



A Social Enterprise Link in a Global Value Chain

Performance and Potential of a New Supplier Model

Edward Soule • Catherine Tinsley • Pietra Rivoli

Title and Copyright:

A Social Enterprise Link in a Global Value Chain: Performance and Potential of a New Supplier Model

© 2017, Edward Soule, Catherine Tinsley, and Pietra Rivoli

All Rights Reserved

To cite this paper:

Soule, E., Tinsley, C., Rivoli, P. 2017. A Social Enterprise Link in a Global Value Chain: Performance and Potential of a New Supplier Model. Georgetown University Women's Leadership Institute, Georgetown University, Washington, DC. Retrieved from: <http://womensleadershipinstitute.georgetown.domains/on-purpose-kate-spade/>

Corresponding Author

Name: Edward Soule

Email: ed.soule@georgetown.edu

Contents

Acknowledgements and Disclosures.....	i
Authors.....	ii
Research Program.....	iv
Executive Summary	1
PART ONE: ADC and the Social Enterprise Model	6
1.1 History and Rationale	6
1.2 Ownership and Governance.....	9
1.3 The ADC Employment Experience – Terms, Conditions, and Treatment	11
1.4 Employee Assistance, Development, and Training Programs	12
1.5 Community Improvements	17
1.6 Operational and Industry Profile	22
PART TWO: Economic Empowerment	28
2.1 Survey Methodology	29
2.2 Comparative Analysis of ADC Compensation.....	30
2.3 Adequacy of ADC Compensation.....	31
2.4 Material Well-being of Artisans versus Community Members	34
PART THREE: Psychological Empowerment.....	37
3.1 Subjective Social Status and General Health	38
3.2 Power, Confidence, and Anxiety.....	42
3.3 Sources of Psychological Well-being.....	44
3.4 Decision-making Freedom.....	45
3.5 A Note on Selection Bias.....	47
3.6 Economic and Psychological Empowerment—Conclusions.....	47
PART FOUR: Business Model—Performance and Prospects.....	51
4.1 ADC’s Business Model: Current Conditions.....	52
4.2 ADC’s Business Model: A Push for Efficiency.....	53
4.3 Location: Cost Advantages and Disadvantages	56
4.3 Pathway to Sustainability	57
PART FIVE: Doing Business in Rwanda	58
PARK SIX: Kate Spade & Company Leadership	61
Endnotes	63

Acknowledgements and Disclosures

This project was a collaborative effort among Georgetown's McDonough School of Business, the Georgetown Institute for Women Peace and Security, and the Georgetown University Women's Leadership Institute. Financial support was provided by the Georgetown University Program for Research of Complex Moral Problems, the Georgetown Institute for the Study of Markets and Ethics, Marriott International, the Georgetown University Reflective Engagement Program, the Ludwig Family Foundation, and the Smart Family Foundation.

The authors owe special thanks to Ambassador Melanne Verveer, Executive Director of the Institute for Women, Peace & Security, for her leadership in this field and for her counsel and insight. We thank Alexandra Safir for shepherding the project for the Institute and for joining us to conduct fieldwork in Rwanda. And we are grateful for the contributions of Institute staff members

and affiliates: Jeni Klugman, Mayesha Alam, Alex Rohlwing, Katherine Butler-Dines, and Karen Sherman.

We also thank Rose Mutamba, Divine Mutoni, Yan Tu, Emily Amanatullah and Silva Kurtisa for research assistance, Annalisa Quinn for editorial support, and Silva Kurtisa again for administrative support.

The picture on the cover of this report and those on pages 9, 13, 14, 17, 24, 25, 32, 35, 41, 48, 50, and 62 appear courtesy of Kate Spade & Company and photographer Jeremy Stanley (<http://www.jeremystanley.tv/>). The pictures on page 18 appear courtesy of GA Collaborative.

The management teams at Kate Spade & Company and ADC were not only generous with their time, but exceptionally open and transparent in providing data, explanations, and insight. Final thanks are due to the artisans of ADC who spent significant time being interviewed and completing surveys.

Authors

CATHERINE H. TINSLEY, PH.D.

Dr. Tinsley is a Professor of Management and Academic Director of the Executive Masters in Leadership Program at Georgetown. Her research focuses on decision making, as well as the influence of culture, reputation, and gender on negotiations and conflict resolutions. She has received numerous awards for her work and grants from NASA, the National Science Foundation, the Department of Homeland Security, and the U.S. Department of Defense.

Dr. Tinsley is dedicated to issues of importance to women, and serves as Faculty Director of the Georgetown University Women's Leadership Institute. She has partnered with the U.S. Chamber of Commerce on a study

of how women fare in publicly traded firms, the White House and the U.S. Department of State on a woman-to-woman mentorship summit, and the Council of Women World Leaders to convene the inaugural Ministers of Women's Affairs meeting. She has also spoken at the three most recent World Economic Forum meetings on the importance of confidence and economic empowerment of women.

Dr. Tinsley received her Masters and Ph.D. in Organizational Behavior from the J.L. Kellogg Graduate School of Management at Northwestern University, and her B.A. in Anthropology from Bryn Mawr College.

PIETRA RIVOLI, PH.D.

Dr. Rivoli is a Professor of Finance at the Georgetown University McDonough School of Business where she teaches courses in international business and finance. She is the recipient of the Aspen Institute's prestigious Faculty Pioneer Award, which recognized Dr. Rivoli's leadership in integrating social and ethical issues in research and teaching. Her publications on corporate social responsibility and impact investment appear in *California Management Review* and the *Journal of Business Ethics*.

Dr. Rivoli's award-winning book, *The Travels of a T-shirt in the Global Economy* (2005, 2009, and 2014)

examines global supply chains from business, political, and moral points of view, with particular focus on labor issues and economic development. Named one of the best business books of the year by the Financial Times and Foreign Affairs and the best scholarly book of 2005 (Finance and Economics) by the American Association of Publishers, the book has been translated into 14 languages.

A native of Chicago, Dr. Rivoli received her Ph.D. in Finance and International Economics from the University of Florida.

EDWARD SOULE, CPA, PH.D.

Dr. Soule is an Associate Professor at the Georgetown University McDonough School of Business where he has taught courses in managerial ethics, leadership, and CSR since 1999. He is a two-time winner of the Joseph F. Le Moine Award for Undergraduate and Graduate Teaching Excellence. His research is focused on the moral and social dimensions of business. He is the co-researcher of a long-term study of a living wage garment factory in the Dominican Republic (<http://ibd.georgetown.edu/Alta-Gracia>).

Professor Soule's first career was in accounting and finance. He practiced public accounting for twelve years, after which he served as the Chief Financial Officer of Edward Jones for another ten. In 1999 he received a Ph.D. from Washington University in St. Louis. From 2010 until 2015, Dr. Soule chaired the Board of Trustees of Rare, an international conservation organization headquartered in Arlington, Virginia.

Research Program

FIELDWORK

All or some of the Principal Investigators observed operations, conducted interviews, and/or supervised data collection during one or more of the following trips.

- ▶ New York City headquarters of Kate Spade & Company, July 8, 2015
- ▶ Kigali and Masoro, Rwanda, September 7-11, 2015
- ▶ New York City headquarters of Kate Spade & Company, September 17, 2015
- ▶ Kigali and Masoro, Rwanda, February 15-18, 2016
- ▶ New York City headquarters of Kate Spade & Company, May 23, 2016
- ▶ Kigali and Masoro, Rwanda, June 27-July 01, 2016

AUTHORIZATION

Treatment of any human subjects in this research was approved by the Georgetown University Institutional Review Board, IRB# 2016-0412.

SURVEY METHODOLOGY

See Part 2.1

INDEPENDENCE / CONFLICTS OF INTEREST

The authors of this report have not received compensation from Kate Spade & Company and have not invested in the company. Kate Spade & Company was not asked

to provide direct or indirect financial support for this research and has not done so.

Executive Summary

on purpose is a Kate Spade & Company initiative that seeks to empower marginalized women and improve impoverished communities. The plan calls for specially designed employment experiences with suppliers of fashion products. It also calls for suppliers that are organized and operated with two explicit purposes: 1) a social mandate to empower female employees and improve local communities, and 2) a commercial imperative to prosper as for-profit suppliers to fashion brands. The test case for this “social enterprise supplier model” is an employee-owned company called Abahizi Dushyigikirane, Ltd. or “ADC.” Kate Spade & Company assisted in the

formation of ADC in 2013 and has provided financial, managerial, and technical support since then. Current plans anticipate that ADC will operate independently in the near term.

Located in the Rwandan village of Masoro, ADC produces a line of handbags for Kate Spade & Company. Marketed under the *on purpose* label, the collection is distributed through the firm’s specialty stores and on its website. Kate Spade & Company is considering another instantiation of this social enterprise supplier model, potentially targeting a Central American community.

We conducted a comprehensive study of the *on purpose* initiative and ADC. Over the course of the last two years, we conducted interviews, developed and administered surveys, analyzed data, and reviewed financial reports, corporate documents, and relevant literature. Our objectives were to:

- 1 document the *on purpose* initiative and all facets of ADC,
- 2 measure and evaluate the impacts of the ADC employment experience on the lives of the company’s (primarily) female production workers (called “artisans”), and
- 3 assess ADC’s business model and competitive prospects.

This report presents the results of our research. Following are brief summaries of each section. We conclude with some observations on the significance of this initiative and the replicability of the social enterprise supplier model.



