to flexibility, and how people within the organization react to each other, which varies along a continuum from independence to interdependence (see Figure 9). There are often multiple cultures within an organization, and when this is the case, the organization will tend to be more cohesive when its dominant cultures are adjacent to each, rather than on opposite sides of the array of the cultural styles, as in the accompanying chart.
It is clear from the interviews conducted for this case study that Humanity United straddles two of the eight types of organizational culture: Purpose and Learning. Here are the descriptions that Groysberg, Lee, Price, and Cheng provide for these two types:

**Purpose** is exemplified by idealism and altruism. Work environments are tolerant, compassionate places where people try to do good for the long-term future of the world. Employees are united by a focus on sustainability and global communities; leaders emphasize shared ideals and contributing to a greater cause.

**Learning** is characterized by exploration, expansiveness, and creativity. Work environments are inventive and open-minded places where people spark new ideas and explore alternatives. Employees are united by curiosity; leaders emphasize innovation, knowledge, and adventure.

Humanity United’s culture of purpose is inextricably linked to the organization’s mission of making social impact for some of the world’s poorest and most oppressed people. And as a learning culture, it is willing to plunge into a problem when there are no known answers. Hallmarks of HU are a culture of collaboration, and openness to discussing risk and failure. When dealing with Wicked Problems, one must be willing to experiment and innovate, and work from a basis of trust and open communication, both inside the organization and with external stakeholders. There will be setbacks along the way, and people within the organization must understand that it is safe to take risks, and learn together from what is and isn’t working. Thus, along the continuum from stability to flexibility, HU’s needs an organizational culture that encourages flexibility—which is exactly where both the Purpose and Learning cultures are situated in the preceding chart.
At Humanity United, Values Come from the Top, and Pervade the Culture

Turning from culture to values, the stakeholders interviewed for this case provide a remarkably consistent description of the set of animating values that pervade HU’s organizational culture. Perhaps the highest-level values are respect for human dignity—for the inherent worth of each individual human being. This belief is not only reflected in the foundation’s name; it is perhaps the key value from which all others flow.

But the value mentioned most frequently, one which is central to HU’s organizational culture, is humility. In recent years, management scholars have stressed that the importance of humility as a leadership quality. Jim Collins, author of *Built to Last* and *Good to Great*, finds that “[t]he essential ingredient for taking a company to greatness is having a “Level 5” leader, an executive in whom extreme personal humility blends paradoxically with intense professional will.”112 Increasing attention is being paid to the advantages of “servant-leaders,” who, according to Dan Cable, professor of organizational behavior at London Business School, “have the humility, courage, and insight to admit that they can benefit from the expertise of others who have less power than they do. They actively seek the ideas and unique contributions of the employees that they serve.”113

At Humanity United, the culture of humility begins at the top. HU Managing Director Tim Isgitt notes that humility “is a core value at Humanity United, it’s a core value of the Omidyars, and that is to humble yourselves before these intractable problems that have been around since the dawn of man.”114 Randy Newcomb, CEO of Humanity United, says that “this notion of humility and how one operates with integrity…is born out of recognizing how enormous and complex the problems are that we face in the 21st century.”115

Liliana Giffen, Senior Communications Manager at HU, notes that one way that humility manifests itself is by not fixating on any one particular model as the only way to see the world. She also notes how humility is expressed through the communications function at HU: messages are viewed not as carried out on behalf of the HU brand—the “logo”—but in service of contributing to eliminating forced labor.

Beyond human dignity and humility, a number of other values are also deeply held. One of those is being “all in”—fully committed to the mission—is revealed in the intensity of engagement that is part of HU’s organizational culture.

Other values noted by interviewees include passion—and compassion. Passion for the mission is evident in this purpose-driven organization. Leslie Johnston, Executive Director of the C&A Foundation, one of Working Capital’s limited partners, says of HU’s team: “This group, because of their background, their heritage, the family behind them, they are genuine in their desire to eradicate slavery. We knew with that passion; the authenticity was there. [That] was the clincher for why we wanted to put money [with] them as opposed to do it ourselves.”116 Giffen provides an example of how compassion informs HU’s communications. The foundation’s staff strive to be careful about the words and images that are chosen to convey information about HU’s programs and activities. A thoughtless choice of words or photographs can perpetuate racial stereotypes and/or a pernicious sense of rich-world “saviors” helping third-world “victims.”117

Randy Newcomb has been CEO of Humanity United since 2006, and worked with the Omidyar family for several years before that. Newcomb believes that values alignment is the number
Leadership, Culture, and Values

one criteria for evaluating potential hires at HU; says Newcomb, “I think it even supersedes expertise….It's kind of the air we breathe and the water we drink. And we've got to get that right. And I'll be the first to tell you we haven't always done that well. And it's been really hard, and really tough, and really challenging. Even today…we find that a challenging, difficult proposition.”¹¹⁸

A culture of learning is evident at Humanity United, and an appreciation for learning suffuses the organization. This comes directly from the value of humility because learning requires an openness to recognizing when things have gone wrong. The value placed on learning is not limited to one part of the foundation, or to one phase of the strategy process, it’s embedded in the organization; as Kilian Moote, Project Director for KnowTheChain says, HU has “done things structurally, like have a department that has learning in the name….Which is a signaling mechanism.”¹¹⁹

Risk Is Valued

Risk-taking is valued at Humanity United. An emphasis on values of humility and learning, along with its appetite for risk-taking, lead directly to an organizational culture that accepts failures as part of the learning process. As Managing Director Tim Isgitt relates, the Omidyars’ mantra is “risk is a value, go pursue, try, try, try, and learn from our failures, and keep trying.”¹²⁰

For this stance to be effective, says HU Managing Director Ed Marcum, employees need to feel they can speak freely about what's not working, and to accept that “failure comes with the territory.”¹²¹ And Newcomb emphasizes that, from the founders on down, HU strives to cultivate in its staff “the ability to admit that even though you brought your best analysis, it turned out to be the wrong analysis. And to do that without any sense of impunity or consequence against you. That is such a freeing value that is released across the organization.”¹²²

Therefore, part of the process of on-boarding new employees at Humanity United involves making sure they understand that programmatic failure does not lead inexorably to career damage. This can be difficult to absorb, particularly for staff coming to HU from backgrounds in business or finance. One interviewee says “I think the willingness to embrace uncertainty, and the fact that it may not work, is actually far greater here at Humanity United than it was in the venture world.”

Since Working Capital is embedded in Humanity United, “the core values of Humanity United as an organization are part and parcel of the fund, and actually part of our core DNA as well,” says HU Partner Chemain Sanan.¹²³

The Value of Diverse Backgrounds

The Working Capital fund grew out of Humanity United’s corporate engagement strategy. From the outset, there was an effort to bring multiple perspectives to the table. HU Managing Director Tim Isgitt describes the composition of the group HU brought together to develop the corporate engagement strategy: “somebody from the policy team, somebody from the communications team, the media person, the strategy learning and impact person, a few people who've been working on slavery generally over the years, a few people with MBAs.” Each team member helped design the systems map and develop the strategy, each “probing the system for weaknesses or places where we could intervene…all challenging each other's assumptions and moving this forward.”¹²⁴
Displaying candor, interviewees acknowledge while the planning phases was characterized by intense cooperation across different roles and offices across HU, once the forced labor portfolio entered the implementation phase, Working Capital and the other initiatives tended to operate within their own silos. Isgitt admits that “we could do probably a better job of resurfacing a working group of people sort of across HU, and perhaps even outside of HU, to take fresh eyes and look at that system as it evolves and changes over the years, so that we’re checking our own assumptions and making sure that our strategy and our approach is relevant with the times.”\textsuperscript{125} Kilian Moote agrees that, within organizations like HU, staff do tend to operate within silos—not because “people don’t want to talk to each other,” but as a predictable consequence of moving into implementation: “You need to go deep, and that just inherently draws you down.”\textsuperscript{126}

**Culture Influences Strategy**

At Humanity United, guiding values of humility and human dignity inform a culture of purpose and learning, infused with the deliberate leadership qualities of candor, courage, and creativity. Joel Beck-Coon, Senior Counsel of Humanity United, says, “I think the culture here is…at its very core, adaptive and creative. Our structure, and I think this relates to Working Capital too, reflects that adaptability.”\textsuperscript{127}

HU Partner Chemain Sanan speaks of the organization’s culture as “open and transparent,” one where risk is openly discussed and embraced.\textsuperscript{128} HU’s leadership builds this culture by hiring staff who not only have strong analytic skills, but are capable acting with courage and humility in the face of considerable uncertainty, as Randy Newcomb attests:

> The kind of humility and attitude that we’re looking for, is people that will bring the best that they have to bear on how to interpret and understand these systems, but recognize completely and fully that they could rightly be 100 percent wrong about their analysis. And so, it’s kind of that combination of bringing the best analysis and the deepest humility to the work and to the mission that we are trying to pursue.\textsuperscript{129}

With this combination of leadership, values, and organizational culture, HU has set the stage for carrying out flexible strategies, always willing to test and, if need be, revise its own assumptions.

**Questions for the Field**

- Why do Wicked Problems require organizational cultures of purpose and learning?
- How do values affect both organization strategy and program strategy?
- Does HU’s theory of change reflect the values needed to succeed?
- How are values incorporated into your organization’s culture? How are staff and new partners on boarded? How are values extended to others—limited partners, other companies, government agencies, and so on?
Case Analysis 2: Mapping the Organizational Landscape

This chapter examines the landscape of companies and organizations in the universe of partners for Humanity United in their work on forced labor in supply chains.

Partnership is a key tenet of Deliberate Leadership. Social change cannot be made by going it alone; and Wicked Problems—by definition—are not likely to be solved by command-and-control or technocratic approaches.

As Humanity United became involved in various phases of work on forced labor issues, they assembled an extensive network of partners, representing people with diverse knowledge, experience, and perspectives. Interviews with staff suggest that HU has a clear sense of how they want to engage these organizations. In several cases, HU created or co-created partnership entities that did not exist prior to their involvement in this field.

Mapping the Key Actors

For funders beginning work in a new area, or making revisions to existing work, it is very helpful to create a map of existing organizations working on the issues. With their systems approach, Humanity United has diligently sought to understand the role of a broad range of stakeholders within what one interviewee refers to as “an ecosystem of parties and stakeholders that needs to be involved and addressing human trafficking.”
Figure 10 provides an illustration of organization and issue mapping. By creating a model of the ecosystem of organizations around a particular issue, the funder can understand who else is working in the same space, identify potential allies, and anticipate political or economic challenges that might arise. Even if a map does not completely represent every stakeholder, it can help funders or investors think expansively about the context in which their work occurs.

Mapping this constellation of organizations helps newcomers visualize potential partners and helps a funder understand the landscape in which it will operate. The organizations included—corporations, international NGOs, multilateral agencies, local funders, and international foundations—show the context of work relating to the issue and also help identify potential but unusual advocates and allies.

To illustrate the interconnectedness of issues, this chart places organizations into eight categories drawn from the UN Human Security Frame. This frame is built upon the basic needs for the world’s most vulnerable people—food, physical security, education, health, economic security, political safety, environmental safety, and a healthy community. The Human Security Frame came out of the 1994 Human Development Report of the United Nations Development Program (UNDP), which “shifted the focus of security from the protection of the state and its borders by military means to the protection of individuals from a wider range of threats to their well-being and security.” This framework fits well with the UN Sustainable Development Goals (SDGs) by “emphasizing the triangular relationship between peace and security, development and human rights,” which “complements and enriches the mechanisms that will be needed in order to attain the SDGs.”

Figure 10: Mapping the Organizational Landscape
A partner of Humanity United notes that, if the market is “not there yet” for tools for combatting forced labor in supply chains then “you have to have unique networks” in order to put together the sets of stakeholders needed to address the issue. Large philanthropic foundations—with their extensive networks that cross sector boundaries, encompassing the business community, nonprofits, government at various scales, and international organizations—provide a good source of potential partners.

Mapping the ecosystem of actors involved in an issue isn’t a one-time process. The organizational landscape is dynamic: contextual factors including policy, politics and geopolitics, economics and environmental and social trends are all constantly shifting, as are the sets of relevant corporations, donors, and NGOs, and their strategies. Data on the evolving organizational landscape is an important piece of feedback that enters into learning at all phases of engagement.

The remainder of this chapter looks at key types of partners in the forced labor issue area: business, government, multilateral agencies, and NGOs. This sort of wide-ranging mapping is built into the way HU does its work, and was a crucial part of the development of its systems map. This chapter concludes with a look at the special role of foundations in nurturing partnerships.

**Business: Brands and Their Supply Chains**

Who are logical allies of the Working Capital Investment Fund (Working Capital, or Fund)? They include large global supply chain consultants, and Fortune 500 companies—firms that, as one interviewee puts it, have “felt the sting of being on the wrong side of this issue.” These firms—and the workers themselves—are people with a vested interested in ethical supply chains.

