CASE STUDY

Toms: A Step in the Wrong Direction

When good intentions create bad outcomes

THE COMPANY:

Toms was created after its founder, Blake Mycoskie, traveled to Argentina and “witnessed the hardships faced by children growing up without shoes”. To address this problem, Toms created a “One-to-One” shoe business and charity: for every pair of shoes purchased, they would donate one pair of shoes to a developing country.

WHAT WENT WRONG:

In 2013, after seven years in business, Toms was immensely popular with American consumers who were drawn to the brand’s business model of consumption for social good. The brand’s pristine reputation drew criticism, however, when NGO leaders started raising concerns. While the One to One model sounded like a good idea, critics argued that the company and the model did little to target the more fundamental roots of global poverty. Criticism grew over the brand’s philanthropic arm: studies showed that the communities receiving aid from Toms benefited little from their involvement, and sometimes experienced more harm than help from these interventions. Others argued that local textile and manufacturing communities were destroyed by the introduction of Toms, as local merchants were displaced because their loyal consumers had no need for locally produced shoes once they had Toms shoes. As media coverage increased, Time Magazine and others called for a reconsideration of how Western countries gave aid – directly attacking the One to One model introduced by Toms[4].

THE CONSEQUENCES:

The impacts of the One to One controversy affected many socially conscious enterprises, but Toms was one of the worst affected. Toms’ One to One model was well known, making them a prime target for concerned NGOs, academics, and people living in the communities[3]. In response, Toms began to switch its model from sending outside shoes to developing countries, to funding manufacturers local to each country that would produce the shoes themselves. Still, Toms continued to send outside shoes to developing communities, creating a surplus of Western shoes that continued to affect local economies. While this strategy did not affect all customers, those paying attention to the scandal began to lose their perception of Toms as a responsible philanthropic organization. The business decisions Toms made about their global philanthropy were no longer a selling point for many customers. Additionally, the media and business community stopped holding Toms up as a model philanthropic organization, affecting the company’s reputation and trust.

Could a more informed understanding of geopolitics and issues of social justice have prevented this backlash?

LESSONS LEARNED:

Though many consumers value enterprises who find ways to give back to the community, the Toms case illustrates that it doesn’t just matter *whether* an enterprise gives back, but also *how* an enterprise gives back. Toms failed to understand the effects their One to One model would have and how those effects would change as the company grew, or how these would be perceived by others. By addressing orphan risks such as geopolitics, social justice and equity, and reputation and trust, Toms may have reduced the harm done to their brand and their global community.

Risk Innovation approaches risk as a threat to value, or a threat to something of importance to your enterprise, your investors, your customers, or your community. Whether tangible or intangible, a current product or a future success, if it’s worth something to you or your stakeholders, it’s an area of value. By identifying what is most valuable in each of these areas, you can begin to more clearly see how and where orphan risks might have the most blindsiding impact.

AREAS OF VALUE:

ENTERPRISE:

+ Improving lives in poor communities

+ Customers who value philanthropy

INVESTORS:

+ A profitable product with minimal overhead

+ A business model that is both profitable and beneficial

CUSTOMERS:

+ Products that also benefit a global community

+ Interest in addressing global poverty

COMMUNITY:

+ A need for sustainable and effective poverty solutions

+ A need for successful interventions

RISK LANDSCAPE:

How did Toms' philanthropic intentions put the company at risk?

AREAS OF VALUE

Areas of Value	Social & Ethical Factors	Unintended Consequences of Emerging Technologies	Organizations & Systems
ENTERPRISE: + Improving lives in poor communities + Customers who value philanthropy	Social Justice & Equity; Perception; Social Trends		Geopolitics; Organizational Values & Culture; Reputation & Trust
INVESTORS: + A profitable product with minimal overhead + A business model that is both profitable and beneficial	Perception		Geopolitics; Organizational Values & Culture; Reputation & Trust
CUSTOMERS: + Products that also benefit a global community + Interest in addressing global poverty	Social Justice & Equity; Perception		Geopolitics
COMMUNITY: + A need for sustainable and effective poverty solutions + A need for successful interventions	Social Justice & Equity; Perception	Intergenerational Impacts; Loss of Agency; Product Lifecycle	Geopolitics

ORPHAN RISKS

NAVIGATING THE ORPHAN RISK LANDSCAPE:

A key benefit to mapping out the risk landscape is the ability to see where orphan risks are most concentrated and which risks threaten multiple stakeholders, this allows a company to focus resources and begin planning.

Based on the risk landscape above, Toms could have protected and enhanced value to the company and its stakeholders by:

Engaging with geopolitical and social justice issues: As Toms grew, its One to One model failed to meet the needs of the communities it was serving. Had the One to One model ever truly met community needs? By asking questions like "do we know how our actions affect the communities we're serving?" and "have we engaged community members and experts in our planning process?" Toms could have better used its philanthropic model to serve communities at every stage. Continuing to engage community stakeholders and experts would have helped to ensure a beneficial and equitable experience not only for the people receiving aid from Toms, but the economies that support them and the generations who come after them, as well.

Addressing customer perceptions in order to maintain trust: While Toms' philanthropy model was a key selling point to draw customers in, it could just as easily push them away if they perceived the model as doing more harm than good. Identifying points of convergence between orphan risks—in this case, a lack of engagement with geopolitical and social justice issues leading to negative customer perceptions which in turn caused a blindsiding blow to a company's reputation—can help companies like Toms make better, more informed decisions both now and as they continue to grow.

This case study is just the beginning of a larger conversation. If you are ready to incorporate risk innovation thinking into your organization, please contact us at info@riskinnovation.org

REFERENCES:

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