Abahizi Dushyigikirane means “*Together, we accomplish more*” in Kinyarwanda.

PART ONE provides a brief history of the *on purpose* initiative and its place within Kate Spade & Company. We also include a detailed profile of ADC and an overview of the industry in which it competes. We conclude that ADC is a “worker-centric” organization based largely on the following organizational features, policies, practices, and programs.

- ▶ **Ownership and governance:** ADC is owned in common by its employees. An advisory board of experienced business people is in place to compensate for the lack of business expertise resident in the workforce and to build governance capacity. But ultimate authority for the governance of ADC vests with its employee-elected board of directors.
- ▶ **Compensation and employment policies:** The lowest artisan salary is calibrated to cover the costs of living a decent life and to allow savings for the future. ADC provides opportunities to earn higher salaries based on higher skill levels and increased responsibilities. Artisans receive 21 days of paid time off. Other employment policies (e.g., working hours and health insurance) are comparable to the standards of collectively bargained agreements in the West.
- ▶ **Employee assistance and development programs:** An umbrella program called the “Life Skills Empowerment Program” includes four modules: 1) mental health education and counseling, 2) nutritional, maternal, and reproductive health education, 3) English-language instruction, and 4) financial literacy education. In addition to the Life Skills modules, ADC provides leadership training and management development. These programs were developed in collaboration with outside experts and are tailored to the needs and interests of the artisans. Portions of the content are delivered through a peer-educator format in which designated artisans are trained as instructors.
- ▶ **Community improvement:** Both ADC and Kate Spade & Company have structured programs of community investment in Masoro. ADC has committed to channel a significant portion of any future dividends into community projects. Employees and customers of Kate Spade & Company have engaged in fundraising activities that have resulted in outdoor athletic facilities, a rehabilitated community center, and a major rehabilitation and addition to the local health clinic.
- ▶ **Measurement and evaluation of social impacts:** Since inception, ADC has administered a sophisticated annual survey to assess the artisans’ well-being. By establishing baseline data, the company is setting the stage for a system of accountability for the social performance of the business.
- ▶ **Management protocols and leadership styles:** Members of ADC’s leadership team model a respectful form of management which has been adopted by frontline supervisors, and manifests in accommodating the special challenges that many artisans endure. For instance, sanctions are not automatically applied for tardiness, absenteeism, and substandard performance. Another example is standing permission to visit a counselor located across the road from ADC. The cumulative effect of these and other understanding practices is a collegial and friendly workplace climate and close to zero turnover.

The mission of ADC is as follows:

We are Rwanda’s premiere handbag manufacturing partner providing high quality products to the global fashion industry with a social commitment to empower our employees and transform our community.

Additional information is available at www.abahizi.com.

The above items are defining features of the ADC employment experience. We measured and evaluated the impacts of that experience, and the extent to which it is empowering the ADC workforce. In **PART TWO**, we report on the economic dimension of empowerment by critically analyzing ADC's compensation. In **PART THREE**, we report on the psychological and social dimensions, as well as the artisans' decision-making freedom in vital life domains. Summaries of our most significant findings are as follows:

- ▶ The lowest artisan salary provides the means for one adult and one school-age child to live a decent life and save for the future.
- ▶ The lowest artisan salary is considerably higher than the median salary for private sector jobs in Rwanda, and exceeds the salary of comparable jobs in Masoro.
- ▶ The artisans have experienced significant economic improvements: they have increased their spending both on consumption necessities and investments for the future.
- ▶ Relative to the average member of a Masoro-area control group, the average artisan reports the following: 1) superior social and psychological outcomes, 2) higher levels of physical health, social standing, power, and confidence, and 3) lower levels of anxiety.
- ▶ Relative to the average female community member of the Masoro area, the average artisan reported higher levels of discretion in decisions related to personal finances, family finances, and family healthcare.
- ▶ Improvements in the artisans' social and psychological outcomes cannot be explained entirely by their economic improvements. Rather, workers' improved social and psychological outcomes are attributable in part to skills acquired and, in particular, to non-technical interactional or so-called

"soft skills" (e.g., communications, problem solving, and leadership).

These findings provide a basis for assessing ADC's performance against its social mandate to empower women. Our assessment is based on an understanding of "empowerment" as *the freedom to make life-choices and the resources to exercise it*. So defined, our findings support the conclusion that ADC is providing an empowering employment experience for over 150 women in the village of Masoro, Rwanda. Although it is unrealistic to expect a job to provide everything that empowerment entails, the ADC employment experience has consistently provided vital resources for the artisans to flourish economically, socially, and psychologically.

In **PART FOUR**, we examine the performance of ADC against its commercial purpose, an imperative to prosper as a supplier to multiple fashion brands. We analyze the cost structure of the business and the productive capacity of the factory. Then we model the business at higher production levels to test its ability to compete on the basis of price. Following are summaries of our major conclusions:

- ▶ ADC can become price competitive as production increases from the current level of 7,000 units per production period to approximately 15,000 units per period. This is not a prediction but a calculation to determine whether it is mathematically possible to overcome the costs of operating at a great distance from the sources of raw materials and without access to a port. We found that those costs can be offset by two competitive advantages of operating in Rwanda: relatively lower labor costs and favorable trade provisions with the United States.
- ▶ 2017 is a pivotal year for ADC. Efforts are underway to expand the output of the factory and increase its efficiency, develop the capacity to source raw materials, fortify the company's balance sheet, and obtain orders from at least one new

customer. Moreover, this is the year in which ADC is expected to reduce substantially its dependence on Kate Spade & Company and on an embedded consultant. We cannot predict how 2017 will play out but we can share an observation regarding a key ingredient for success. ADC's managers have demonstrated abilities to learn and grow. They work as an effective team that appears to be capable of assuming responsibility for a larger and more complex organization.

While it is premature to draw any conclusions regarding ADC's sustainability, we can confirm that a financially viable business model is taking shape. Importantly, we

did not identify any structural impediments that would prevent the company from making money at the substantially higher production levels that are needed to compete on the basis of price. In sum, ADC has the basic elements of a sustainable business, and a realistic prospect of developing them into a resilient organization. Specifics are provided at the conclusion to Part Four.

In **PART FIVE**, we provide relevant background information on Rwanda and its business environment. In **PART SIX**, we provide brief reflections by the individuals responsible for the *on purpose* initiative and for creating and developing ADC. Throughout the report we provide biographical sketches of ADC artisans and managers.

CONCLUDING COMMENTS

ADC would not necessarily warrant a comprehensive research program as a small business in rural Rwanda. The company matters because of its position in a global value chain ("GVC"). The term GVC refers to a set of activities that bring a product from inception and design to production and distribution. In the typical GVC, a brand orchestrates the activities performed by a number of independent firms located in multiple countries. Because GVCs account for more than 80 percent of world trade,¹ and because the independent supplier model is widespread, anything learned from the experiment in Masoro could apply to the vast universe of fashion industry suppliers and the untold millions of factory workers they employ.

And exactly what has been learned from ADC that might be applicable to suppliers, the brands that influence their activities, and others with an interest in women's empowerment? To answer that question we note that prior research on GVCs has found ambiguous effects: while supplying global brands stimulates economic growth, the related employment may not benefit disadvantaged

members of society. In particular, women may experience negative consequences and disempowerment.² Just as in industrialized countries, increases in firm profitability or macro-level economic indicators may not advantage all segments of the labor force.

A recent example of this research is a study of export-oriented factories in Ethiopia. Researchers found that workers did not improve their economic circumstances over a "control group" of workers who remained engaged in agriculture or small scale trading. They also found that the vast majority of workers left factory employment within a year, many of them with poorer health than members of the control group.³

Our findings contrast diametrically with this research. We document an empowering employment experience for marginalized women in an underdeveloped community. And we document the programs, practices, and policies that produced it. Suppliers, fashion brands, and others can use these findings as guides in structuring the practices, programs, and policies of other factories.

We close by anticipating two questions. The first concerns the potential impact of the *on purpose* social enterprise model on the fashion industry: Is it realistic to expect other brands to follow the lead of Kate Spade & Company?

We recognize that since most fashion brands outsource manufacturing, they have neither the incentives nor the expertise to create ADC-like entities. So, the answer is, “No,” we do not expect other brands to replicate the Kate Spade & Company initiative. However, that is not the only means by which the *on purpose* model can proliferate. Brands can favor suppliers that operate in accordance with the model; that is, with an accountable commitment to empowering women and the practices, policies, and programs to make good on it. If some brands were to do so, then suppliers would have the requisite incentive.

The second question concerns the practicality of replicating the *on purpose* model: Is it realistic to expect an existing supplier to adopt everything the social enterprise model entails?

We believe employee ownership is a problematic feature, especially for existing suppliers. However, employee ownership did not register as a meaningful factor in the empowering impacts of the ADC employment experience. In fact, it never came up in formal interviews or casual conversations with artisans. What seems to matter is the security provided by a basic needs salary, the opportunity to learn and advance, the sense of community within workgroups, access to counseling services, and being respected on the job. As for the rest of the model, ADC’s terms and conditions of employment are no more demanding than provisions in the vendor codes of conduct of prominent fashion brands. Moreover, many suppliers sponsor programs that are similar to several parts of ADC’s Life Skills Empowerment Program.