Humanity United’s early work on supply chains in specific commodities helped establish strong relationships with corporate partners, two of which later joined Working Capital as founding limited partners. According to HU’s internal *Corporate Engagement Strategy* document, the first phase of work, from 2009 to 2015, “[e]stablished HU as an honest broker between NGOs and business” and “[e]stablished partnerships with key corporate actors including Walmart, Patagonia, Nestlé, Disney, Gap and C&A.” This document notes how its early work on forced labor in the palm oil industry led eight major brands to adopt concrete responsible sourcing polices.

Karrie Denniston, Senior Director of Sustainability at Walmart and the Walmart Foundation, describes how her foundation’s relationship with HU pre-dated their formal partnership in Working Capital: “They have been a really important advisor in understanding the issues, helping us think about strategy, and as a source of information. They’ve been incredibly active in this space as a convener, as well. There has been a strong relationship between us, and because they’ve built so much credibility in this space they’re well-positioned to be able to do the fund.”

Having executive buy-in at major corporations is absolutely essential. When it is difficult to measure impact as it is for many impact investing initiatives, a very strong C-suite support is needed. And given HU’s aim of affecting business practices, the organization’s Senior Counsel Joel Beck-Coon believes that “to put the corporate stakeholders as our first allies in building the fund was really critical.”
Mapping the Organizational Landscape

Humanity United’s staffing decisions played an important role in gaining the trust of potential corporate partners in the Working Capital fund. HU Managing Director Dan Viederman was hired by Humanity United in 2016 to lead the Working Capital team. He had previously served for 15 years as CEO of Verité, a nonprofit working on labor abuses in global supply chains. Verité’s balanced approach includes corporate engagement as an integral part of its strategy, and Viederman had developed longstanding relationships of trust with many in the corporate community.

Disney’s Global Public Policy Department had been funding NGOs and United Nations agencies through their own supply chain investment program for a number of years before Working Capital was established. Disney’s Laura Rubbo, Director for Responsible Governance and Supply Chain, cites the company’s long, positive relationship with Dan Viederman as a factor that influenced their decision to invest in Working Capital (their investment came in the form of a grant of US$1 million). Rubbo characterizes HU Managing Directors Ed Marcum and Dan Viederman as thought leaders in this space, and Working Capital as unique in the marketplace for its focus on tools and technology that can be for-profit, revenue-generating innovations. The partnership broadened in November 2017, when Disney and Humanity United co-convened a half-day side event on “innovation in global supply chain monitoring” at the UN Forum on Business and Human Rights in Geneva.

Disney is clear that corporations cannot resolve these problems on their own. The company’s Laura Rubbo says, “There’s kind of an unrealistic expectation, I think, by many that multinational enterprises can have the effect that people think they can. I worry a little bit about the expectation for large western companies.” For Disney, partnerships are essential: “We see this very much as a partnership among companies and companies at all levels of the supply chain, not just multinational enterprises, with civil society and governments so that all can benefit from their experience.”

Are corporations, particularly global brands, unfairly picked on? A recurring refrain among HU’s corporate partners is that the big brands get all the negative attention, whereas the small and medium-sized enterprises who actually employ the workers are subject to relatively less public attention. Laura Rubbo of Disney suggests that advocates focus too much of their efforts on large corporations and ought to pay more attention to the inability or unwillingness of local governments to enforce labor laws on the ground in the small and medium-sized enterprises where the workers are actually employed. Says Rubbo, “I sometimes wonder if people are relying too much on multinational enterprises and what they can do through their global supply chains to effect change…. It’s very top-down. What about bottom-up? Governments need to criminalize human trafficking and they need to train law enforcement to find human traffickers and then they need to resource that, and in addition to training law enforcement to find that, there need to be penalties.”

Sandy Tesch Wilkins, HU’s Senior Manager of Investments, doesn’t think the outsized attention to major brands is misplaced: “I do think that corporations with brand names are targeted more, because they will naturally get headlines.” Despite corporate protestations to the contrary, Wilkins says, when it comes to the ability of global corporations to exert leverage over their suppliers, corporations “still have a lot of power in those relationships, even if they are not directly managing their operations, even if they’re not vertically integrated.”
Governments and Multilaterals

Another set of important actors are national governments—of the countries where global brands are domiciled, and where their suppliers operate. With varying mixes of efficacy and corruption, governments are responsible for regulating labor practices, and are thus targets for policy advocacy, enforcement pressure and new legislation—as well as venues and jurisdictions for lawsuits.

But governments are important in another way, one which highlights a subtle but important feedback loop in Humanity United's theory of change: if governments can be persuaded that technology is available that will make it possible for firms to carry out compliance at a cost that it not prohibitive, this may (in some instances) encourage governments to pass and enforce legislation without concern that compliance will be overly burdensome or technically impossible. So if there are regulations in place—and you have the right technology—you can make the case to businesses that technology can reduce compliance costs.

Where laws are weak or nonexistent, there is a need for governments to criminalize human trafficking. And even where laws do exist, the lack of government enforcement of trafficking and forced labor crimes is a major concern, as is government corruption.

Among U.S. government offices relevant to HU’s work is the U.S. State Department’s Office to Monitor and Combat Trafficking in Persons (TIP Office), which was established under the Trafficking Victims Protection Act (TVPA) of 2000 and publishes an annual Trafficking in Persons (TIP) report. Through the TIP Report, the Department of State assesses countries based on their governments’ efforts to meet the “minimum standards for the elimination of trafficking” found in Section 108 of the TVPA.140

Humanity United makes use of the TIP Report to leverage impact. In reporting on the results of its early engagement on forced labor, HU notes that its “ongoing evidence sharing with US Department of State and the European Parliament resulted in Thailand's downgrade in the 2014 Trafficking in Persons report and a public commitment by the European Commission to raise human trafficking in fisheries with Thailand as part of the ongoing trade negotiations.”

As HU notes in its 2015 Performance Report, over the years, by providing Congressional testimony and other actions, “Humanity United’s policy team, coordinating closely with the Alliance to End Slavery and Trafficking (ATEST), has worked...to ensure that the State Department’s Trafficking in Persons (TIP) Report remains an accurate and powerful diplomatic tool that can effectively persuade nations to combat human trafficking within their borders.” Through this engagement, HU demonstrates its commitment “to continuing to press the United States and other governments to be both honest and action oriented in the effort to combat human trafficking.”

Humanity United’s work intersects with that of several UN agencies, including the International Labor Organization (ILO), an important multilateral standards-setting body. Unique among UN agencies, the ILO has a tripartite governance structure, with governments, business, and labor each represented. ILO’s Decent Work agenda informs labor rights advocacy around the world, and its role in monitoring international labor conventions and Goal 8 of the UN’s Sustainable Development Goals (SDGs) make it an important voice in the fight against forced labor. But according to one corporate interviewee, even the ILO relies too heavily on multinational corporations, rather than governments, to make progress on forced labor.
Other relevant multilateral efforts, such as the UN’s Global Compact on business and human rights are perceived of as similarly spotty in terms of effectiveness. Laura Rubbo, Director for Responsible Governance and Supply Chain at Disney said that Disney isn’t a member of the Global Compact: even though “we believe the overall objectives make sense and we could meet the criteria for being a member…we are not convinced that it actually helps us in a practical way.”

The most recent multilateral effort is the new Global Fund to End Modern Slavery (Global Fund, or GFEMS), which was announced at the World Economic Forum in January 2018. Described as “a bold public-private partnership seeking to develop a US$1.5+ billion fund and coordinate a coherent, global strategy to address modern slavery,” GFEMS began with pledges of UK£20 million from the UK government and US$25 million from the US State Department. While still in its early stages, GFEMS has already made an inaugural round of funding to advance three interconnected goals:

- **Effective rule of law** to raise the cost of slavery by ending impunity for all forms of trafficking.
- **Business investment** to create value by eliminating forced labor from supply chains at local, national, and international levels, as well as provide alternatives for vulnerable individuals.
- **Sustained freedom** for survivors through recovery, reintegration, and economic opportunity.

**The NGO Landscape**

Through its early work on commodity supply chains and continuing through its role in the Freedom Fund, Humanity United has provided philanthropic support to NGOs—both grassroots groups in affected communities around the world, and large coalitions working internationally. HU’s support for the Alliance to End Slavery and Trafficking (ATEST) is an example of how catalytic philanthropic support can help fill gaps in the NGO landscape and force effective policy advocacy coalitions. These types of coalitions can help link and align the activities of their members, mobilizing local NGOs around specific campaigns, amplifying their voice and increasing their ability to raise awareness. And these networks can bring NGO voices into conversations with corporations and international organizations that smaller coalition members might never be able to participate in on their own.

Interviewees point out that working with organizations with a strong local presence is critical. Chemain Sanan, a HU Partner on Supply Chains and Forced Labor says: “Without having local partners on the ground to help with implementations, the efficacy or engagement rate for certain solutions wouldn’t be as high, or the penetration rate to the really vulnerable group…wouldn’t be as high.”

Business associations and networks are another type of NGO relevant to the fight against modern slavery. Efforts to raise awareness of forced labor in supply chains have prompted corporations to form nonprofit alliances to raise standards across whole industries. Sherry Singh, Director of Strategic Initiatives at the Walmart Foundation, cites the Responsible Business Alliance—formerly the Electronic Industry Citizen Coalition—as having been “particularly innovative in this space…looking at how you build strong market signals across...
an entire industry to demand better labor recruitment practices, and then to send clear signals into their supply chains around those expectations.  

Investors

Some of Working Capital’s limited partners are corporations with global supply chains. Others are impact investors without a direct stake (as employers or brands) in addressing the problem of forced labor.

Stardust Equity, Stardust’s private investment firm, is an example of the latter. Stardust was the first non-founding member of the Freedom Fund and an early supporter of the idea of Working Capital. Stardust CEO Kyle Wright typifies the sort of investor that Humanity United seeks to partner with. Wright characterizes Stardust as being “agnostic [as] to tool for social change”—in other words, they are willing to invest in a nonprofit, a business, or a 501(c)(4) social welfare organization (entities that are permitted to lobby under the US tax code)—the type of legal entity doesn’t matter. What matters is choosing what best advances the social impact they seek.

Wright says that Stardust possesses “a comfort level generally, whatever the partnership, with chaos and uncertainty…we enjoy risk taking.” Building “relationship and trust” is key, and rather than seek quick returns, Stardust is willing to have a long-time horizon, recognizing that “this is generational work.”

In accordance with Working Capital’s theory of change, Wright sees the Fund’s key role as signaling and testing models that could have uptake into major corporate supply chains. Before linking forces with Humanity United, Stardust had already been engaged in developing its own investment screens for forced labor and human trafficking, an experience that benefited Working Capital as it drew up the covenants governing its portfolio investments.

Foundations

When Humanity United first entered the forced labor space in 2008, the other players were mostly bilateral government offices, such as official development aid agencies and anti-trafficking bureaus, or multilaterals including the European Union, the UN, and the World Bank’s International Finance Corporation. There were very few private foundations engaged—and so, in the words of HU Managing Director Ed Marcum, there was “quite a lot of low-hanging fruit. A foundation, with a different risk profile and a little creativity can come in and really add value.”

Ten years later, the situation has changed. Reuters reported that worldwide funding for anti-slavery initiatives “reached a record high of US$99 million in 2014, a 57 percent increase in two years.” Total funding between 2012 and 2014 was US$233 million, 44 percent of which (US$103 million) came from the five biggest donors: the Dutch Postcode Lottery, Humanity United, Minderoo, Open Society Foundations (OSF), and NoVo Foundation.

Humanity United deserves a good deal of credit for helping grow the field of anti-slavery philanthropy. In 2011, As Randy Newcomb has written, HU hosted a small donors’ convening at the Global Philanthropy Forum “that resulted in a standing-room-only discussion among more than 70 philanthropists.” And Humanity United has been diligent about leveraging foundation relationships into funding partnerships, notably by joining up with the Legatum Foundation and the Walk Free Foundation to launch the Freedom Fund in 2013.
Bridging (and Funding) the Gap: The Role for Philanthropy

As Ed Marcum points out, foundations can also act as bridges between business and the advocacy community—not absolving businesses of their responsibility, but “acknowledging that this is a highly complex problem,” a point that businesses sometimes feel is lost in activist critiques.¹⁵³

HU CEO Randy Newcomb puts it more bluntly, “In most cases...they don't like to be together. They kind of vilify one another, and things are said that aren’t appropriate and aren’t helpful to forming a relationship that's trustworthy, and honest, and committed to integrity.” Through Working Capital, Humanity United forms a bridge getting unlikely bedfellows to gather around the table together as limited partners. Bringing together “advocate activist type folks” and “mainstream commercial folks” is itself part of the experiment: “If we can't do it at Working Capital,” says Newcomb, “then what are our chances of ever doing this at any level of scale?”¹⁵⁴

As one interviewee says, “Wearing a commercial hat, and an impact hat, and a philanthropic hat all at the same time is going to be important in being successful here.” Or as Randy Newcomb puts it, “if there's solutions to be found in the 21st century, they're not going to come from any single sector alone.”¹⁵⁵

Questions for the Field

- Do you think there are sufficient connections for non-western corporations to see the value or desire adopting in emerging technologies? Are they important to include as partners?
- How do you drill down into the supply chains to get them to adopt new technologies? Are the SMEs in those tiers important to have as partners and to scale?
- To what extent are in-country and multi-lateral agencies involved as partners?
- How do you leverage interest from other possible partners involved in education, health, or other related issues?
- The partnerships with “workers” were discussed by several interviewees. Do you feel those partnerships are sufficient with the current investees to ensure those voices are heard? How do you ensure that?
Case Analysis 3: Risks, Threats, and Opportunities

“[Philanthropy and venture capital] view risk in very different ways. Program officers are expected to be much more risk averse: If a foundation makes a grant to an organization that doesn’t succeed, it’s considered a big mistake. In contrast, the very best venture capitalists are happy if they get two out of 10 investments right, and they get incredible financial rewards when they judge risks correctly.”