So, to answer the question, we believe it is realistic for existing suppliers to adopt the efficacious elements of the *on purpose* social enterprise model. We also believe it is realistic to create such entities from scratch. Two

potential groups with motivation to foster these practices would be 1) existing suppliers that perceive opportunities to differentiate their businesses socially and open doors to like-minded brands, and 2) organizations involved in poverty alleviation and women’s empowerment. The second category includes foundations, impact investors, and government agencies (e.g., the Department for International Development in the United Kingdom and the Agency for International Development in the U.S.).

In conclusion, at a time when Africa is being considered as the next hub for fashion industry sourcing,⁴ ADC warrants attention. The company illustrates what is possible when the lead firm of a global value chain intentionally targets social outcomes. We hope that by documenting those outcomes and the company responsible for them, this report will stimulate other creative possibilities.



Artisans departing ADC

PART ONE

ADC and the Social Enterprise Model

1.1 HISTORY AND RATIONALE

The Kate Spade brand was created in 1993 by Kate and Andy Spade to develop an “accessible luxury” brand of handbags. The business was sold in 2006 to Liz Claiborne, Inc., a multi-brand holding company. Shortly thereafter, the Spades departed and Craig Leavitt was appointed CEO of the kate spade new york division in 2008. During his tenure, the other brands from the Liz Claiborne portfolio were sold. In connection with the final divestitures in 2014, the name of the company was changed to Kate Spade & Company, emphasizing its mono-brand focus, and Leavitt was named CEO. The company’s shares are listed on the New York Stock Exchange (ticker symbol: KATE) with a market capitalization of \$3.047 billion as of March 13, 2017.⁵

Although handbags, small leather goods and accessories represented over 70 percent of sales in 2016, the Kate Spade & Company product portfolio includes apparel, footwear, home furnishings, jewelry, and other categories.⁶ Like virtually all global fashion brands, Kate Spade & Company does not own or operate factories. Instead, the company contracted with 66 independent suppliers located in 10 countries during 2016.⁷ As a result of the *on purpose* initiative, one of those suppliers is ADC and one of those countries is Rwanda. Which raises the questions: What was the motivation for creating this enterprise?

And how does it fit into the goals and objectives of Kate Spade & Company?

Mary Beech, Executive Vice President and Chief Marketing Officer, explained that the primary motivation for the *on purpose* initiative was to “give back” by positively impacting the lives of women. As for aligning this motivation with the business of Kate Spade & Company, Craig Leavitt explained that the company supports corporate social responsibility (CSR) programs that resonate with two target audiences: core customers and key internal constituencies. Both audiences are described as including “strong women” for whom “women’s empowerment” is a particularly resonant theme. These considerations provide the outline for a CSR strategy in which the hoped for outcomes are increased brand affinity and employee engagement.

Programs with these design parameters were launched in 2008 in Bosnia and Afghanistan. In partnership with a nongovernmental organization (NGO), Women for Women International, women in post-conflict communities were provided employment producing Kate Spade & Company products. The programs were narrowly targeted to small groups of women with particular skills. Because they were dependent upon ongoing financial and programmatic support, the programs were not self-sustaining.

In 2013, Craig Leavitt empowered Sydney Price, SVP for CSR and former head of merchandising, to replace these programs with the *on purpose* initiative. Unlike the earlier efforts, Kate Spade & Company would play a hands-on role. NGOs would be involved, but in supporting roles. And in order to create sustainable solutions, the *on purpose* model calls for the creation of independent for-profit social enterprise suppliers. As stated in the mission statement of the initiative, the objective is “to empower women to transform their communities through trade-based initiatives.”

Senior leaders of Kate Spade & Company made the decision to concentrate the company’s CSR budget on establishing and developing ADC. Consequently, nontrivial financial and human resources were devoted to the project. This entailed the initial funding for the company, the involvement of a key employee for significant periods of time, dispatching production experts to Masoro, funding an embedded manager from a Kigali-based consultancy, and other costs attendant to creating an independent organization with manufacturing capabilities. Our research focused on the commercial feasibility of ADC and its social impacts. Consequently, we did not quantify Kate Spade & Company’s investment in the initiative and we did not critically examine the company’s payback analysis.

Had we analyzed ADC from an investment perspective the results would not have been informative. Kate Spade & Company has been engaged in a model-building exercise, an unavoidably expensive and time-consuming process. Subsequent iterations by the company are not expected to cost as much or to take as long. Likewise, others that employ the model should have an easier and less costly time of it. Based on our analysis of ADC and our familiarity with the startup of an apparel manufacturing

company, ADC-like entities can be brought on stream for investments in the range of \$500,000 to \$1.5 million. This assumes that the sponsoring entity has technical expertise and industry standing (e.g., an established supplier). Actual costs will depend on the initial size of the operation, the location, and a number of other variables.

ADC is the first instantiation of the social enterprise supplier model. Operations commenced in May of 2013. An employee census from June of 2016 indicated 161 non-managerial production workers, 159 (99 percent) of whom were female. Their average and median ages were 36 and 33, respectively.



Team of artisans assembling a canvas tote



Joung Hee Cho is a Korean entrepreneur who started a handbag sample-making operation in Seoul and grew it into Cho Manufacturing. At the time of its sale in 2013, Cho Manufacturing was one of the largest suppliers of mid-luxury handbags in the

world. Upon learning of the effort to stand up a supplier in rural Rwanda, Joung Hee located the necessary equipment and had it shipped from China to Masoro. The shipping container bearing the tools and tables remains at the entrance to ADC (below). Pictured in front of it (left) are Joung Hee (right) and Sydney Price, SVP of CSR for Kate Spade & Company.

Joung Hee has provided technical guidance during multiple visits to the factory. She has also arranged for manufacturing experts from China to visit Masoro and for an ADC manager to visit Chinese handbag suppliers.



1.2 OWNERSHIP AND GOVERNANCE

ADC was established officially as a for-profit corporation on August 30, 2013. Although Rwandan law does not have provisions for social enterprises, ADC's Articles of Association specify that the company's activities are to be conducted "along a social enterprise model."

Ownership of ADC vests with the artisans in equal shares through their membership in the Masoro Community Vendor Facility Cooperative (MCVFC). Membership in the Cooperative is restricted to ADC employees, as is service on the respective boards of MCVFC and ADC. The current chair of the MCVFC Board and the ADC Board of Directors is Alphonsine Mukashimana, coordinator in the packaging department. Thus, for all intents and purposes, ADC is an employee-owned company. The structure is illustrated in the following chart.

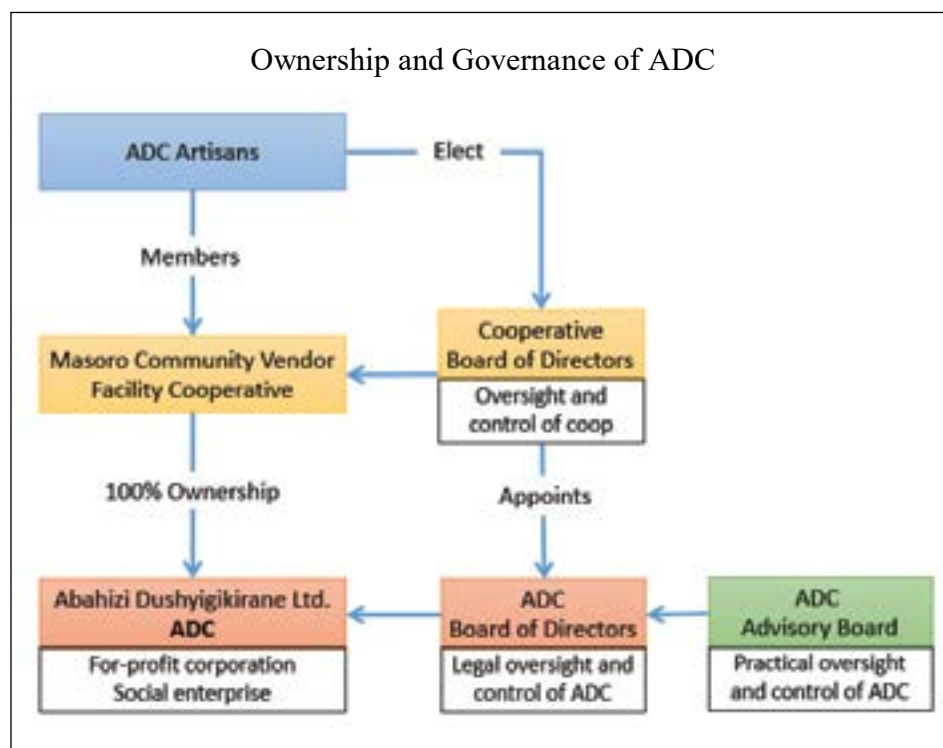
The ADC Advisory Board is designed to support the ADC Board of Directors and compensate for the lack of business expertise among its members. Membership of the Advisory Board consists of local leaders, a representative

of Kate Spade & Company, and a Director of Karisimbi Partners, a Kigali-based consultancy. The ADC Board of Advisors performs the standard oversight functions of a board, including performance reviews, but it does not exercise legal authority. Members of the ADC Board are required by charter to consult with the Advisory Board before making decisions. Thus far, the relationship between the two boards has been collaborative and positive.

For reference, various forms of employee ownership are also common in the West. A recent study found that "shared capitalist forms of pay" such as profit-sharing are "associated with high-trust supervision, participation in decisions, and information sharing, and with a variety of positive perceptions of company culture." These structures are also associated with lower voluntary turnover and higher return on equity.⁸ These findings suggest that ADC's structure is aligned with the company's social purpose and commitment to empower women.