—Pierre Omidyar

The Omidyars have the willingness—and the resources—to take on considerable risk in pursuit of social impact opportunities. And, as this quotation from suggests, their orientation toward risk is more like venture capital than traditional philanthropy.

In previous chapters, this case has looked at risk as a mechanism in Humanity United’s theory of change, and risk-taking as key characteristic of HU’s organizational culture of learning. This chapter looks at how risk is defined in the context of social finance. It considers HU’s attitude toward risk through the lens of the Deliberate Leadership model, and examines how Humanity United and its partners think about risk and reward in the context of the Working Capital Investment Fund, with a particular emphasis on reputational, financial and impact risks.
What’s the Risk in Social Finance?

A very broad definition of risk is “the likelihood that an event will occur that will cause some type of undesirable effect.” 157

The risk to global brands of having forced labor in their supply chains—including diminished reputation and the costs of compliance—is the centerpiece of Humanity United’s overall corporate engagement strategy. HU’s funding for investigative journalism and policy advocacy aims to change the “risk calculus” for brands—making it harder for them to ignore forced labor in their supply chains. 158 Beyond creating motivation for corporations to change behavior, HU also provides the means for them to do so by developing third-party solutions for ensuring socially responsible supply chains.

But what of the risks of HU’s own strategy, and in the Working Capital Fund in particular? Because HU mobilizes social finance tools derived from both financial and philanthropic approaches, they must consider impact risk side-by-side with traditional investment risks.

Research by Bridges IMPACT+, the advisory group of Bridges Ventures LLP, identifies five types of risk in impact investing:

• **Capital Risk.** The risk of an asset owner losing any of the original investment amount, in either real or nominal terms.

• **Exit Risk.** Most impact investments are structured as debt or equity structures, where the path to exit or liquidate the investment is less certain.

• **Transaction Cost Risk.** Transaction costs (the time and money spent on due diligence, deal structuring, and ongoing monitoring of the asset). The smaller the transaction, the greater the risk that these costs will be out of proportion with potential returns, which will inhibit investment.

• **Unquantifiable Risk.** While all investments carry risk, unquantifiable risk applies to situations in which the investment environment is not well-charted.

• **Impact Risk.** The possibility that the investment will not have the hoped-for social impact. 159

Laurie Michaels is the founder of Open Road Alliance, a philanthropic initiative that provides contingency funding and supports risk management capacity for nonprofits and social enterprises. For a recent study published in the *Stanford Social Innovation Review*, Michaels and Judith Rodin, former president of the Rockefeller Foundation, conducted discussions with a group of 25 practitioners spanning foundation leaders, legal experts, and nonprofit directors. From these conversations, Michaels and Rodin derive a “risk taxonomy specific to the philanthropic sector.” Risks include:

• **Financial risk.** Financial risk refers to the risk of losing money. Funders are sensitive about threats to the foundation’s endowment and place a high value on protecting those investments.

• **Reputational risk.** Reputational risk stems from events that cause a foundation to experience an embarrassment or threat to its brand.
• **Governance risk.** Governance risk refers to events that could affect compliance with legal, tax, or good-governance practices, such as conflicts of interest, inappropriate organizational structures, and inexperienced or unqualified boards.

• **Impact risk.** Impact risk, also called execution or implementation risk, refers to events that negatively affect the intended impact of a given project. Impact risk exists at the project level, the portfolio level, and the organizational level. Michaels and Rodin suggest that philanthropists have traditionally focused most of their attention on impact risk. Traditional investors are most concerned with financial risk. In blended forms of social finance, both types of risk must be taken into consideration.

**Risk and Deliberate Leadership at Humanity United**

Humanity United has embraced risk from the outset just by taking on the Wicked Problems of slavery and genocide. The Omidyars know that these are daunting issues and some of HU’s efforts will fail. As discussed in the previous chapter, HU values risk and a “fail-fast” mindset that owes much to Silicon Valley and venture capital. Randy Newcomb links Humanity United’s appetite for risk with “our tolerance for failure because we’re going to fail just by virtue of being out there and these huge, wicked problems.” Newcomb adds, “Nobody has an idea how to solve them, and so we will fail pretty consistently. And in some cases, we’ll get it right, and hopefully others will follow with greater amounts of capital.”

HU’s willingness to embrace risk and talk openly and honestly about failure demonstrate two of the 7 C’s of Deliberate Leadership—courage and candor. These are essential to addressing Wicked Problems that are by definition high risk, with many unknowns.

Figure 11 shows how the assessment of risks, threats and opportunities make up part of the process of Partnering and Planning in Phase 1 of Deliberate Leadership. When investments are made, the planned-for results are projected in the context of anticipated opportunities and anticipated threats. Deliberate leaders understand that implementation always carries the risk of “unknown unknowns”—threats that were not, or could not be anticipated when a program was planned. By the same token, unanticipated opportunities can also arise over the course of implementation.

HU staff may have a hard time, at least at the outset, internalizing and operationalizing an approach that says risk is okay; as HU Managing Director Isgitt says, “it’s often hard for new staff to wrap their head around the fact that it’s OK to fail.”

In this approach, HU arguably comes closer to a tech-sector venture capital (VC) firm than any other philanthropic foundation. Pierre Omidyar has lived up to his stated willingness to take on VC-like levels of risk in backing Working Capital despite what Newcomb characterizes as “Pierre’s healthy skepticism as to whether this would work.”

HU tries to minimize risk of failure by bringing to the table high-profile and diverse collaborators as limited partners in Working Capital, including major corporations such as Walmart and Disney, who have huge extended supply chains and are in a position to help with proof of concept.

The Deliberate Leadership quality of candor is continually revealed in the way HU weaves honest conversation into risk analysis and opportunity spotting. The following sections on
reputational, financial, and impact risks are replete with examples how HU welcomes honest feedback and tough criticism from its Working Capital investment partners.

**Figure 11. Risks, Threats and New Opportunities**

**Risking Reputation**

Reputational risk is real, and it’s an important consideration. In philanthropy, where market share and profit/loss statements mean relatively little, reputation is the most obvious indicator of success. And so, as Kilian Moote, Project Director of KnowTheChain suggests, the foundation officer’s internalized sense of professional risk ("does this jeopardize my reputation?") can be in tension with the more pertinent question of “does this run the risk of not having the impact I want to have, or maybe having a negative impact?”

Humanity United has the courage to take on reputational risk. For example, referring to its grant funding to the *Guardian* in support of investigative journalism on forced labor in supply chains, the Foundation states in its *Corporate Engagement Strategy* that “HU is also willing to take risks and link its name to investigative pieces critical of corporate actions.”

In the context of Working Capital, both HU and its limited partners could suffer reputational risk if the tools developed by the Fund are viewed as poorly designed or inadequate—or have negative unintended consequences for workers themselves.

For the global brands among Working Capital’s limited partners, there is the reputational risk if the tools developed by the Fund are viewed as poorly designed or inadequate—or have negative unintended consequences for workers themselves.

When asked about risk, a number of stakeholders interviewed for this case forcefully stated that Humanity United’s investment risks and risks of program failure (impact risk) pale in
comparison to the ever-present risks to personal safety, security, and life itself faced each day by victims of modern-day slavery.

**Financial Risk Is Secondary, but Not Irrelevant**

Stakeholder interviewees are clear that, for Working Capital, financial return is secondary to achieving social outcomes. HU Partner Chemain Sanan believes that people care about the impact return as much as the financial return. She explains, “Success really is, ‘Have we been able to change the practices of large corporations to enforce a more ethical supply chain, to move more purchasing dollars to ethically certified suppliers, and have we been able to reduce worker vulnerability because of the investments we’ve made?’ Part and parcel of that is how have been able to reach a significant enough scale with these investments to change corporate practice?”

Because Working Capital prioritizes social return over financial return, its principals are far less concerned with financial risk than the managers of a commercial fund would be. Newcomb says, “the downside for philanthropy is so limited relative to the upside that we benefit from if we can take risks in areas that sort of test ideas, test the marketplace, begin to demonstrate a proof of concept around which more conservative financial capital can follow.”

Yet the goal of financial returns remains a key consideration. With risk-averse philanthropic capital coming in first, Newcomb says, then “more conservative and much larger volumes of financial capital will follow.” This means, he explains, “the highest and best use of philanthropic capital is to be in that position, to be testing ideas rather than thinking that the limited amount of philanthropic capital will somehow scale at some level of material change globally, which is just not the case.”

The view of financial risk and return that guides Humanity United and Working Capital benefits from a decade-long process of learning across the Omidyar Network, which has developed a nuanced approach toward risk and return for impact investing. Four senior Omidyar Network staff—Managing Partner Matt Bannick, Vice President and Global Lead for Impact Investing Paula Goldman, Partner Michael Kzbansky, and Senior Manager Yasemin Saltuk—set forth this approach in the paper *Across the Returns Continuum*, later published in the *Stanford Social Innovation Review*. The authors assert that there is no simple “yes or no” answer to whether impact investment necessarily involves a trade-off between financial return and social impact:

“Our experience at Omidyar Network over the past decade has led us to a different answer: ‘It depends.’ In some cases—perhaps even most—a strong positive correlation does exist between financial return and social impact. In other cases, a company can generate significant social impact even if its financial return is modest.”

The authors raise the question “Under what conditions should an investor accept a risk-adjusted below-market return in exchange for an opportunity to achieve social impact?” They point to the evolution of thinking at Omidyar, from an earlier view that a commercial venture-capital fund should not accept less than market-rate returns, to the current view that returns and impact should each be considered along a continuum.

This influential paper advances “four insights that have clarified the conditions under which we will accept subcommercial returns” in order to achieve market-level impact:

- The impact of a firm can extend well beyond its direct effect on customers.
Subcommercial investments function in effect as subsidies and therefore have the potential to distort a market.

In evaluating a subcommercial investment, one critical point of reference should be a nonprofit or taxpayer-funded vehicle that aims to achieve the same objective as that investment.

Relaxing our return expectations should not lead us to relax the rigor with which we evaluate investments. In the Omidyar framework, various types of investments are understood to be arrayed along a continuum from commercial investments that are expected to yield market-rate or better financial returns to grants to nonprofits that are not expected to yield any positive financial return. However, the less the expected risk-adjusted financial return an investment is expected to yield, the more Omidyar expects it to deliver social impact and help build a new market.

Working Capital’s portfolio investments fall in the middle of this continuum. Like commercial investments, they are expected to earn a positive financial return. Like grants, they are also expected to earn a social return by building the market for solutions to forced labor risks in supply chains.

Working Capital benefits from HU having partners that are willing to poke holes in their process. Leslie Johnston, Executive Director of the C&A Foundation, a limited partner of the Fund, thinks that too much worrying about financial risk could limit Working Capital’s potential impact. She feels her team’s involvement as a partner is to ensure that the Fund keeps the goal of social impact first and to ensure that if WC begins to feel too much pressure to get a financial return that her team, who serve as advisors to the Fund, helps the Fund remember to take more risks.

CEO Sean Hinton of the Soros Economic Development Fund, another of Working Capital’s limited partners, raises another issue. He notes, “During due diligence, my team seemed to be asking questions that nobody else had asked,” suggesting that other partners were treating the investments as philanthropic grants and not applying such a high degree of financial due diligence, Hinton adds, “our intention was to evaluate this investment with exactly the same level of rigor and the same level of critique as we would a fully for-profit investment.”

Worried that his team might be pestering HU, Hinton says that HU’s Newcomb reassured him that the enhanced scrutiny from the Soros team was in fact welcomed.

Programmatic success, for Working Capital, means market-level impact, as measured by how well tools it invests in are integrated into corporate practice. And at what scale? For Randy Newcomb, success at scale means having the limited partners begin to adopt particular technologies into their supply chains that Working Capital backed. He adds, “If those practices begin to become standardized at the enterprise level across the industry…. If we’re able to do that, then I feel like we will have achieved scale.”

Sanan agrees and views success as having an impact on the market as a whole: “Success really is: have we been able to change the practices of large corporations to enforce a more ethical supply chain, to move more purchasing dollars to ethically certified suppliers, and have we been able to reduce worker vulnerability.”
For Laura Rubbo, Director for Responsible Governance and Supply Chain at The Walt Disney Company, the risk is Working Capital’s ability to grow and be sustainable and effective. Rubbo adds, “really big companies with massive global supply chains” will have to get involved and that includes non-Western companies becoming involved, including those from China, India, Russia, and Brazil.