Alphonsine Mukashimana,
Packaging Department Coordinator and
Board Chair of ADC and the
MCVF Cooperative



ADC Manager Profile: **DAPHNE KAJUGIIRA, MANAGING DIRECTOR**



Beginning in 1959, incidents of ethnic violence forced some 120,000 Rwandans to seek refuge in neighboring countries. Daphne Kajugiira's parents were among them. She was born in Uganda where her father served in the Ugandan Army and later retired to dairy farming. Her mother pursued various business projects and still works at age 68 producing beaded bridal ornaments and gifts.

Daphne graduated from the U.S. International University in Nairobi, Kenya in 2003 with a B.A. in International Business Administration. Then she married Ian Munanura and moved to England where they pursued graduate studies: Ian at the University of Kent and Daphne at Canterbury Christ Church University. Upon completion of her M.S. in Business Administration, they returned to Rwanda where Daphne founded and operated two successful companies: Nyungwe Guest House and Afrika Bite. Their next move was to South Carolina where, in 2013, Ian was awarded a Ph.D. in Parks, Recreation and Tourism Management from Clemson University. He became an Assistant Professor at Oregon State University and Daphne returned to Rwanda to pursue her business career. Prior to joining ADC she was the General Manager of Made In Kigali, a rapidly growing fashion brand with design and manufacturing capabilities.

As a very recent addition to ADC, Daphne recognizes the challenges of assuming the senior-most position in a tightly-knit team. She is quick to

acknowledge the support of Darius Habamenshi, General Manager Production, and her other direct reports. She said, "They do not have the time to share what they know, but somehow they find it. Each of them has been patient and kind as I come up to speed." Daphne has also been spending time with team leaders, to understand their work and to get to know them as individuals.

Daphne describes ADC as a "unique" company with great potential. She is optimistic that with the addition of two or three more customers, the workforce will triple in size. In preparation for sharply higher volumes, she is working closely with the management team to increase the productivity of the factory. Their effort is being supported by the expertise of Chennai-based WCO Consultants.

Daphne's enthusiasm for growing ADC is not simply a matter of achieving an optimal size. Rather, she is intent on increasing the number of employment opportunities ADC can provide. This motivation stems from what might be her most poignant impression since joining the company. Asked to recollect what has struck her thus far she said, "The incredible joy that the artisans get from their work and the quality of the things they make."

Daphne believes ADC can play a role in Rwanda's development by demonstrating what the country has to offer foreign investors. She also believes ADC has a role to play with other contract manufacturers in Rwanda and globally: to demonstrate what is possible when the welfare of the workers is a core objective of the business.

1.3 THE ADC EMPLOYMENT EXPERIENCE – TERMS, CONDITIONS, AND TREATMENT

The majority of ADC artisans have never been engaged in formal employment. In addition, many have suffered psychological trauma from the 1994 genocide, and have lived in extreme poverty. The ADC employment experience is designed to address these conditions. Following are its salient elements:

- ▶ The lowest artisan salary is calibrated to cover the costs of living a decent life and to save for the future. (See Part Two for an analysis of its adequacy).⁹
- ▶ Opportunities are provided to earn higher salaries based on higher skill levels and increased responsibilities.
- ▶ Additional compensation of 5 percent of salary is paid for any production period in which factory-wide objectives are achieved.
- ▶ ADC provides 21 days of paid vacation, 11 of which are taken when the factory is idled for Christmas and Genocide Memorial Week.
- ▶ Premiums are paid for individual membership in Mutuelles de Sante, the government-sponsored health insurance plan.
- ▶ Access to personal assistance services and professional development opportunities through the Life Skills Empowerment Program (detailed in Section 1.4).
- ▶ Workdays begin at 8 a.m. and end at 5 p.m. with one hour for lunch and two brief stretching breaks.
- ▶ Minimal overtime on a voluntary basis
- ▶ Facilities are well-lit and clean. The ambience is collegial and friendly. Music of the artisans' choosing is played throughout the day.
- ▶ A humane approach to managing a vulnerable workforce.

The last item refers to management protocols that emphasize respect and care. For example, sanctions are not automatically levied for tardiness, absenteeism, and sub-standard performance. Rather, managers would seek to understand why, for instance, an artisan missed work; and she would not be punished for household emergencies or other circumstances beyond her control. This is patterned after the Human Centered Design approach to problem solving. Pioneered by IDEO.org,¹⁰ it was taught and modeled initially by Taryn Bird, a Kate Spade & Company manager who has worked closely with ADC's leaders. The approach is being reinforced by Brennan Lowery, an embedded consultant with Karasimbi Partners, a Kigali-based consultancy that has played a hands-on role in ADC's development. To ensure its continuation, principles of Human Centered Design are covered in a formal leadership training program.

The 5 percent additional compensation (third item above) was achieved for the first time during the Fall 2016 production period, the tenth in ADC's history. The factory-wide objectives were specified as timely delivery of the 5,920 units ordered, free of any manufacturing defects and without incurring any overtime. The additional compensation was paid in July 2016. As a 5 percent payment for a three-month production period, it represented an increase of 15 percent over normal monthly salaries.

1.4 EMPLOYEE ASSISTANCE, DEVELOPMENT, AND TRAINING PROGRAMS

THE LIFE SKILLS EMPOWERMENT PROGRAM is an integral part of the ADC employment experience. Because of extreme poverty and inadequate education, as well as genocide-related trauma, many artisans lack the knowledge to maintain good physical and mental health for themselves and their families and to manage their financial affairs. Designed in partnership with Strategic Good, a Washington, DC Consultancy, the Program targets the unique needs of this vulnerable population. Like most employee assistance programs, it provides tangible business benefits as well.

The centrality of the Life Skills Empowerment Program is indicated by its funding mechanism: ADC invoices a \$0.50 per unit “social impact fee” to cover the ongoing costs of the program. Although the charge is scheduled to decline as volume increases, the goal is to

have a permanent, self-funding mechanism. The costs of the program are included in various categories, primarily managerial salaries and general and administrative expenses. The manager of the Life Skills Program, Darlene Karamutsa, is profiled below. A number of third party providers have been involved in the program. Their roles are summarized in the following table.

The Life Skills Empowerment Program is organized in modules addressing needs in the following areas.

- 1 Counseling.** Piloted from June to August 2015 and launched in September 2015.

A specially trained counselor on ADC’s payroll maintains an office across the road from the factory. Artisans can choose between individual sessions, group therapy, or both. This service had an immediate

ADC Partners

Organization	Role	Website
Business for Social Responsibility	Curriculum development Health and nutrition through HERhealth Financial literacy through HERfinance	https://herproject.org/herhealth https://herproject.org/herfinance
Gardens for Health	Advise on family agriculture practices for health and nutrition	http://www.gardensforhealth.org
Akilah Institute for Women	English language instruction	http://www.akilahinstitute.org
Urwego Opportunity Bank	Assist in delivery of financial literacy training	http://urwegobank.com
Resonate	Assist in management development and leadership training programs.	https://resonateworkshops.org
Strategic Good	Assist in overall Program Assist in developing measurement and evaluation system	http://www.strategicgood.com
True Vineyard	Assist in design and ongoing support of counseling services	http://www.truevineyard.org
Karisimbi Partners	Provide operational and management consulting	http://karisimbipartners.com

and significant benefit to artisans and ADC. Prior to its launch, ADC's General Manager Production served as a *de facto* counselor for artisans with the most acute needs. He reports that the Program relieved him of that responsibility and, moreover, the needs of the entire workforce are being addressed. As of June 2016, approximately 150 of the 160 artisans were taking advantage of the counseling service. This and other elements of the Program are voluntary and without charge to the artisans.

2 Basic, nutritional, maternal, and reproductive health. Launch window: September 2015 to January 2016.

This module was developed collaboratively with Business for Social Responsibility (BSR) and modeled after HERhealth,¹¹ a program within the HERproject initiative that targets the needs of female workers in global supply chains. The topics covered include balanced diets, hygiene, health-related behaviors, dispelling myths, accessing resources, and building confidence. In each case, standard curricula were tailored to the needs of ADC's artisans. The ideal "learning outcome" is for each artisan to have the knowledge and confidence to take charge of her health and the health of her family members.

A "peer educator" model is utilized to deliver the content. Artisans were selected for these trainer/leader roles on the basis of their interests, aptitudes, and abilities to command the attention of their colleagues. They were trained by representatives of BSR and Darlene Karamutsa, Life Skills Manager at ADC. Peer educators do not receive additional compensation.

The HERhealth program has been used extensively in contract factories around the world. However according to Elissa Goldenberg, manager of the project team that worked with ADC, the content is usually delivered by local NGOs. The peer educator model is expected to increase the chances that knowledge will translate into lasting behavioral changes. The other factor that bodes well for this element of the Life Skills Program is the stability of



Francine Nituragire, Health Peer Educator, leading a session on nutrition

ADC's workforce. It takes time to deliver and reinforce a program as comprehensive as HERhealth. The fact that ADC has had but one voluntary departure since inception suggests that the program will reach its target audience.

The potential value of this module is a function of the context in which it was introduced. Ms. Karamutsa explained that a nontrivial number of artisans had insufficient knowledge of menstrual cycles, the nutrient values of various foods, and the connections between foods consumed and child development. By providing actionable health information in a trusted format, this element of the Life Skills program stands to make a lasting difference.