Yet, not all of HU’s limited partners guarantee that they will use the tools in which the fund has invested; rather, they want the tools to be broadly available in the marketplace, and make them available to everyone. Karrie Denniston hopes the tools will be broadly available in the marketplace, including at Walmart: “For most of the tools, they would probably be more applicable to…suppliers or brands who are in the supply chains for multiple retailers, and closer to the production.”174

Based on the interviews, there is no guarantee that the companies affiliated with the limited partners, or their associated businesses, will use the technologies themselves.

Part of the reluctance to adopt the tools within their own firm or supply chain seems to stem from the fact that the US tax code prohibits philanthropic donors from engaging in “self-dealing”—that is, benefitting personally from grants intended to further a charitable purpose. For those who structure their contributions to Working Capital as grants, this may be a legitimate concern (interviewees differ on this point). Or, it may point to some unspoken corporate reluctance to engage fully. But even if corporate philanthropic investors maintain a firewall against self-dealing, their parent companies will nonetheless be aware of the innovations in the pipeline.

Risk of Unintended Consequences for Workers

Another potential impact risk is that the tools developed through Working Capital’s investments will have negative consequences for the workers that HU is trying to help. As HU Managing Director Ed Marcum says, with big data and the Internet of Things (IoT), there are real risks to worker privacy. It could be that new technology tools will have the unintended consequence of “really negatively impacting the livelihood of low-wage workers in some context.”

The recent history of Facebook offers a sobering reminder of the potential unexpected negative impacts of new technologies. HU Senior Counsel Joel Beck-Coon says:

> It is critical to adequately diligence what some of the externalities of the use or application of that technology may be, particularly on the class whom we’re trying to benefit. It is an unacceptable risk for a tool that we invested in to benefit a charitable class to be turned against and used to further harm that group of people that we’re trying to help.175

The extent to which they have been made explicit in HU’s theory of change is unclear. But several stakeholders interviewed for this case indicated that potential risks to workers were on their minds: transparency tools can have the unintended consequence of violating worker privacy; accountability tools could be used by managers to identify underperforming workers for dismissal; and any solution that will is to be used by workers themselves and/or relies in part on input from workers to identify abuses—could render them vulnerable for retaliatory action, unless privacy safeguards and anonymizing features are carefully considered in the design and testing of these tools.
Unresolved Questions About HU’s Theory of Change

Weak points in HU’s theory of change came up in the interviews. HU Managing Director Dan Viederman points out that the local enterprises who actually hire the workers bear the frontline responsibility for putting change into practice on the ground:

Ultimately, the employer is responsible for the treatment of his or her employees so there’s no doubt that it’s the SMEs or the suppliers—in other words, the employers of workers, they are the ones who are responsible legally as well as ethically for the treatment of their workers...[but] they don't want to pay for tools or the costs of being responsible. They don't see the business case for tool adoption yet. They don’t see the financial return yet and the multinationals are having trouble forcing it on them.¹⁷⁶

What complicates success for impact investment in general, and the Working Capital fund in particular, is the question of measurement. The general lack of data on issues of forced labor makes it much more difficult for investors to gauge impact than, for instance, with investments aimed at environmental impact. For the “S” part of ESG (environmental, social, and governance screens), indicators and measurement are extremely fraught: to give a very simple example, do fewer arrests for a given crime indicate a lower incidence of crime, or decreased enforcement? Like other foundations, Humanity United is grappling with issues of data and measurement.

KnowTheChain Project Director Kilian Moote goes further. He believes the ESG framework leads to unrealistic expectations that “you can quantify S in the same way that you can quantify E, and I don’t believe that anymore. I think they’re just fundamentally different. I think the ESG framework can do a disservice to those of us that care about social issues.”¹⁷⁷

HU Managing Director Dan Viederman makes a related point when he states that, “There's no way that the problems that we really need to solve get solved with market rate returns.”¹⁷⁸

As a set of questions that remain unresolved in the field, as well as within Humanity United, this gives another example of how the foundation moves forward, even in the absence of perfect alignment.

Questions for the Field

- What are some of the other kinds of risk involved in impact investing?
- What can Humanity United do to encourage its corporate partners to adopt the tools developed through Working Capital investments?
- What are some of the steps that can be taken by Humanity United to mitigate risks to workers that may arise from the unintended negative consequences of the tools developed by Working Capital’s portfolio companies?
Case Analysis 4: Alignment among Partners

“It will take the engagement and significant collaboration of public, private, and social sectors to truly shift mindsets and culture around the hidden and shameful nature of slavery. Through greater partnerships, transparency and aligned intention, we can scale immensely to achieve our worthy vision of our shared global freedom.”

— Pam Omidyar

Alignment is recognized as a complicated but crucial ingredient of organizational success. How well is Humanity United aligned internally? How does HU manage to achieve “aligned intention” among partners in Working Capital? The challenge of achieving and maintaining alignment among stakeholders in a multi-player social impact venture adds another layer of complexity to the work.

Oxford academics Jonathon Trevor and Barry Varcoe make the case that high-performing enterprises must closely manage various aspects of alignment, including agreement on purpose and strategy, common understanding of the organizational capabilities and resources needed to implement strategy, and a common commitment among management. According to Trevor and Varcoe, “the challenge is that executives tend to focus on one of these areas to the exclusion of the others, but what really matters for performance is how they all fit together.”
In social impact work, the question of alignment about purpose and strategy among partners in a collaboration is of utmost importance. The quality of the partnership, and its impact suffers when players become complacent and assume there is a degree of alignment that may not necessarily exist.

Deliberate leaders understand that alignment around purpose and strategy requires frequent testing of assumptions and expectations. As Figure 12 suggests, the question of alignment between funders and stakeholders has several aspects, all logically linked, and all equally relevant to interests, expectations, and actions. Does what the funder offers align with what it intended? Does what a stakeholder expects align with what was offered? And to complete the circle, does the outcome intended by the funder align with the actual lived experience of the stakeholder?

This chapter examines the question of alignment both within Humanity United and between HU and its external partners. Overall, interviewees expressed a strong feeling that Humanity United has aligned its activities and focus in a way that helps achieve its broader mission. For the most part, there appears to be alignment internally and externally about the overall purpose of Working Capital, including on intervention points and the risks of the investments.

Nonetheless, alignment among partners is never perfect, and this chapter concludes with a consideration of how HU and Working Capital can move forward under conditions of imperfect alignment.

How to Foster Alignment within an Organization

As a mission-driven organization, Humanity United has alignment around purpose. And within HU’s forced labor portfolio, internal strategy alignment clicked into place with the development of a comprehensive corporate engagement strategy.

Internal alignment in terms of organizational capacity—HU’s people, processes, and resources—owes much to a process of organizational learning that transformed the broader Omidyar Network. In a 2011 *Harvard Business Review* article, Pierre Omidyar describes the “cultural challenge” that the Omidyar Network faced in the mid-2000s, as it grappled with
Alignment among Partners

blending traditional philanthropy with venture capitalism. Noting that “the way a program officer does due diligence for a foundation is vastly different from the way an investment analyst does it for a venture capital firm” Omidyar candidly admits:

We didn’t get it right in the first few years—we weren’t able to successfully blend the two cultures. It was difficult to incentivize the for-profit employees without disincentivizing the nonprofit staff. Some of the for-profit people we brought in didn’t stay long, and the nonprofit employees may have felt they weren’t valued. It took a lot of learning.  

In 2007, the Omidyar Network restructured in order to facilitate greater internal alignment, setting up “a partner style of leadership and governance” in place of the “traditional hierarchical model.” Pierre Omidyar says, “Simply put, we decided that because the organization was operating more like a venture capital firm, we should structure it more like one.”

Today, Humanity United reflects the VC-style organizational structure put in place across the Omidyar Network in its early years—for example, utilizing “managing director” job titles rather than the program director and vice president positions prevalent in traditional philanthropy for decades. Interviewees suggest that the task of internal alignment at HU has become more complex as HU has grown from a small team using frequent informal face-to-face meetings to maintain alignment, to a much larger organization. Over time, managers at HU have tried to reinforce alignment through an increasing number of formal meetings—as well as engage in lots of informal communications.

Consistency in projecting a clear brand is an important element in international alignment for nonprofits. In a 2012 Stanford Social Innovation Review article, Nathalie Kylander of Harvard’s Kennedy School and Christopher Stone, who served as President of the Open Society Foundations from 2012 to 2017, argue that “[t]he result of alignment in mission, values, identity, and image is a clear brand positioning and increased cohesion among diverse internal constituencies.”

Even with HU’s considerable internal alignment, the foundation is a “big tent.” Senior managers realize that some members of its staff are explicitly anti-corporate, in the sense that they have fundamental doubts that corporations can or should be relied upon to stop forced labor, when the profit motive compels them to lower costs and reward suppliers who do the same. It appears that this degree of skepticism, while not fully aligned with Working Capital’s fundamental premises, is nonetheless viewed within Humanity United as part of a legitimate range of opinion—a “devil’s advocate” position that helps keep the organization as a whole honest and self-reflective. However, Managing Director Tim Isgitt admits that “we need to be more deliberate about surfacing this tension within Humanity United.”

Alignment with External Partners

“The unique structure of aligning with leading companies as funders helps leverage innovative solutions for sustainable impact in a way that is good for all—consumers, business, and society.”

—Humanity United, in its public announcement of the Working Capital Fund

In its January 2018 public announcement of the launch of Working Capital, HU posited alignment with major corporations in the context of the Fund. But the reality is that alignment
Alignment among Partners

is significantly more complicated for social impact investing than in traditional venture capital. As Daniel Izzo, executive director and co-founder of Vox Capital, writes, when financial return is the only objective of an investment fund, “[t]here is a clear alignment of interests between investors and managers: Both sides want to maximize the financial return on investments. But in the case of impact investing, how do we ensure this alignment when impact metrics are also part of what we are trying to achieve?” For Izzo, the implication for impact investing is clear: “it is important to ensure maximum alignment of interests among all players involved in its development.”

Defining the Scope of Forced Labor Purpose

Thanks to strong collaboration within HU and among its limited partners, HU has achieved alignment around the basic value proposition of Working Capital, which is to fund innovative, market-based solutions that will reduce the incidence of forced labor and other forms of exploitation by bringing more transparency and accountability to supply chains.

But there are different approaches to thinking about the ethical and legal issues associated with labor in supply chains. The range of potential issues is very broad. Do workers make a living wage? Do they enjoy labor rights—including the right to join unions and engage in collective bargaining? Are workers treated fairly in the recruitment process, or are they forced to bear all the costs of recruitment? HU’s Dan Viederman, by virtue of his previous role as the head of Verité, is particularly attuned to recruitment abuses. Do migrant workers retain freedom of movement, or are their passports confiscated by employers? Are there adequate protections of worker health and safety, including protection from sexual harassment and physical abuse?

Not surprisingly, some employers, some brands—and some foundations—are more concerned with some of these issues than they with others.

Even between closely linked entities like Humanity United and Working Capital there are differences in assessing the scope of the problem. As HU Partner Chemain Sanan puts it, Working Capital has a broader view of impact than Humanity United. Working Capital looks at a broad spectrum of labor issues—including worker abuse, sexual harassment, and pay that amounts to less than a living wage, among others—and invests in solutions intended to improve the lot of workers across a range of these issues.

By contrast, with the exception of the work it carries out through Working Capital, Humanity United is otherwise focused on the most egregious of labor abuses—like bonded labor and human trafficking, as well as forced labor, which constitute modern-day slavery. It is not that HU is uninterested in the broader set of labor abuses—otherwise they would not support the Fund’s broader mandate—but for its own work, it chooses to concentrate on the most acute subset of them.

NGOs, who are free to choose their own areas of work, don’t all fall on either one side or the other of issues such as how to define labor abuses in supply chains. Ben Skinner is the founder and president of Transparentem, a nonprofit and HU grantee that investigates abuses. Skinner is clear about defining one of Transparentem’s priorities as: “People that are forced to work, held through fraud under threat of violence for no pay beyond subsistence, people that can’t walk away from their work without severe consequences.” Skinner sees wage issues as important, not the least of which is because “underpaying a worker in a particular environment sets the stage, creates the vulnerability that can lead to trafficking.” But, he says,
“I wouldn’t call somebody that’s not making a living wage a trafficking victim.” Other NGOs do focus on wage issues.

Similarly, investor-partners in Working Capital vary in terms of their own priorities on labor issues. Kyle Wright, CEO of Stardust (a partner in both the Freedom Fund and Working Capital) says that Stardust is not “focused so much on the shades of gray” (into which category he puts the living wage issue); they do some work in these topics “but for us, clear cases of slavery and trafficking are really where we’re hitting hard on the investment side.”

In some cases, the limited partners of Working Capital have exerted pressure on Humanity United to bring the fund into alignment with their own interests. Gender justice is an important priority for the C&A Foundation, whose Executive Director Leslie Johnston relates how one of her colleagues told Working Capital, “Look, you don’t have a gender lens here and that’s really important to us.” According to Johnston, Working Capital responded positively. “They were very open to that, and I don’t see that a lot, especially among…foundations, because foundations always think that they know best.” Johnston says the Fund “made an effort to bring gender into the design, and listen to us. That was really important.”