3 English language skills. Launch window: September 2015 to January 2016.

English language instruction is provided by the Akilah Institute for Women.¹² During the initial phase, the goal has been to address on-the-job needs. For instance, artisans are learning the vocabulary of colors, numbers, textures, and other aspects of hand-bag fabrication. A learning outcome for members of the sample-making team is the ability to understand the technical instructions provided by Kate Spade & Company designers.



Christian Muhawenimana, Akilah Institute English and Leadership Instructor, leads a session on colors.

4 **Financial Literacy.** Launch window: January to March 2017

This module was also developed collaboratively with BSR, following the Herfinance framework,¹³ a recently added component of the Herproject initiative. The curriculum covers financial planning, including saving, borrowing, and budgeting, and evaluating financial products and services.

This module also addresses the social dilemmas attendant to earning a salary in rural Rwanda. For example, Artisans have been vulnerable to two forms of exploitation. First, they report appeals for assistance from members of their extended families, requests that if approved would exhaust their resources. Secondly, unmarried artisans are susceptible to exploitative marriage proposals. Accordingly, strategies are introduced for navigating these and other social dilemmas.

The overarching goal of the financial literacy module is to impart the knowledge and confidence for each artisan to take control of and wisely manage her financial affairs.

In partnership with Strategic Good, systems have been developed to periodically measure and evaluate the impacts of the Life Skills Empowerment Program.

Survey results and focus group findings are utilized to revise and/or reinforce the curriculum and the manner in which it is delivered.

Although it is not a formal component of the Life Skills Empowerment Program, ADC provides leadership training through Resonate,¹⁴ an organization serving Uganda and Rwanda. Artisans participate in workshops designed to increase their self-confidence and communication skills. In particular, training encourages the artisans to call immediate attention to production problems, an action that runs counter to cultural norms. These workshops have also provided goal-setting and team-building training for supervisory employees.

Leadership training and topical knowledge come together in the role of the peer educators. This clearly benefits the artisans but it has also impacted the wider community. Several peer educators have shared their knowledge by making presentations to groups of women in the Masoro community. This may be a function of a design feature in the leadership program. As explained by Resonate founder and CEO Ayla Schlosser, a community organizing model played an influential role in the design of the workshops.

While it is clear that mental and physical health challenges can affect worker performance, emerging research suggests that training on interactional or so-called “soft-skills” (e.g., leadership and communications) is beneficial to firms and employees alike. A recent study of garment workers in India found that women receiving such training were more productive, able to perform more complex tasks, and less likely to quit.¹⁵

Resonate has also worked with ADC’s management team, as a group and in individual coaching sessions. Workshops have been conducted on communications, goal setting, assessing personal strengths and developmental needs, leading teams, and planning and prioritization. Interviews with individual managers indicated that in the course of this training, the group started working as a more effective team. They also indicated that Resonate’s individual coaching had played an especially valuable role in their development as leaders.

ADC Manager Profile: **DARLENE KARAMUTSA, LIFE SKILLS EMPOWERMENT PROGRAM MANAGER**



Darlene was a post-secondary student at the Akilah Institute for Women when she first heard of ADC. A letter writing project was launched in 2014 to link employees of Kate Spade &

Company with artisans of ADC. Darlene served as the translator. Translating the artisans' letters from Kinyarwanda into English gave her a window on their lives. Upon graduating she joined ADC as an intern and in March of 2016, Darlene became the Manager of the Life Skills Empowerment Program.

Significant portions of the Program are delivered by 12 peer educators, selected largely on the basis of their leadership skills. Darlene is responsible for "training the trainers." She remembers her first presentation to the group and the weeks she spent preparing PowerPoint slides. Darlene was nervous about her delivery and concerned with the peer educators' ability to grasp the materials. But it turned out to be her best day on the job so far: "They immediately got it and understood why it was important. And they were so motivated to share what they had learned."

The content of the Life Skills modules is based on curricula that was developed for a global audience. Darlene works with local partners and peer educators to customize it for the Masoro community. While the basics of family planning, budgeting, or nutrition might not change from country to country, Darlene makes sure it addresses the artisans' circumstances. For instance in the basic health module, she brought

in a local physician to dispel myths about the origins of certain diseases and to warn about the risks of some local remedies.

Artisans participate in the Life Skills program multiple times per week, depending on the production schedule. The program involves multiple delivery methods, including classes, small group discussions, and role-play activities. Darlene discovered that follow-up and reinforcement is critical: much of the program involves "circling back" after topics are covered to understand how the information is being used and associated implementation challenges.

Darlene sees small changes every day. After financial planning classes, she noticed changes in spending patterns and saving habits. She learned that some artisans were beginning to practice family planning after having falsely believed that every method was incompatible with their religion. And she noticed dietary changes and improved energy levels after the artisans studied nutrition.

Darlene is especially gratified to see the effects of her work rippling beyond the factory. Peer educators are taught to "practice" on their families, and many artisans have shared what they learned with their neighbors as well.

Darlene's commitment to learning extends beyond ADC. At night she attends classes at the Kigali campus of Mount Kenya University. Darlene's goal is to complement her post-secondary diploma from Akilah with a Bachelor of Science in Hospitality and Tourism Management.

*ADC Manager Profile:***CLAUDINE UMULISA, SAMPLE MANAGER**

Sample-making straddles the line between an artistic vision and the realities of manufacturing. Sample makers have to anticipate every step of the production process and every possible difficulty that

might arise. Their work has a direct impact on material usage and the efficiency of production runs. As the manager of ADC's team of eight sample makers, Claudine Umulisa is well aware of the stakes and feels the pressure. But you would never know it from her demeanor. Claudine is a poised and measured leader—essential attributes for someone managing the heart of ADC's operation.

Prior to joining ADC Claudine owned a shop in Kigali where she designed, produced, and sold beaded jewelry. She thrived on the creativity but became frustrated by the constant struggle to obtain materials and locate customers. She was considering alternatives but could not have anticipated the one that came her way. Claudine's craftsmanship came to the attention of a Kigali-based consultant that was helping launch ADC. In July of 2013 Claudine was hired to train artisans to bead handbag panels and jewelry.

With her skills once again on display it wasn't long before Claudine was being trained to make samples. She took to it immediately. "I like to look at pictures and make things," she said. Claudine assumed leadership of the sample team in October of 2014. In that capacity she routinely interfaces with Kate Spade & Company designers. Claudine is alert to minor design changes that translate into significant savings in production time and material usage. But they can only be made if approved by designers. So they talk it through or exchange emails. Several Kate Spade & Company designers have visited Claudine in Masoro; and in October of 2015 she spent a week with them in New York City.

Claudine has made impressive career strides but she is not resting on her accomplishments. To the contrary she is gearing up to pursue a college education. Claudine was recently accepted into a weekend program at the Akilah Institute. She plans to study information technology, a field that will be increasingly important as ADC expands. Where she finds the time is anyone's guess. Then again, anyone that spends much time with Claudine Umulisa would bet heavily on her success.

Claudine expresses a sense of astonishment as she reflects on ADC. She is at a loss to explain the presence of a prominent fashion brand in Masoro. In Claudine's words, "It's a miracle that Kate Spade came to Africa and chose Rwanda. I do not really understand why, but it is so great to have them here. The lives of so many people are so much better."

1.5 COMMUNITY IMPROVEMENTS

ADC's social purpose includes contributing to the improvement of the Masoro community. Performance on this mandate includes the company's commitment to devote a portion of future earnings to community projects, the economic impact of ADC's payroll, and Kate Spade & Company sponsored projects. Sketches of each are provided below.

ADC has committed to share a portion of its earnings with the Masoro community. Specifically, the commitment is to divide any future dividends as follows:

- ▶ one-third to a Masoro-based cooperative called L'Association Dushyigikirane,¹⁶
- ▶ one-third for community projects that ADC employees designate, and
- ▶ one-third to MCVFC, the entity that owns ADC, for distribution to the employees.

As a young enterprise with ambitious growth plans, ADC's profits must be reinvested in the business. Dividends are not anticipated to be paid until the company is significantly larger and securely capitalized. In the meantime, the commitment to share profits with the community and workforce reinforces ADC's social purpose.

ADC's second contribution to the improvement of the Masoro community is the economic impact of its

payroll.¹⁷ Of the approximately \$372,000 paid annually, roughly 25 percent or \$93,000 is withheld as payroll taxes and remitted to the Rwandan government; the remainder, approximately \$279,000, is deposited directly into employee bank accounts. We do not know how much of it is expended locally and how much "leaks" out of the Masoro area. Nor do we know the precise "multiplier effect" or, that is, the total income that results from recycling the original expenditures. But an influx of \$279,000 per year is not trivial. Evidence of ADC's "ripple effect" can be seen in the artisans' newly built and improved homes and in the growth of small businesses near the factory.

Finally, two programs sponsored by Kate Spade & Company have improved the Masoro community: a fund-raising event engages Kate Spade & Company employees and a sales promotion engages customers. As the only tangible "face of Kate Spade & Company in Masoro," these projects are used to illustrate how ADC could be investing in the future and to reinforce ADC's license to operate. Thus far three projects have been undertaken (at the direction of the Masoro community): outdoor basketball courts in 2014, a refurbished community center in 2015, and the repair, rehabilitation, and expansion of local health facilities.

A final way in which the community is experiencing positive impacts is through the Life Skills Empowerment Program. We learned of numerous "spillovers" into the community resulting from the artisans' education, particularly in health-related content. For example, as they



Scenes of the Masoro community center and adjoining basketball court

learned about the value of a diversified diet, many artisans planted fruits and vegetables in their home gardens; and many of their neighbors did likewise. Also, in response to the increased demand for fruits and vegetables, a fruit and vegetable market has sprung up across the road from

ADC. And valuable information about child and maternal health has spread through social and family networks. Although we did not measure these spillovers, the Life Skills Empowerment Program is clearly benefitting the Masoro community.



Masoro health clinic: After lightening damage and new facilities under construction



Fruit and vegetable vendors across the road from ADC

ADC Manager Profile:

DARIUS HABAMENSHI, GENERAL MANAGER PRODUCTION



Darius followed an unlikely route to his position with ADC. As a young man he believed the priesthood was his calling and entered the Seminary at the age of 15. After 6 years he realized his vocation lay elsewhere and

Darius became a teacher. Then in 2009 he applied to Generation Rwanda, a US-based NGO that provides scholarships for young people with leadership potential. Approximately 1,600 others applied as well; but Darius was one of the 44 awardees. He attended the University of Rwanda, College of Education and graduated in 2012 with a Bachelor of Arts (HONS) in English and a certification to teach secondary school.

Darius had his choice of teaching positions but chose to pursue a career in business. He assumed a management position with Songa Designs International, a social enterprise that markets the products of Rwandan cooperatives. In this capacity he came to appreciate the life-changing potential of well-managed organizations. So he jumped at the chance to join ADC in 2013. With the backing and expertise of a global fashion brand, Darius understood the significant potential of the startup operation in Masoro; and he wanted to play a leadership role in making it a reality.

Initially, Darius had the wide-ranging experiences of start-up managers everywhere. Although production was his primary focus, he was involved in accounting, raw material handling, sample making, and other functional areas of the nascent business. As a result, as ADC grew and Darius assumed leadership of the production management team, he understood the work and he had a good overview of the business.

Of all of the changes Darius has witnessed as ADC has developed, it is the transformation of the artisans that he finds most gratifying.

“I can remember the artisans when we were first starting. They were tough, and angry and never smiled. They would just look at you. Many had to beg from their husbands for everything and led very difficult lives.” Perhaps because of his background in the seminary and his warm demeanor, many artisans sought Darius’ counsel. “They just needed someone to listen,” he said. But he knew that some of them needed more than he could provide. Darius noticed that some women would fall asleep at their sewing machines and some seemed incapable of following directions; others were coping with serious ailments.

Darius lauds the decision to locate a counselor across the road from ADC. He believes it has made a significant difference in the lives of many artisans. Likewise for the other elements of the Life Skills Empowerment Program but especially the portions covering mental and physical health, nutrition, and hygiene. Darius recalls how the artisans “blossomed” as their health improved and they experienced some financial security. He said, “They began to smile. They became beautiful ladies.”

Darius noted that Western firms entering Rwanda should take seriously the wellbeing of their employees. Workers who are malnourished, frightened and exhausted cannot be productive: “You can have incentives for production, but that will not solve the problems that the Life Skills Program solves.”



ADC Management Team



Daphne Kajugiira
Managing Director



Honorée Dusingizimana
Accounting Manager



Darlene Karamutsa
Life Skills Manager



Claudine Umulisa
Sample Manager



Darius Habamenshi
General Manager Production



Alphonse Nshimiyimana
Raw Materials, Logistics and
Operations Director



Eric Mukunzi
Technical Director



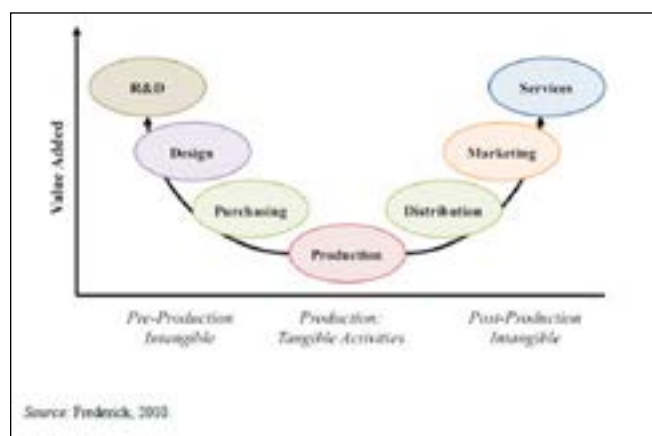
Bruce Kayitare
Production Manager

1.6 OPERATIONAL AND INDUSTRY PROFILE

Handbag suppliers differ widely in their levels of skills and capabilities. At the low-skill end of the spectrum, firms perform only simple assembly tasks, while production planning, raw materials sourcing, export documentation, and other higher-level activities are performed elsewhere. At the other extreme, “full-package” suppliers incorporate higher-level business and manufacturing capabilities.¹⁸ In general, more advanced countries such as Turkey and China have predominately “full package” suppliers while poorer countries such as Haiti and Bangladesh host the less advanced firms.

As suppliers to fashion brands and retailers, handbag manufacturing is a link in the global value chains (GVCs) of fashion brands and retailers. A GVC is the arrangement of activities that brings products from initial design to final consumer purchases. The so-called smile curve illustrates where manufacturing sits in these arrangements and the relative value it adds to the final product.

Most Kate Spade & Company suppliers are full-package suppliers. In general, the ability to accomplish higher-level tasks depends upon the skill of the workforce and management expertise. Therefore, moving from simple assembly to higher-order capabilities requires investments in training and skills. The investments are justified by the increased “value capture” associated with moving “up the smile curve” in either direction.



Curve of Value-Added Stages in the Apparel Global Value Chain
Source: Frederick, 2010

At inception, neither the management of ADC nor the artisans were capable of meeting the demands of the typical Kate Spade & Company supplier. As a result, ADC began as an assembly operation with beadwork capabilities. Higher level management responsibilities, such as export paperwork, logistics management, and raw material procurement were performed by Kate Spade & Company employees. However, ADC’s capabilities are expanding, and each of these tasks either has been or will be transferred to ADC. In addition, ADC is producing increasingly more complex products. The objective is for these management and worker capabilities to continue to expand—in other words, for ADC to continue moving up the smile curve to more closely match the capabilities of full-package suppliers.

Significant research supports the notion that an important *potential* aspect of GVC-led economic development is the “learning” that takes place through engagement with multinational corporations (MNCs). MNCs serve as “global lead firms” in orchestrating the value chains that move products from initial design to manufacturing, retail distribution, and after-sales customer service. Unfortunately, recent research suggests that this learning potential is not realized in many export-oriented contract factories in Africa because training opportunities are limited and workers do not meaningfully engage with the MNCs.¹⁹ These factories remain stuck at the bottom of the smile curve. This is not the case with ADC. Kate Spade & Company has intentionally exposed artisans and managers to best practices in a global GVC in fields such as logistics, production, and human resources. As a result, ADC has been slowly taking over more “up curve” responsibilities.

Although ADC is developing the capacity to source raw materials, the company has operated since inception as a “Cut and Make” or “CM” supplier. Specifically, ADC fabricates and embellishes handbags according to customer specifications using customer provided materials. The quality requirements of the accessible luxury handbag segment dictate a consistent supply of fine leather, fabric, glass beads, fasteners, and other components. Since ADC has been unable to locate reliable sources of those materials

in Africa, they are being sourced from tanneries, mills, and other vendors in China and Korea, consolidated in Hong Kong, air-freighted to Kigali, and trucked to Masoro. Finished goods are trucked to Kigali and air-freighted to warehouses in the United States, England, and Hong Kong.

The process for bringing mid-luxury handbags to market takes upwards of a year. ADC becomes involved after Kate Spade & Company designers render designs in technical drawings. Kate Spade & Company sends these “tech packs” to Masoro where an ADC sample-making team creates prototype handbags. Based on their review of the prototypes, designers in New York transmit revised tech packs and ADC creates final samples. Upon approval of the final sample, Kate Spade & Company places orders for cutting dies and raw materials. ADC begins production approximately five months after receipt of the first tech pack.

Handbag fabrication entails cutting fabric and leather; creating straps, labels, and beaded panels; edge paint finishing; and other tasks that are best performed before the handbag is assembled. Assembly then takes place in an assembly line operation in which the parts are stitched, glued, or riveted together and embellishments are attached (e.g., decorative bows and beaded panels). Subsequent stages involve finishing, packaging, and shipping.

ADC operates as many as five assembly lines producing approximately 7,000 units in each of four seasonal production periods. Each period has included two or three weeks of training and ten weeks of production (plans to reduce the training time are discussed below). The factory operates one eight-hour shift per day, five days a week, and there is no planned overtime. The output for a typical season consists of ten to twelve distinctive styles based on three or four common silhouettes. For example, production may include four totes of the same dimensions, differentiated by material, color, embellishments, or some combination thereof.

Kate Spade & Company purchases all of ADC’s output and distributes it through the firm’s specialty stores and its website. The merchandise enjoys an exclusive Kate Spade & Company label called *on purpose*, (not to be confused with the *on purpose* strategy).²⁰ Although point-of-sale materials may highlight a particular artisan



Embellished leather tote in a kate spade new york store. The card provides a thumbnail sketch of ADC and is signed by an artisan.

or draw attention to handmade embellishments, *on purpose* handbags are not designed to reflect their Rwandan origins. Rather, they are “on brand,” distinctively Kate Spade in terms of design elements and consistent with the company’s seasonal themes.