But not all limited partners even agree on the definition of Working Capital as simply a venture-capital fund. Sean Hinton is Director of the OSF Economic Advancement Program and CEO of the Soros Economic Development Fund. Pointing out the fact that Working Capital is structured so limited partners can make their investment as a PRI, and some of them participate through grants, Hinton makes the point that it’s “absolutely an impact investment” for OSF “and it’s quite appropriately structured as an investment fund,” but he says “what we are looking for is more than just a fund, and Working Capital is trying to do something difficult and important.” He goes on “We want our capital…to be deployed into ventures where we are adding value in some way, where our capital is supporting something to exist that wouldn't have existed, or grow that wouldn't have grown, or to support a team to work on impact with a focus that they otherwise couldn’t have had if they’d had other capital.” Hinton believes that “the beauty of Working Capital is that it has the backing of HU who brings deep expertise on forced labor and a commitment and focus on impact that matches ours.”

Alignment around the SDGs

The policy environment provides an opportunity to strengthen alignment. This is obviously the case with specific legislation that set compliance requirements. International treaties, such as the Palermo protocol are clearly relevant in bringing various players into alignment. Non-binding international commitments also play a role, and perhaps the most important of these are the Sustainable Development Goals (SDGs), which have been widely adopted by UN bodies, development agencies and NGOs as organizing principles for their work. The SDGs serve as a signaling device writ very large—on the scale of the international community. In the field of forced labor, they furnish concrete aspirations for the movement against modern-day slavery.

Ed Marcum of Humanity United notes that SDG 8.7 (which calls for “immediate and effective measures to eradicate forced labor”) helps align attention around forced labor. But the SDGs may not yet instill big changes to corporate programs. Says Laura Rubbo, Director of International Labor Standards at The Walt Disney Company, “We haven't really been able to see a whole lot of practical action out of the SDGs yet. There are principals and they're valuable and credible, but we aren't really seeing anything that is helping us actually drive
action in our program activities quite yet.\footnote{193} At this stage, it appears that many companies use the SDGs as a communications vehicle, but not as key inputs or strategy guides.

**Aligning HU and Grantees**

When it comes to HU’s relationships with its grantees—and with the entities it invests in through the Working Capital fund—the foundation is “not just writing a check and walking away,” says HU Senior Manager of Communications Liliana Giffen.\footnote{194} Relationship-building is not a pro-forma exercise; it creates channels for subsequent problem-solving between HU and its partners, helping to keep the various stakeholders collaborating and aligned.

Working Capital’s status as a PRI, and the covenants it signs with its partners, help ensure alignment. As HU Partner Chemain Sanan says, by not promising a market rate of return, Working Capital “screened out partners who were primarily only interested in financial return as part of the fundraising process, because of the PRI structure of the fund. That kind of was a forcing mechanism to align values and align commitment to impact first, right off the bat.”\footnote{195}

On the grantee side, alignment is not always easy. Humanity United’s commitment to being a learning organization necessarily means paying attention to feedback and making multiple adjustments to their strategy over time. And for grantee NGOs, this can be disorienting. NGOs, too, have their own missions and strategic plans, and when funders change course (as they often do), nonprofits must adjust accordingly. Ideally, the adjustment process is mutual, as foundations learn from their own work, along with that of their grantees, what works and what doesn’t. But since one side controls the purse strings, the grantor-grantee relationship involves clear power differentials. And when foundations change their strategies frequently—as HU has done—this can be frustrating for grantees.

This issue is widespread across the philanthropic landscape. But when foundations like Humanity United partner closely with investors and utilize the tools of venture capitalism, this can create additional complication in maintaining alignment between the foundation and nonprofit advocacy groups—a cultural mismatch. Verité CEO Shawn MacDonald points out that foundations can engage in “A lot of kind of Silicon Valley-type process and business-speak that sometimes are very much out of sync with the culture and the urgency of their grantees, and the situation that they're facing.”\footnote{196}

For MacDonald, this leads to a broader critique of impact investing, which is perhaps inherent in the tensions that can arise at the intersection of the financial and social sectors. The needs of communities on the ground are not always in alignment with what he characterizes as the investment world’s “very finance-driven, MBA worldview-driven view of social change.”\footnote{197}

This power imbalance, and the attendant risk of one worldview displacing others, needs to be taken seriously in the world of social finance. But the street runs both ways. As MacDonald says: “There’s very low capacity on the civil society side to understand how business operates.” MacDonald is careful to stipulate that this doesn’t mean that “anything financial is somehow good” or that “all the NGO people are muddle-headed and haven’t had the benefit of being trained as a McKinsey consultant or something.”\footnote{198} It does mean that it takes a lot of patient mutual learning and relationship-building—and humility on all sides—to make partnerships work for everyone.
Balancing Advocacy and Corporate Engagement

It is important to Working Capital’s corporate partners that Humanity United strikes a balance between advocacy (sometimes seen as antagonistic to business interests) and engagement (working as partners and allies with businesses to help nudge them toward shared goals). As Laura Rubbo, Disney’s Director for Responsible Governance and Supply Chain points out:

There are some NGO’s that see business as the foe and really they see the only way to engage with companies is to campaign against them. That’s not where Humanity United is. They really strike a very nice balance between being a bit activist and shining a light on serious human rights issues, but also working constructively with business to promote change.199

This alignment can be challenging when the partners have diverse perspectives. Leslie Johnston of the C&A Foundation brings to the table questions about if, when, and whether HU goes too far in the corporate direction to ensure it continues to always remember the social justice issues surrounding low-paid labor. Johnston wants to make sure that the Fund operates at more than the “ESG” level—where companies might feel comfortable checking the box, but not going deeper into what is fair. She believes her role is to raise issues of justice, unequal power, and what is right in the industry. But while the C&A Foundation believes its role is to challenge some aspects of Working Capital’s investment approach, Johnston says, “In terms of being honest and open, there are no issues there. I feel that both parties are quite open and honest with each other.”200

Moving Forward with Imperfect Alignment

As impact investing moves into the mainstream, says HU Partner Chemain Sanan, it’s important to understand “that not everybody coming into this space is going to be built around the same kind of motivation. And I think that’s actually OK.” Whereas some people are driven by the values underlying the social impact side of the equation, others may “think ESG investing is just a good business model, and it’s a strong business case”—if it leads to increased market demand for solutions. In short, says Sanan, “[a]s long as the end result is the same, I think the motivation for coming into the space can be different, for lots of different actors, and maybe we don’t have to reconcile them.”201

Creating and maintaining alignment requires the skills of Deliberate Leadership. HU President and CEO Randy Newcomb credits the team’s leadership skills, and “in particular, Ed Marcum's ability to navigate those relationships. He's done really an incredible job of doing that. It's been patient, and it's been persistent, and it's been a prolonged pursuit of forming and norming, in many ways, those relationships.”202

As Leslie Johnston, Executive Director of C&A Foundation notes, Working Capital “brought different stakeholders that have different objectives, different legal structures. We have foundations, we have impact investors, we have corporates, all putting money into the same vehicle and all bringing what may be unrealistic—and divergent—expectations to the fund.”203 However, although the push-pull of different perspectives have challenges. Limited Partners interviewed agreed that Working Capital approach offers an important model of collaboration. Things to watch will be whether this set of partners will be able to continue moving forward together in spite of their differences? What strategies are needed to keep them aligned? How will the tensions among them lead to creativity and innovation and not frustration and
stagnation? It is still very early in the life of Working Capital. Time will tell—as will the developmental evaluation that we explore in the following chapter.

Questions for the Field

• Which aspects of alignment among Working Capital’s partners have been most problematic?
• How has Humanity United shown flexibility in working toward alignment?
• In its operations so far, what lessons does Working Capital suggest about the prospects for, and limitations of alignment around labor rights in multi-sectoral social finance partnerships?
Case Analysis 5: Learning while Doing Social Finance

“We begin work, we test and we innovate, and we make adjustments to that, and we’re constantly trying to learn and document what we’re learning and taking those lessons back to the board and talking to them about it.... In systems-thinking, you’re never going to be able to plant the flag and say, ‘Mission accomplished, we’ve achieved it.’”

— Tim Isgitt, Managing Director, Humanity United

This chapter examines how Humanity United and the Working Capital team and partners learn. The lens used here to examine the process through which a social impact investor learns and recalibrates its strategy is that of single loop and double loop learning (Figure 13).

The late Harvard Professor of Education and Organizational Behavior Chris Argyris originally developed the concept of double loop learning in the 1970s to describe a learning style that helps organizations and leaders make better informed decisions in the context of rapid change and uncertainty. Argyris described a deeper and more adaptive form of assessment that goes beyond asking whether specific outcomes have been met to “questioning underlying organization policies and objectives.” This form of assessment draws attention to the way that program outcomes are shaped by values, beliefs, and assumptions as well as by strategy.
Single Loop Learning 101

By contrast, single loop learning, as the diagram in Figure 13 suggests, is a learning framework—used often in philanthropy—that focuses just on the outcomes of strategies that are predictable and whose effectiveness is taken for granted. In this model of assessment, an evaluation can occur after the strategy is complete because the question being asked is, “Did we do what we intended?” This information can be valuable for a leader taking on a tame problem, but it is of limited use with Wicked Problems. For single loop learners, closer examination of underlying strategies or assumptions may even trigger a defensive reaction rather than expanding their understanding.208,209

Feedback loops are an essential part of systems thinking. As Figure 13 illustrates, there are different types of feedback loops, associated with qualitatively distinct types of learning. Single loop learning takes place when information derived from results (outputs or outcomes) feeds back into strategies, and provides the data needed to make necessary adjustments in program design. One interviewee is essentially talking about single loop learning when he speaks of the opportunity for feedback loops between policy, impact assessment, and interventions: “with those feedback loops working, you set yourself up for a greater chance of success.” Paying attention to feedback—and not being penalized for failure—allows for dropping what isn’t working.

Being attentive to feedback loops means understanding the context into which new tools are introduced. Certain pre-conditions may have to be met before, for example, a worker hotline tool is introduced. If it’s a mobile app, do workers have access to smart phones? In a parallel to concerns regularly expressed in the field of economic development, Walmart Foundation’s Karrie Denniston notes that you can’t just “parachute in” such a resource. You have to think about its users, and potential barriers to its adoption.210
Double Loop Learning 101

Double loop learning occurs when organizations use feedback results not only for the purpose of making adjustments to strategies but also to go beyond defensive reasoning and probe the organization’s underlying assumptions, values, and beliefs for potential reconsideration.

Humanity United CEO Randy Newcomb’s description of what he calls “systems listening” captures the essence of double loop learning: “It’s being really attuned towards what you hear taking place within a system… it’s important to listen with wisdom and listen with a lot of curiosity to test your assumptions, to make sure that the bias that you might bring doesn’t cloud your judgment.”

Those biases include beliefs and ideas that come from one’s home culture, and the professional culture within which one works. As Newcomb says, “It’s really important, in particular, for those of us who come from the west and come from the north. We bring such enormous, incredible worldview bias to our work, and we have to overcome that.”

HU Managing Director Tim Isgitt reinforces this point: “Much of our board meetings is spent talking about lessons and checking assumptions and trying to uncover our biases.”

With double loop learning, enthusiasm over outcomes needs to be tempered by testing them against core values. As Randy Newcomb says,

The road we travel is littered by individuals and organizations that have failed to have the appropriate level of humility in the face of the complexity of the problems we face. And, at times, have made these problems even worse, in spite of their attempts to try to improve the well-being and livelihoods of the people that we’re trying to serve.

Staff of Humanity United are attuned to one particular form of feedback—the potential for unintended negative consequences that may accompany the introduction of new tools to monitor abuses in labor supply chain. KnowTheChain Project Director Kilian Moote notes that, as a team, HU discusses the unintended consequences of productivity tools, digital identification devices, and digital recognition tools.

Managers admit, however, that Humanity United may not be receiving enough of the specific sorts of feedback that could be provided by listening to community voices and hearing from workers themselves. Although HU supports plenty of community-based NGOs through the Freedom Fund, perhaps the Foundation is missing opportunities to carry their voices over into Working Capital.

From Results Measurement to Developmental Evaluation

In the process of developing the Working Capital Investment Fund, “Humanity United partnered with Pacific Community Ventures to develop a results measurement system for the Fund.” The system of social indicators, to be applied to individual portfolio companies and to the overall fund, defines expected results and develops metrics “that will assess the social performance of each investment, each business category, and the Fund overall.”

The resulting Impact Measurement Framework looks at four dimensions of Working Capital’s impact:

- **Investees**— “To what extent has HU’s investments and advisory support been essential to the growth—or very existence—of portfolio companies?”
• **Corporate Behavior**—“To what extent are portfolio companies’ products and services being used by corporations? To what extent are corporations using these products and services to make decisions intended to reduce labor exploitation?”

• **Workers**—“To what extent are portfolio companies’ products and services demonstrably reducing labor exploitation?”

• **The Overall Field**—“To what extent have portfolio companies contributed to the growth of a market for a new product or service that reduces labor exploitation?”

The framework tracks a set of 36 metrics for gauging impact in each dimension for four business categories: worker voice, ethical recruitment, corporate risk assessment tools, and traceability tools.\(^{218}\) The metrics on worker voice, for example, include: number of workers participating, number of female workers participating, number of grievances against employers filed, percentage of worker grievances addressed, worker retention rates, worker response rate on surveys, cost per worker surveyed.

Data is collected annually and continually analyzed to chart progress both for individual investees and at the systems level.

So far, so good. But HU is going much further, using a developmental evaluation (DE) “to situate the Fund’s results and learning in the context of HU’s broader mission.” Rather than wait for the completion of the Fund’s first phase and then performing a retrospective evaluation, the DE will allow HU to gauge Working Capital’s impact and capture process lessons in real time.

Developmental evaluation (DE) is an approach introduced by management consultant Michael Patton in the 1990s to refer to evaluations that are carried out in real-time, though “long-term, partnering relationships with clients who are, themselves, engaged in ongoing program development.”\(^{219}\) Patton contrasts this approach with traditional program evaluation, which assumes a fixed goal, and comes in at the end of a project to ascertain whether that goal has been met.

“Developmental evaluation,” writes Patton, “is a way of being useful in innovative settings where goals are emergent and changing rather than predetermined and fixed, time periods are fluid and forward-looking rather than artificially imposed by external deadlines, and purpose is learning, innovation, and change rather than external accountability.”\(^{220}\)

Developmental evaluation is useful when dealing with innovative approaches under conditions of complexity, when neither the measures nor the specific expected outcomes of a project are determined in advance. This is particularly important when approaches are expected to adapt in response to feedback and learning, and when relationships and values are of central importance to the project’s success. As a Humanity United/Working Capital Investment report to partners puts it: “Unlike a traditional monitoring and evaluation approach, which may offer insights only after an intervention has been implemented or completed, developmental evaluation aims to generate learning from inception and throughout the full lifecycle.”\(^{221}\)

Developmental evaluation aligns well with Humanity United’s commitment to a systems level approach to ending modern slavery and curbing labor exploitation. HU’s terms of reference for the evaluation state, “[a] developmental approach is well suited to this dynamic system, market-driven context and must take into account the complex and sensitive issues around human rights and worker protections as they evolve.”\(^{222}\)
Major goals for adopting this approach are maintaining a high level of flexibility in how data is incorporated as the fund portfolio grows and positioning the evaluation team as learning partners to WCIF Fund. The team is led by Penny Hawkins (former Head of Evaluation at the UK Department for International Development) and includes Karim Harji (Director of Oxford Impact Measurement Programme, Said Business School).

Developmental evaluation is relatively new to the philanthropic and social sectors—and is entirely novel to the field of impact investing. Indeed, field learning is one of the goals of Working Capital’s DE, which is “expected to make contributions to elevate the current use and understanding of evaluation to assess social impact for impact investing.” Working Capital also dispatched its developmental evaluation team to conduct a session with its first investee, Provenance.

The idea of using a developmental evaluation was brought to Working Capital by one of its limited partners, the C&A Foundation, which volunteered to pay for it—an offer taken up by the Fund. Leslie Johnston, Executive Director of the C&A Foundation, describes HU’s willingness to take on the developmental evaluation:

They were not only open, but really enthusiastic about it, which we think is really a pioneering move. You don’t see a lot of organizations that embrace that as much in this space, and I think [the core of] developmental evaluation...is providing real time feedback on how they’re doing this. To me that just indicated that they’re willing to know what’s working and what’s not working.

Developmental Evaluation 101

The stated purposes of DE for the Working Capital fund are:

- **Learning** through collecting and summarizing data (qualitative and quantitative) to inform ongoing decision-making by identifying with staff what is and is not working for whom and under what conditions. This will inform decisions regarding follow-on investments and the type of advisory support provided to portfolio companies. To accomplish this, the evaluation team will regularly engage with the Fund team to review, reflect upon, and analyze the latest data on social impact.

- **Knowledge generation**, which contributes new insights on results, impact measurement, and evaluation approaches, including methods and tools to benefit the fields of impact investing and corporate responsibility. The evaluation team will co-create knowledge products with the fund to promote the goals of WCIF.

And key objectives of DE for Working Capital are:

- **To create a theory of change** for the Fund, including the testing and validation of linkages between activities, outputs, and outcomes; clarifying and interrogating assumptions within the theory of change and how they vary across the portfolio; and documenting the ongoing evolution of the theory of change as the Fund’s operations develop.

- **To support monitoring activities** conducted by the Fund management team, which includes providing critical reflection and feedback to enhance the relevance of metrics and information used by portfolio companies and the Fund. In addition, the DE will provide support where appropriate to portfolio companies to ensure monitoring is relevant, cost-effective, and useful.
Learning while Doing Social Finance

• To identify whether practices and pathways work or don’t work for influencing behavior among the Fund’s stakeholders, including corporations, impact investors, worker networks, and others. This includes developing channels to communicate with these groups through learning events for internal and external audiences and other activities.226

The theory of change—a framework for structuring, monitoring, and evaluating impact—is central to the developmental evaluation process. As the HU/WICF report to partners states: “A Theory of Change clarifies the outputs, outcomes, impact, and the rationale, mechanisms, and assumptions relevant to an intervention or an array of interventions in a system.” (See Appendix E for HU’s detailed theory of change and learning questions.)

At an early theory of change working session, the evaluation team and the full WCIF team described a key pathway to meeting their goal of eradicating human exploitation in the global supply chain to be “improving access to data for corporations, demonstrating the value of better data for corporations, and the implications of a strategy focused on corporations that take on a leadership role around addressing forced labor in supply chains.”

A firm grasp on WICF’s theory of change can help the organization make a difference in a number of ways:

• Individual Investment Level—“Providing both financial investment and targeted technical assistance to companies offering responsible supply chain solutions.”

• Portfolio Level—“Increased availability of scaled, efficient, and effective responsible supply chain solutions will give corporations access to more reliable, cheaper, and vastly expanded data related to their supply chains.”

• Broader Market Level—“Humanity United’s investments and the successful uptake of responsible supply chain tools by corporate clients establishes the credibility of these interventions [and] demonstrates the financial viability.”

• Corporate Action—“Purchasing from ‘well behaved’ suppliers, ensuring industry standards are adhered to, monitoring the behavior of companies in their supply chain, and ensuring workers are properly hired and paid.”

• Improving the Lives of Vulnerable Workers—“Through improved availability of responsible supply chain tools, vulnerable workers will have access to expanded information with which they can protect themselves and access ethical labor migration options. In turn, workers provide information on labor practices back to corporations using responsible supply chain tools.”

Guiding Principles to Direct Working Capital Investment Fund Evaluation Activities

1. Ensure regular and engaged in-person and online communication

2. Maintain a high degree of flexibility throughout the process

3. Match the evaluation to the pace of development of the initiative

4. Embrace learning, and balance ‘proving’ and ‘improving’

5. Commit to engaging with mutual respect and candor

6. Ensure the integrity of the developmental evaluation process and outcomes and maximize its value

While full implementation details of the DE were not available to the case study team at the time of writing, developmental evaluation does appear to be a good fit for HU. As Randy Newcomb says, this is an organization for which (metaphorically speaking) the “compass” (a strong values and mission orientation) is more important than the “map.” In the face of so many unknowns, he adds, “It’s less about making the map visible to people. It’s more about, how do you interpret the compass, and where is that compass pointing? And understanding the direction in which the organization is going.”

The developmental evaluation of the Working Capital fund should help advance double loop learning in the organization and its partners. A willingness to re-examine assumptions is evident in the Fund’s DE’s Objective 1—clarifying and interrogating assumptions within the TOC—and is embedded in the Fund’s description of specific activities to be carried out by the DE team: regularly revisiting “the Fund’s Theory of Change and the impact measurement system…to assess its continued relevance and validity as the Fund evolves.”

The developmental evaluation began when Working Capital made its first investments. The DE team reports its findings on a quarterly and annual basis through the life of the Fund (currently projected to run through sometime between 2023 and 2026). Noting that Working Capital has weekly meetings to touch base with the evaluation team, HU Managing Director Dan Viederman says, “I think having the evaluation team that we have available, and making [evaluation] an absolutely regular part of our conversations both with them and then amongst our own team means that we never lose sight of the impact we’re trying to have for our investment efforts.”

**Questions for the Field**

- What does double loop learning achieve that single loop learning cannot?
- What are the steps that HU takes to ensure that both its tactics and underlying strategy are achieving their desired outcomes?
- How does the theory of change influence HU’s work and mission?
- What is HU’s comfort level with changing their strategy if, in fact, evaluation or other feedback indicates that its fundamental theory of change (including partnership with corporations) is failing to address the issue?
- How might the developmental evaluation’s findings guide future impact investment efforts by Humanity United or others?
Let’s revisit the Deliberate Leader learning process in light of what we now know about the evolution and various dimensions of Humanity United’s fight against modern slavery.

Going back through the early years of Humanity United’s work on forced labor, we see the full extent of the organization’s learning process carried out in the strategic revision it undertook beginning in 2014, and the revised, systems-thinking approach it rolled out in 2016. Out of necessity, HU began its work in 2008 without a complete map, and without knowing all it needed to know to create the systems approach it utilizes today. But HU was testing its theory of change in those early years, focusing on the efficacy of commodity-specific interventions against forced labor. Through its research funding, the foundation was gathering evidence to refine its understanding of the complexities of the problem. By 2014, HU’s leaders were in a position to reflect on the lessons of the work up to that point and they were willing to question the validity of their strategies and assumptions.

This recalibration, which brought together all of HU’s initiatives on forced labor into a single system map and a consolidated theory of change, provides an excellent real-life example of organizational learning.
Recalling the seven C’s of Deliberate Leadership, we can consider whether and how well each has been embodied in Humanity United’s leadership of its forced labor portfolio.

**Courage:** Were HU and its partners able to directly confront the cost of forced labor to workers in the extended supply chains which major corporations rely upon to operate competitively in the globalized economy?

From the outset, Pierre and Pam Omidyar recognized human life and human dignity as their highest values, and these have guided all the work of Humanity United. In challenging forced labor in global supply chains, HU knew they would be pressuring corporations to address more seriously the extent to which their business models relied on unfree labor. Did HU define forced labor in supply chains as a Wicked Problem and respond with the courage and humility that Wicked Problems demand? Or did they approach it as a tame problem with a known and technical solution, or as a crisis with a command-and-control solution? HU’s work clearly shows that they approached the overall problem with the adaptability demanded by Deliberate Leadership. But one question remains. By largely setting aside the issue of living wages, does their approach—even if successful—risk leaving workers subject to exploitation?

**Collaboration:** Did HU seek out divergent points of view and ensure that they were welcomed and protected at the table?

Humanity United had already built strong relationships on both the corporate and NGO side before they recalibrated their forced labor portfolio and launched the Working Capital fund. Among HU staff, as among Working Capital’s limited partners, there are a range of divergent viewpoints. But HU appears to rely on other parts of its overall forced labor portfolio to bring in voices of the affected community—notably the Freedom Fund, which continues to support small grassroots NGOs around the world. To what extent are these initiatives—Working Capital and Freedom Fund—siloed? Are there mechanisms for bringing worker voices to the table when Working Capital investment decisions are being made?

**Community:** Did HU seek out positive deviants (on staff, in the field, and inside other organizations) who might offer an alternative solution that could be successful in specific cultural contexts?

With given voice to arrange of viewpoints among its staff and the Working Capital limited partners, HU lessens the risk of a single “party line” prevailing. But by not having staff on the ground in the countries where forced labor is most prevalent, Working Capital relies very heavily on local NGOs, and international NGOs with local presence. With the exception of its continuing funding for supply chain work in the Thai seafood industry, HU has moved away from commodity-specific approach and may have also moved away from a fine-grained sense of what’s happening on the ground. So there is the risk that the solutions developed by Working Capital portfolio companies will lack ground-truthing in specific contexts and/or sensitivity to cultural differences.

**Candor:** Did HU create a culture that embraced openness and failure? Was it a learning organization that reflected on its values, culture, and strategies? Did it build on lessons learned?

From this case study it seems clear that HU is a learning organization, and one that has excelled at letting its staff know that failure is part of the learning process. The recalibration it undertook in the mid-2010s shows that it has absorbed lessons learned and redoubled its efforts to get at the stubborn structural dynamics at the heart of the forced labor issue. HU
exhibits candor in its willingness to hear and take into consideration critical feedback—including, at times, “vehement disagreement” from the limited partners in Working Capital.