At current production levels and product mix, ADC’s annual output approximates \$4.0 million of retail sales. For perspective, that is less than one half of one percent of Kate Spade & Company sales of women’s handbags and small leather goods during 2016.

We conclude this profile with an observation regarding the quality of ADC production. A clear understanding of what counts as “acceptable” merchandise is evident throughout the factory—from the careful inspection of raw materials to the embedding of quality control specialists within each stage of the production process. Such intense attention to detail can be attributed to a feature of ADC’s development: Kate Spade & Company did not relax or compromise its quality standards. It appears to us that requiring the nascent ADC to perform at the level of mature suppliers instills pride in craftsmanship as an emergent company value.

1

**Recently received hides
awaiting inspection**



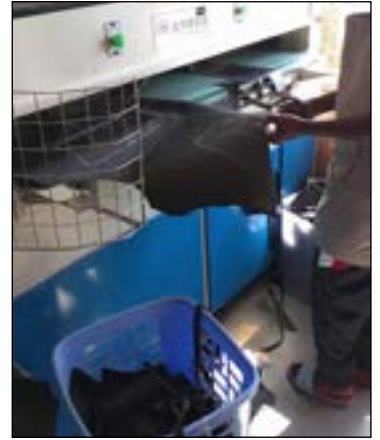
2

Marking hides for cutting



3

Cutting



7

Assembling tote



8

Edge paint finishing



9

Sewing



Selected Steps in Producing Handbags

4

Press punch

5

Hand sewing an embellishment

6

Attaching a bow

10

Beading a panel

11

Attaching beaded panels

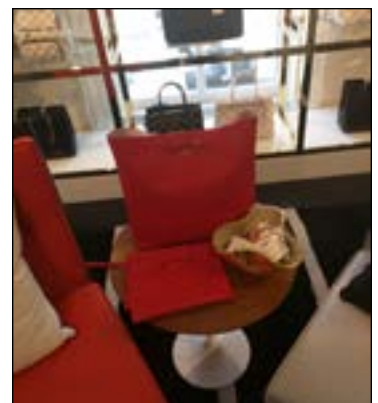
12

Completed clutch

13

Packaging

14

***on purpose* tote in a kate spade new york store**

ADC Management Profile: **ERIC MUKUNZI, TECHNICAL DIRECTOR**



Eric is one of nine siblings and was born in Burundi. But he was working in Uganda when he happened upon a book by U.S. author Jack Canfield: “Success Principles: How to Get From Where You are to Where You Want to Be.” The book inspired Eric to think about his future. Challenged to consider what he wanted to accomplish in life, Eric began writing down his goals in a notebook. And he dreamed of leather.

Eric was familiar with luxurious leather shoes from Italy and France because many East Africans wear secondhand shoes from Europe. He decided that he would make similar shoes, and dreamed of reversing the trade and selling them in Europe. He pursued this goal with a single-minded enthusiasm, learning as much as he could from the Internet, visiting shoe factories, and snapping pictures. Little by little, Eric acquired machinery from Amazon and eBay and made simple sandals, belts, and wallets that he sold to small shops in Kigali. All the while he harbored a secret dream: to sell leather goods to Louis Vuitton in Paris.

When Kate Spade & Company representatives visited the Rwandan Ministry of Commerce and asked if they could recommend potential managers with expertise in leather goods, Eric’s life took a turn that he could not have predicted. Shortly after joining ADC, he spent two weeks training in Qingdao, China visiting world class handbag suppliers, taking hundreds of pictures, and asking even more questions. He committed to bring the best production practices possible back to Masoro.

Eric still marvels at how close he has come to his dream: he is producing leather goods for sale to wealthy consumers, and Kate Spade & Company seems very close to Louis Vuitton. But according to “Success Principles,” goals should evolve. “I am adding more and more to my notebook,” Eric said.



ADC Manager Profile: **ALPHONSE NSHIMIYIMANA, RAW MATERIALS, LOGISTICS AND OPERATIONS DIRECTOR**



As a recent college graduate in 2014, Alphonse's experience as an intern in ADC's materials department turned into a job as Raw Materials Manager, which led to his current Director position. In this capacity, he leads a team that is

responsible for ensuring that materials are received on time and in conformity with Kate Spade & Company specifications. The team is also responsible for packaging and exporting finished goods to the U.S., England, and Hong Kong. Most recently, Alphonse has been tasked with developing ADC's capacity to source materials directly from Asian suppliers. To that end, he has traveled to Hong Kong to learn the business of procurement and establish relationships.

Alphonse remembers the day his future came into focus. Shortly after joining ADC he learned that he would be making a business trip to the U.S. "I felt excited. I thought, so this is how it is going to work. This is the kind of life I am going to lead—working with international companies and international people. Having trips, and meeting people and learning from them, and coming back and making sure the knowledge is applied."

Alphonse knew that ADC was a tiny supplier in Kate Spade & Company's global supply chain, and one of his biggest surprises was walking into a Kate Spade New York store in Manhattan. It had not occurred to him that the ADC products would stack up next to the handbags sourced from all of Kate Spade & Company's sophisticated suppliers in Asia. "I didn't expect the ADC products to be so beautiful," he said.

Research has identified significant benefits from working with multinational companies, so-called "knowledge spillovers" in the form of skills and expertise that have impacts beyond individual firms. Alphonse's trip to the U.S. is a case study in knowledge spillovers. In Ohio he studied a world-class logistics operation and in New Jersey he gained insight into the intricacies of the importing process. Alphonse was able to see a complete picture of the system and came up with ideas for improving ADC's processes. But beyond ADC, Alphonse is positioned to share his knowledge with other Rwandan exporters.

Sharing knowledge comes naturally to Alphonse and figures prominently in his leadership. Asked to recount a managerial challenge, he related a situation in which a young manager in his area was overwhelmed by a cascade of problems beyond her control. Rather than fix it himself, they broke it down into pieces and devised workarounds and strategies. "That's how I was taught to do it," he said.

We observed Alphonse share a different kind of knowledge during a lunch break. Two members of his team were enrolled in an evening program studying accounting, Alphonse's college major. We watched as problem sets replaced packaging materials on a table in the materials storeroom and for an hour, Alphonse tutored his colleagues.



Alphonse celebrating the first shipment of leather handbags

PART TWO

Economic Empowerment

EMPowering WOMEN is a core objective of the *on purpose* strategy. But what is empowerment? At the risk of oversimplifying a complex concept, a brief clarification is in order.²¹

We define “empowerment” as the *freedom* to make life-choices and the *resources* to exercise it. This combination of personal liberty and enabling resources is a useful framework for understanding what empowerment entails for women living in circumstances of extreme poverty. A UN study found that women and girls are overrepresented among the world’s extremely impoverished because they are more likely to encounter circumstances, norms, and laws that limit their full economic participation.”²² It also found that an effective mechanism for providing participation is “access to decent, non-exploitative jobs that are fairly remunerated.”²³ Additionally, such “good jobs” are believed to empower through multiple channels, including improvements in resources and increased levels of confidence and skill.

Based on this understanding of empowerment, our examination of the ADC employment experience is covered in two sections. The psychological dimensions of empowerment, including a sense of confidence and autonomy, are addressed in Part Three. In this section we concentrate on economic empowerment. We document and analyze the compensation of ADC artisans, and assess the extent to which it satisfies their material needs.

Part of our analyses in this and the following section (on psychological empowerment) relies on the survey methodology described below in Section 2.1.

Following is a summary of our methodology and conclusions related to economic empowerment: The numbers refer to section headings in the text that follows.

2.2 ADC’s employment practices are documented and contextualized.

Major finding: The lowest artisan salary is considerably higher than the median salary for private sector jobs in Rwanda. Additionally, we were unable to identify a higher paying employment option in Masoro that did not require special skills or education.

2.3 The cost of living in Masoro is documented and used to test the adequacy of artisan compensation.

Major finding: The lowest artisan salary covers the costs of living a “decent life” for one adult and one school-aged child, including the ability to save.

2.4 Artisan spending patterns are compared to the patterns of members of a Masoro area control group.

Major finding: Improvements in material well-being for artisans exceeded the improvements for the community members.

These findings support the conclusion that artisan compensation is economically empowering.

2.1 SURVEY METHODOLOGY

Surveys were administered orally to ADC employees on April 4 and 5, 2016 by 12 student “enumerators” of the Akilah Institute for Women, a vocational college in Kigali. All of the enumerators were young Rwandan women, native speakers of Kinyarwanda. According to an Akilah Institute report, these “high-performing students” received five days of training that included interviewing techniques and research ethics. Special care was taken to ensure that the enumerators understood the questions and knew how to ask them. Additionally, Akilah supervisors were available onsite to answer questions.

ADC employees were interviewed on the premises of their employer during regular working hours. To minimize any natural inhibitions to respond candidly, enumerators explained the purpose of the survey and provided assurances of confidentiality. Privacy was maintained by conducting the interviews at 12 outdoor stations. And importantly, almost every ADC employee had participated in at least one interview previously without experiencing any negative consequences. Although it is impossible to know for certain whether interviewees are candid, the enumerators reported that the artisans seemed honest and eager to participate.

In order to measure the effects of the ADC employment experience, it is necessary to have comparable survey data from a control group that is otherwise similar to the ADC artisans. Ideally, this group would be employed in a factory producing similar goods but without ADC’s employee-centric policies. We were unable to locate such

a control group. While we identified one other export-oriented fashion goods supplier in the region, we were unable to gain access to the facility for research purposes.