**Creativity:** Did HU develop “what if” scenarios and anticipate threats?

It is not evident from the materials available for this case study whether and to extent HU deployed a formal process of scenario-building to anticipate potential threats to their theory of change. HU’s theory of change includes attention to “ripple effects”—secondary consequences of the impact of HU’s interventions—and has laid these out as part of its system map. In most cases, the ripple effects HU is tracking are positive, and reinforce desired changes in the systems. Some are negative, however—like the possibility that increased scrutiny could potentially incentivize corporations to, as HU’s *Corporate Engagement Strategy* suggests, “ignore or cover up forced labor in their supply chains or to issue a superficial response.” But awareness of these possibilities does not constitute full-fledged scenario-planning. Nor does HU appear to have anticipated the possibility of significant shifts in regulatory policy, as the Trump administration has ushered in.

**Compassion:** Did HU exhibit humility and empathy in its decision making and put their egos aside?

“Deliberate Leaders understand that those who are most affected by a Wicked Problem may not have a voice in its solution. However, they also understand that the perspective of those most affected—usually the bottom of the pyramid, especially women and children, should be represented in some form. This is not just a question of ethics—it may provide critical insights that contribute to an effective response.” As previously suggested, HU’s central focus on corporations may have resulted in a diminishment of the voice of affected communities in its work.

**Capital:** Did HU value the social and financial assets of its partners and staff?

HU appears to be very sensitive to being a good steward of the finance capital brought to the table by its limited partners. Indeed, as at least one critique suggests, they may be erring on the side of caution in Working Capital’s choice of portfolio companies. HU has also been responsive to the particular interests of limited partners, such as including a gender lens among Working Capital’s investment screens and by adopting a developmental evaluation. And HU seems to value the diverse background of its staff, although over time it seems to have moved away from hiring those with a background in traditional philanthropy, which may represent a potential loss of some social assets.

**Questions for the Field**

Addressing Wicked Problems requires a significant cultural shift for many organizations. This case provides an opportunity to apply the tenets of Deliberate Leadership. The questions this raises offer students of philanthropy and social investors rich opportunities to discuss, debate, and learn in situations where there is no one correct answer.

- **Courage:** Based on your experiences and knowledge, do most funders and investors diagnose complex issues fully? Do they support high-risk projects and solutions?
- **Collaboration:** Do they seek out divergent points of view and ensure that they are welcomed and protected at the table?
• **Community:** Can you think of ways social impact investors have worked effectively in-country to build a trusting relationship with communities? Have these organizations also built effective teams internally?

• **Candor:** How do social finance organizations create a culture that embraces openness and failure? How do they create a learning organization that reflects on its values, culture, and strategies and that builds on lessons learned?

• **Creativity:** How can social impact investors build “what if” scenarios and anticipate risks early in their due diligence and impact investing process?

• **Compassion:** When and how do funders and investors exhibit humility and empathy in decision-making?

• **Capital:** How can social finance organizations value the social and financial assets of its partners and staff?[^232]
Conclusion: Working Capital and Lessons Learned So Far

“It’s far more complex than anyone imagines it could be, and there’s not one party who could fix it all.”

—Laura Rubbo, Director, Responsible Governance and Supply Chain, The Walt Disney Company

The problem is truly a Wicked one—given the imperative of profit margins, corporations face immense pressures to reduce costs to a minimum, leading in some cases to what one Humanity United staffer characterizes as “fairly extreme levels of exploitation” of workers in supply chains.

One of HU’s corporate partners admits that “we still lack the leverage in many situations to force human traffickers to stop what they’re doing.” The further down the supply chain one goes, the more that leverage is diffuse. HU’s strategy documents include an admission that
the "system is stubborn—incentives have not yet meaningfully shifted system or translated into real change in the deep structure or in-country dynamics."\textsuperscript{234}

HU Managing Director Dan Viederman sees that the necessary solutions are “collaborative, systemic, [and] industry-wide if you really want to solve the problems rather than improve conditions for a smaller group of workers and maybe in one facility."\textsuperscript{235} That means the solutions need to be available to—and taken up by—non-Western companies as well as Western ones. How realistic is that goal?

With the realization that Working Capital is still a very new effort, what provisional conclusions can we draw at this point about its ultimate chances of success in curbing modern slavery and forced labor? And what general lessons can we take away from the process thus far?

In the first instance, Working Capital, while a relatively small fund, represents a bold bet on the joint effort of philanthropic and market-based approaches. This is not the first time a philanthropic foundation has worked at this intersection. Indeed, while traditional philanthropy remains potent, a small number of other donors, including several of the largest private foundations in the US, have made significant forays into program-related investments and (more recently) impact investing. But Working Capital does represent the first sizable play of this kind in the field of forced labor.

**Missing Voices: Labor and Collective Action**

Various interviewees admit that Humanity United could do more to bring in the voices of survivors of human trafficking. As C&A Foundation Leslie Johnston puts it, “[t]he community voice doesn’t seem to be there.”\textsuperscript{236}

And even if workers have a voice, will this necessarily empower them? Verité CEO Shawn MacDonald is skeptical:

> People will dress those things up and call it "worker voice," which is really an appropriation of a term for real empowerment and voice of the workers. It’s not. It’s not real voice, [it] actually, in some ways, can further atomize the workforce, where everybody’s using their phone and it’s not building more collective power for workers.\textsuperscript{237}

Any talk of trade unions or other forms of worker organization is conspicuously absent from the interviews, if not from the broader advocacy networks in which Humanity United participates. Perhaps this is understandable from a corporate standpoint—and many of the countries into which their supply chains extend are fairly inhospitable to union activity. But what if collective action by workers—and not just filtering of “community” voices through NGOs—turns out to be an important missing piece of the theory of change?

Johnston is among those who wants to ensure that Working Capital does not become too risk averse given its corporate partners. Johnston believes that Working Capital must look at the power issues in the industry and not move forward acting like a corporate social responsibility department in its approach.
Taking Action, Even in the Face of Skepticism

HU President and CEO Randy Newcomb credits the Humanity United team with a “really good and really, really healthy sense of skepticism about the ability to succeed.” That sense of candor and openness comes through in nearly all the stakeholder interviews conducted for this study.

HU Managing Director, Ed Marcum, adds, “The team realizes that the Working Capital fund is a challenging a high risk endeavor. But we also believe that there is an opportunity to demonstrate that better, more ethical practice is possible for corporations by investing in scalable, commercially successful enterprises.”

Marcum says that his biggest fear is that “some of the investments we make won’t be up to the task of actually working with a large-scale multinational company with a vastly complex supply chain. They need solutions at scale and we’re dealing with very early stage ventures.” Laura Rubbo, Director for Responsible Governance and Supply Chain at The Walt Disney Company, points out that “[t]here’s got to be a market demand for these things [anti-slavery tools],” and HU Managing Director Tim Isgitt admits “I’m not convinced that we’ll be able to create a market for new solutions here.” Nick Grono, CEO of the Freedom Fund, sees regulatory advances as more likely to succeed than attempts at market-based solutions. “I don’t see a substitutable income stream in our space yet,” Grono says.

Also relevant in this discussion is the extreme skepticism toward corporate social responsibility held by many activists. As suggested earlier in the case study, this mirrors some viewpoints within Humanity United itself. Some believe that the price motivation to keep labor costs low is at the heart of structural circumstances giving rise to modern slavery, together with corruption and weak enforcement. As HU Senior Counsel Beck-Coon says, the problem is that “stakeholders...have thus far been incentivized to allow the problem to persist, and to continue to deny people human dignity in the pursuit of profit.”

And on top of this there are serious concerns over whether the corporate partners of Working Capital will play an active role in promoting and adopting the tools the fund invests in. Shawn MacDonald says that big companies that contribute to Working Capital “will want to give the money and hope that that’s their contribution, and other people will pick it up...until the equation changes enough, where they have no choice but to do it.”

Has the Investment Case Been Made?

In mid-2019, Working Capital reaches the three-year mark on its first investments. As of the time of writing, plans for the next phase of the fund are yet to be finalized. It is clear (as has been noted) that the field has changed and there are lots of new players compared to just a few years ago. So how will HU position itself?

And what of the Working Capital fund? Will one of its bets on portfolio companies pay off financially in a big way? Has enough of an investment case been made to attract other impact investors to the fund, or is it too early to tell?

The track record of impact investing suggests that it will be an uphill climb for Humanity United to succeed at its most ambitious goals. As HU Senior Counsel Joel Beck-Coon says, “One of the big knocks, particularly on program related investing, is that yeah, there have been a lot of program related investments made—but they have resulted in comparatively few successful
not going to find something that will give you 10 percent market return that is going to be so disruptive that it will create radical transparency in this industry, because brands don’t want that. I mean, they say they do, but they don’t, and they’re not going to pay for it.”

A Different Frame for Thinking About Success

And what is the right frame for thinking about the goals of Working Capital? One crucial question is whether Humanity United and the Working Capital fund are fighting slavery, forced labor, or labor abuses? Leslie Johnston’s view is clear: “I wouldn’t say HU fund is combating slavery in the way that its powerful philanthropy does. What it’s doing in my view, it’s working to make corporate supply chains more sustainable…. If HU is actually positioning itself [that] this is a fund tackling slavery, then I’d like to see the Fund take more risk, which would, of course, come at the expense of financial return.”

HU Managing Director Tim Isgitt says “we are hoping…short of complete success, that there are new market solutions for corporations in this space, [and] we’ll learn a lot along the way that will inform our future work…. It isn’t a destination, it’s a path.”

This echoes the views of HU President and CEO Randy Newcomb, who says: “In many ways it’s less about the investment capital. It’s a very small fund.” Citing Pierre Omidyar, he observes that “it’s kind of hard to believe that as innovative and unique as Working Capital is, that the power is actually in the financial capital. I think the absolute power of Working Capital is less about the capital and more about the relationships.”

While the fund itself is small, Newcomb observes that the scale of corporate assets that is represented by its limited partners means they should collectively be able “to really begin to shift the marketplace.” And until then, Newcomb feels that Working Capital is helping create the preconditions for that shift: “I think the even greater, more significant outcome of this is the ways in which these limited partners in HU together begin to build a common language, a common approach, and a common pursuit of greater transparency in supply chains to reduce, if not eliminate, forced and slave labor in those supply chains.”
# Appendix A. List of Interviewees

<table>
<thead>
<tr>
<th>Name</th>
<th>Organization</th>
<th>Title</th>
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</thead>
<tbody>
<tr>
<td>Joel Beck-Coon</td>
<td>Humanity United</td>
<td>Senior Counsel</td>
</tr>
<tr>
<td>Kelly Cheung</td>
<td>The Walt Disney Company</td>
<td>Senior Policy Analyst, Responsible Governance and Public Policy</td>
</tr>
<tr>
<td>Karrie Denniston</td>
<td>Walmart Foundation</td>
<td>Senior Director, Sustainability</td>
</tr>
<tr>
<td>Liliana Giffen</td>
<td>Humanity United</td>
<td>Senior Manager, Communications</td>
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<tr>
<td>Nick Grono</td>
<td>The Freedom Fund</td>
<td>Chief Executive Officer</td>
</tr>
<tr>
<td>Antoine Heuty</td>
<td>Ulula</td>
<td>Founder and Chief Executive Officer</td>
</tr>
<tr>
<td>Sean Hinton</td>
<td>Soros Economic Development Fund</td>
<td>Chief Executive Officer</td>
</tr>
<tr>
<td>Tim Isgitt</td>
<td>Humanity United</td>
<td>Managing Director</td>
</tr>
<tr>
<td>Leslie Johnston</td>
<td>C&amp;A Foundation</td>
<td>Executive Director</td>
</tr>
<tr>
<td>Ed Marcum</td>
<td>Humanity United</td>
<td>Managing Director</td>
</tr>
<tr>
<td>Shawn McDonald</td>
<td>Verité</td>
<td>Chief Executive Officer</td>
</tr>
<tr>
<td>Kilian Moote</td>
<td>Humanity United</td>
<td>Project Director, KnowTheChain</td>
</tr>
<tr>
<td>Randy Newcomb</td>
<td>Humanity United</td>
<td>President and Chief Executive Officer</td>
</tr>
<tr>
<td>Laura Rubbo</td>
<td>The Walt Disney Company</td>
<td>Director, Responsible Governance and Supply Chain</td>
</tr>
<tr>
<td>Chemain Sanan</td>
<td>Humanity United</td>
<td>Partner</td>
</tr>
<tr>
<td>Sherry-Lee Singh</td>
<td>Walmart Foundation</td>
<td>Director, Strategic Initiatives</td>
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<tr>
<td>Ben Skinner</td>
<td>Transparentem</td>
<td>Founder</td>
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<tr>
<td>Sandy Tesch Wilkins</td>
<td>Humanity United</td>
<td>Senior Manager, Investments</td>
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<tr>
<td>Dan Viederman</td>
<td>Humanity United</td>
<td>Managing Director</td>
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<tr>
<td>Kyle Wright</td>
<td>Stardust</td>
<td>Chief Executive Officer</td>
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</table>
Appendix B: Humanity United’s System Map for Ending Forced Labor in Supply Chains
The Developmental Evaluation process is guided by a series of Learning Questions. The following draft questions will be revised in collaboration with the Fund team as new information needs emerge:

**LEARNING QUESTION 1**
**HOW HAS WCIIF’S INVESTMENT HELPED INVESTEES TO IMPROVE THEIR PROFITABILITY, SCALE AND/OR THEIR IMPACT?**

- How has WCIIF’s investment addressed investee needs and opportunities?
- What non-financial supports have been required, and how have they been accommodated?
- In what ways has investment contributed to developing investee capacity and sustainability?
- What are the key challenges and issues post-investment? To what extent were they anticipated, and how were they addressed?

**LEARNING QUESTION 2**
**HOW IS THE FUND INFLUENCING THE ACTIONS THAT THE MOST ACTIVE CORPORATIONS TAKE TO REDUCE LABOR EXPLOITATION?**

- What factors motivate corporations to identify labor exploitation? How has the Fund and/or its portfolio companies integrated these factors?
- What has driven adoption of tools, who have been the key decision makers, and what conditions have enabled and/or sustained them?
- What are the merits and shortcomings of a “leader strategy” i.e. a focus on the most active corporations to influence broader changes?
- How are companies moving from risk mitigation to value creation, as the result of the actions of the Fund, its investees, and partners?
- What strategies have external stakeholders (e.g., investors, networks, etc.) used to influence corporations, and what has been most effective?

**LEARNING QUESTION 3**
**HOW HAS ELEVATED TRANSPARENCY OF SUPPLY CHAINS REDUCED WORKER VULNERABILITY TO EXPLOITATION?**

- How do the Fund and its investees define and measure worker vulnerability?
- How will the Fund and its investees collect data in a safe, ethical and robust manner?
- How are workers using investee tools to reduce their vulnerability and/or address labor issues?
- What information do large corporations need to identify exploitation in their supply chains?
- How does access to more and/or better information lead to corporate change?
- What data will corporations seek in the future? How will they access this information?

**LEARNING QUESTION 4**
**HOW IS AN INVESTMENT FUND STRUCTURE CREATING NEW OPPORTUNITIES TO REDUCE LABOR EXPLOITATION?**

- How is the Fund—through its non-financial engagement—raising awareness and/or influencing corporate practices and norms?
- What strategies and tactics is the Fund management team using to engage with large corporations and industry networks?
- In what ways are investments facilitating better outcomes compared to grant funding?
- Are there enough investable opportunities that can deliver target financial and social returns?
- Who are the Fund’s LPs, and why are they motivated to participate? Are other impact investors interested in engaging in this sector?
- What are the Fund’s target financial returns? Are they feasible?
- What types of impacts are sought from investees? What evidence is available?

**THEORY OF CHANGE & LEARNING QUESTIONS**

**LABOR ABUSES IN CORPORATE SUPPLY CHAINS ARE REDUCED**

<table>
<thead>
<tr>
<th>PORTFOLIO</th>
<th>MARKET</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fund meets or exceeds targeted financial and impact returns</td>
<td>Worker vulnerability to severe exploitation is reduced</td>
</tr>
</tbody>
</table>

**ERADICATION OF THE WORST FORMS OF HUMAN SLAVERY**

| Corporations document and share ethical supply chain practices and outcomes | Corporations transparently adopt and monitor industry standards, policies and practices |
| Corporations are motivated to take action to eliminate exploitation in supply chains | Corporations hold and use ethical brokers to find fair, safe and legal and decent work |
| Corporations are able to rely on reliable identity risks for labor exploitation | Corporations use ethical supply chain solutions to identify and report exploitation |
| Corporations are capable of reliably identifying, remedying and mitigating supply chain issues | Corporations are motivated to improve supply chain data, transparency and financial returns result from successful investments in ethical supply chain solutions |
| Large corporations have access to more and/or better information on worker vulnerability | Ethical supply chain solutions are adopted by corporations, suppliers and SMEs (and their workers) |
| Ethical supply chain solutions are adopted by corporations, suppliers and SMEs (and their workers) | Ethical supply chain solutions are adopted by corporations, suppliers and SMEs (and their workers) |
| Ethical supply chain information is disseminated across sectors and regions | Corporations have enhanced awareness of supply chain practices |
| Large corporations regularly monitor behavior of supply chain companies | Corporations and the public have enhanced awareness of supply chain practices |
| Ethical supply chain solutions are used to proactively identify, remedying and mitigating supply chain issues | Suppliers and SMEs adopt ethical supply chain solutions as standard practice |
| Workers demonstrate agency and empowerment through secure channels | Workers use ethical supply chain solutions to identify and report exploitation |
| Corporations only purchase from well-behaved suppliers | Workers use ethical supply chain solutions to identify and report exploitation |
| Corporations integrate better behavior of suppliers | Corporations make and use integrated solutions to address supply chain issues |
| Early adopters influence industry norms, motivate others to improve | Corporations are motivated to improve supply chain data, transparency and financial returns result from successful investments in ethical supply chain solutions |
| Large corporations incentivize better behavior of suppliers | Corporations hold and use ethical brokers to find fair, safe and legal and decent work |

**LEGEND**

- IMPACT
- LONG-TERM OUTCOME
- IMMEDIATE OUTCOME
- INPUT
- OUTPUTS
- HIV OUTPUTS (EXTERNAL TO FUND)
Case Study
Identifying Steps to Certification

Bonsucro and Ulula collaborate to pilot a worker voice based needs-assessment to support the certification process of sugarcane mill in Mexico.

Summary
With project funding from a sustainability fund of a multinational CPG company, Bonsucro collaborated with Ulula to capture baseline data on worker and farmer conditions of a non-certified mill. The goal was to enable the measurement of key indicators including agricultural techniques and working conditions. Insights would inform tactical certification recommendations to the mill and strategic supply chain recommendations.

For a scalable alternative to needs assessment by enumeration, Ulula’s worker voice solution enabled Bonsucro to quickly scale their data collection across workers and farmers. Participants anonymously engaged with the system with their mobile phones allowing for authentic feedback.

The Project
Ulula and Bonsucro worked together to develop two unique surveys informed by Bonsucro’s certification standards. Ulula trained Bonsucro’s consultant on how to communicate the worker voice solution to participants to ensure successful uptake. Ulula provided promotional materials such as posters, onboarding instructions, and postcards for the consultant to distribute to participants.

The surveys captured the perspectives of the two key stakeholder groups: farmers and workers. Participants called the system to listen to the questions in Spanish and used the keypad to key in their responses. Through Ulula’s platform and dashboard, Bonsucro had access to real-time insights and results.

Ongoing Development
In under a week, the program had gathered substantial insight which enriched the Bonsucro’s recommendations. The project demonstrated potential to scale and expand across more mills, gathering richer data on the risk areas identified from the pilot.

Project parameters require findings to be confidential.

Testimonial
“Establishing trust face to face with workers to understand true labor conditions is difficult to scale and replicate. With Ulula’s worker voice tool, I was able to collect sensitive information more quickly and frequently. Before, workers would be nervous to speak with me but with Ulula, they can participate at their convenience and have the assurance that their insights are anonymous and confidential.”

- Bonsucro Consultant

Contact Ulula for more information or a demo of the worker voice solution
Case Study
Capturing Community Perspectives

Real-time measurement of social license to operate in Brazil, Chile, Peru and South Africa.

Context
As the development and operation of mining assets are naturally disruptive to surrounding communities, Social license to operate (SLO) is increasingly recognized as a prerequisite to successful operations in the extractives sector. A lack of SLO results in both direct costs such as staff time and opportunity costs such as foregone expansions. For a major mining project with CapEx between US$ 3-5 bn, social conflict could cost roughly US$20 mn per week in lost productivity.

Purpose
A global leader in mining engaged Ulula in a project to improve SLO and proactively mitigate socio-environmental conflict in its areas of operation. Instead of relying on annual surveys based on small samples, the client wanted real-time insights on community perception of the company and its societal impact.

Ulula’s Solution: What we did
Ulula proposed a survey program to capture insights from the communities surrounding their operations.

This program, launched in the fall of 2017, measures how community members feel about the company’s impact on society, the environment and water, and trust in the company’s operations and management team. Program insights enable management to prioritize interventions and compare their impact against other sites.

Highlights
Comprehensive survey program across 11 mining assets

100,000+ insights on social and environmental impact

5,000 community members engaged on a continuous basis

Integrated in company scorecard and executive decision-making on site

Results dissemination back to participants
Ulula’s Solution: How we did it

Working with the client, Ulula designed an engagement strategy, survey methodology, and visual analytics to produce useful insights for management at the site and corporate level. Ulula also collaborated with local partners in participant outreach, thereby establishing trust while determining optimal language and communication channel configurations. Today, participants have the option to register for IVR (voice) or text message surveys available in their local language every month.

Ulula is invested in ensuring statistically significant participation in surveys. In cases of low SMS survey completion, Ulula boosted participation rates by switching users to voice calls. In Peru, South Africa and Chile, participants received a small incentive (mobile credit) for completing the survey. These are clearly communicated to be independent of how they responded to avoid biased responses.

Results and Scaling

So far, the program has captured 100,000+ data points on socio-environmental impact and engages 5,000 community members on a continuous basis. This has brought new insight into community trust and the risks to the company’s social license. Program insights are used by management to report against company scorecards and to make decisions at each mine. Ulula’s solution has also enabled information sharing with participants to close the feedback loop.

Following this successful pilot, Ulula and the client have plans for expansion. These include expanding engagement to employees and contractors in Peru as well as designing an open grievance mechanism.

About Ulula

Ulula is a data collection and analytics platform that enables organizations to monitor risks of human rights abuses by engaging directly with workers and communities. We guarantee anonymity of submissions and leverage local partners who build trust on-site, empowering participants to share honest insights.
Notes


4 Supra, note 2.


12 Supra, note 2.


14 Ibid.

15 Supra, note 2.


18 Supra, note 2.


20 Gayle Peterson and Seren Orgel, Slavery and Impact Investing, Oxford Impact Investing Programme, 2016)

22 Supra, note 2, p. 10.


30 *Ibid.* For an overview of Fish 2.0 initiative, see https://www.fish20.org/about/overview.


36 Interview with Dan Viederman, August 1, 2018.


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Ibid.

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Ibid.

Humanity United, *Corporate Engagement Strategy* (May 18, 2016), p. 6

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Interview with Kilian Moote, July 17, 2018.


Interview with Sandy Tesch Wilkins, July 24, 2018.

Interview with Dan Viederman, August 1, 2018.

Interview with Joel Beck-Coon, August 3, 2018.


Another way a foundation can align investment capital with programmatic choice is by applying positive or negative screens to its endowment. As HU Senior Counsel Joel Beck-Coon points out, Humanity United does not have an endowment, so all of its investments are in the form of PRIs.


80 The Walt Disney Company, Corporate Social Responsibility Update 2017, pp. 8, 19.
85 Interview with Dan Viederman, August 1, 2018.
86 Interview with Ed Marcum, July 31, 2018.
87 Ibid.
88 Interview with Chemain Sanan, June 27, 2018.
89 Ibid.
92 Interview with Leslie Johnston, August 20, 2018.
93 Interview with Sandy Tesch Wilkins, July 24, 2018.
95 Interview with Chemain Sanan, June 27, 2018.
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Interview with Laura Rubbo, July 16, 2018.


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Interview with Randy Newcomb, September 21, 2018.

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Humanity United, Corporate Engagement Strategy (May 18, 2016) p. 58.

Interview with Chemain Sanan, June 27, 2018.

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Ibid., p. 5.

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Interview with Dan Viederman, August 1, 2018.

Pam Omidyar, “Pam Omidyar Reflects on the Work of Humanity United as Human Trafficking Awareness Month Comes to a Close” Article 3 Advisors Blog (January 30, 2014), http://www.article3advisors.com/blog/576

from pfc Social Advisors, “UBS Optimus Foundation: From Giving to Investing” (September 2018). P. 81.


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193 Interview with Laura Rubbo, July 16, 2018.


195 Interview with Chemain Sanan, June 27, 2018.

196 Interview with Shawn MacDonald, August 3, 2018.

197 Ibid.

198 Ibid.

199 Interview with Laura Rubbo, July 16, 2018.

200 Interview with Leslie Johnston, August 20, 2018.

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202 Interview with Randy Newcomb, September 21, 2018.

203 Interview with Leslie Johnston, August 20, 2018.

204 Interview with Tim Isgitt, July 19, 2018.


206 Chris Argyris and Donald A. Schön, Organizational Learning II: Theory, Method, and Practice (Reading, MA: Addison-Wesley, 1996).


210 Interview with Karrie Denniston, July 25, 2018.

211 Interview with Randy Newcomb, September 21, 2018.


213 Interview with Tim Isgitt, July 19, 2018.

214 Interview with Randy Newcomb, September 21, 2018.

215 Interview with Kilian Moote, July 17, 2018.


224 Interview with Leslie Johnston, August 20, 2018.


227 Interview with Randy Newcomb, September 21, 2018.


229 Interview with Dan Viederman, August 1, 2018.


233 Interview with Laura Rubbo, July 16, 2018.


235 Interview with Dan Viederman, August 1, 2018.

236 Interview with Leslie Johnston, August 20, 2018.

237 Interview with Shawn MacDonald, August 3, 2018.

238 Interview with Randy Newcomb, September 21, 2018.