As an alternative, surveys were administered to members of the Masoro community over the course of seven days in June, 2016 by two native Rwandan women in their 20s. Training was conducted by a member of our research team on the proper protocols for distributing paper surveys, answering questions, collecting responses, and interacting with interviewees. The questions had been translated from English into Kinyarwanda and back-translated into English. Respondents were recruited outside local gathering places and were given a prepaid calling card worth 500 RWF (\$0.65), not as an inducement but after completing the survey as a token of appreciation.

Because community members were selected randomly, some noteworthy demographic differences warrant mention. For instance, 19 percent of the community members (N=201) were not working, either because they were retired (5.5%), in school (5.5%), or unemployed (8%). Also, 98% of the ADC artisans surveyed (N=151) were female, versus 64% of the community respondents. The ADC artisans were slightly older (community mean=31.4, s.d.=10.5; artisan mean=35.4, s.d.=10.9) and more likely to have post-secondary educations (18% for artisans; 9% for community members). But 13% of the artisans reported having no education, versus 9% for community members. We controlled for these differences when analyzing the data.

2.2 COMPARATIVE ANALYSIS OF ADC COMPENSATION

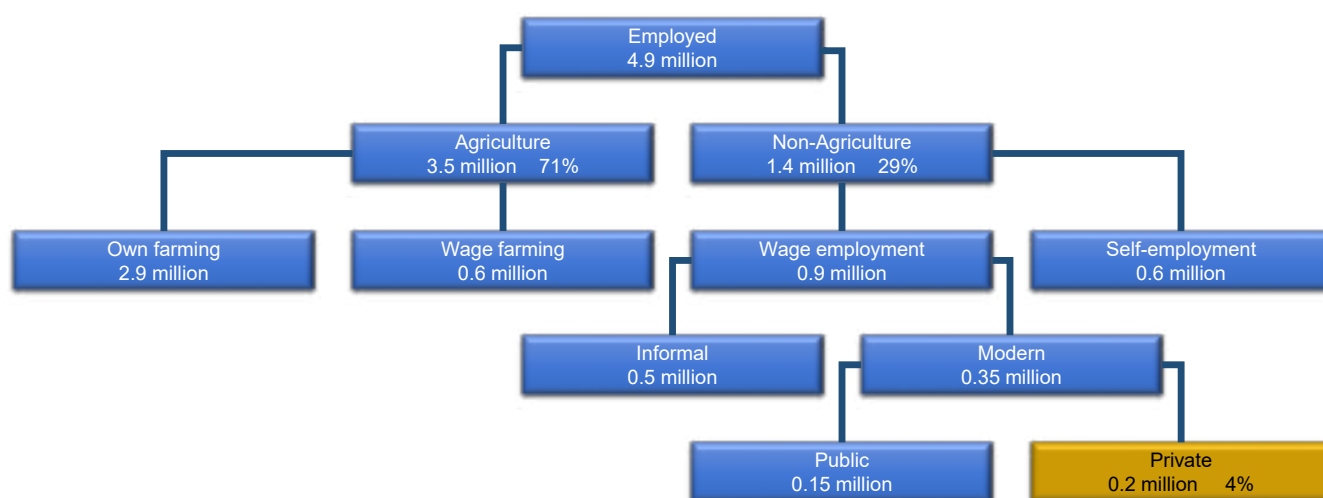
Salaries for a representative sample of ADC artisans are presented in the following table in US dollars and Rwandan francs (RWF)

Position	Gross \$/month	Net \$/month	Gross RWF/month
Team leader, sample-making	125	103	98,750
Coordinator, handbag operation	125	103	98,750
Sample maker	117	97	92,430
Quality control specialist	117	97	92,430
Team leader, sewing	109	91	86,110
Assistant team leader, sewing	100	84	79,000
Sewing machine operator	92	78	72,680
Base or entry-level artisan salary	84	72	66,360

How should we understand these salaries in the Masoro and Rwandan context?

First, it is important to note that ADC employment is unusual simply because very few Rwandans work in the formal wage economy. As indicated in the following

chart, 70 percent of the adult workforce was employed in agriculture during 2011, most commonly in subsistence farming. And only 4 percent of Rwandans had formal private sector jobs.²⁴



Adapted from World Bank (2016) Rwanda Economic Update: Edition No. 9. Figure 2.3, pg.37

Second, in addition to being a rare form of employment, ADC compensation is high for the category. The median salary for formal private-sector jobs was RWF 41,600 in 2011 (latest data) or 48,462 in 2016 RWFs. *The lowest artisan salary of RWF 66,360 per month is 37 percent higher than the median private-sector salary.*²⁵

Third, it is important to bear in mind that the context in which ADC operates is characterized by widespread poverty. Gross National Income per capita was \$697 per year in 2015, 18 places from the bottom of the World Bank ranking of 215 countries.²⁶ Data for 2013 indicate that 6.9 million Rwandans—60 percent of the population—were living on less than \$1.90 per day in Purchasing Power Parity (PPP),²⁷ the World Bank poverty threshold.²⁸ In contrast, the lowest after-tax salary of ADC artisans (\$72 per month) translates into \$6.90 per day in PPP—20 percent above the poverty line for a household of three. Furthermore, the after-tax salary of an assistant team leader in the sewing area (\$84) is \$8.09 per day in PPP, enough to maintain four individuals above the poverty line.²⁹

We also note that ADC is located in a particularly impoverished part of the country. Of the 30 Rwandan districts, Rulindo (which includes Masoro) has the seventh highest poverty rate (48 percent versus 39 percent nationally) and the eighth highest rate of extreme poverty (20 percent versus 16 percent nationally).³⁰

To provide local context, we estimated the earnings from six occupations in Masoro. They are compiled in the following table, interspersed with ADC salaries.³¹

Net (\$/month) ³²	
ADC team leader, sample-making department	103
ADC assistant team leader, sewing department	84
Construction trades (masonry, plumbing & electrical)	83
ADC sewing machine operator	78
Nurse	76
ADC base (lowest) artisan salary	72
Primary school teacher	57
Construction laborer	42
Miner (variable piece rate)	42
Agricultural day labor	28

Clouding this comparison is the nature of employment in the construction industry wherein the dominant labor arrangement is independent contracting and periods of inactivity are common.

As indicated above, we did not identify an employment option in Masoro with higher pay than the lowest artisan salary that did not require special skills or education. Of course, it is possible that a higher paying alternative exists. However given the dearth of private-sector jobs in the formal economy, we believe this to be unlikely.

In sum, the lowest artisan salary is attractive by both local and national standards.

2.3 ADEQUACY OF ADC COMPENSATION

How does the lowest artisan salary compare to the cost of living a decent life in Masoro, Rwanda?

To answer this question we turned to the National Institute of Statistics in Rwanda. In collaboration with the World Bank, the Institute periodically administers a nationwide “Integrated Household Living Conditions Survey.” Among the measurements collected are consumption and expenditure patterns. By collecting data on both consumption and expenditures the Institute

accounts for differences in patterns of living. For instance, some Rwandans pay for all of their food but others supplement their food purchases with self-cultivated products they consume. The Institute neutralizes this and similar such difference by placing a value on the self-cultivated products and treating them as expenditures. The result is an “average household consumption expenditure.”

The Survey for 2013/14 reported that for an average household of 4.6 members the consumption expenditure

was RWF 279,553 per year.³³ Adjusted for inflation, the average is RWF 298,590 in 2016³⁴ or \$31.50 per month. But since 39 percent of those households were living in poverty and another 16 percent were living in extreme poverty,³⁵ \$31.50 is not enough to support a decent life for a household of 4.6 people. But it does provide a point of reference so we will return to it shortly.

To approximate what it costs for an individual to live a decent life in Rwanda, we investigated what it would consist of and approximated the costs. This entailed interviews with artisans to understand their preferences and spending priorities. Then we gathered housing costs and priced food, toiletries, and various other necessities in Masoro markets. Based on these data, we made a rough estimate of what it would cost for an *individual* to live a decent life in Masoro. The result was close to the *household-level* expenditure estimated by the Rwandan government for 4.6 people.

Granted, we did not conduct a rigorous study of consumption patterns or shopping behavior. However our analysis was sufficient for purposes of testing the adequacy of the artisans' salaries: \$31.50 is less than half of the lowest artisan salary of \$72 per month. Indeed, the margin for error is so wide that we are confident in concluding that the lowest ADC salary can provide a decent life for an artisan and her school-age child. This conclusion is reinforced by responses to the following question in a survey administered to 151 employees in April 2016:

How prepared do you feel to be able to meet your family's expected future expenses in the next 2 years?

Ninety-five percent of the artisans reported being either "prepared" (101 or 67 percent) or "somewhat prepared" (42 or 28 percent).³⁶ Also, 135 of the 151 artisans surveyed (90 percent) reported saving something; with mean and median monthly saving of RWF 14,000 (\$17.72) and RWF 10,000 (\$12.65), respectively. Furthermore, 38



Store near ADC

percent (57 of 151) of the artisans reported being the sole source of income in their households, while 18 percent (27 of 151) reported living in a household with non-agricultural wage earners.

We note that this survey was administered in April, 2016, before a compensation change went into effect. The change reflected a transfer of employees from a recently curtailed jewelry operation to handbag production, which eliminated the job category with the lowest artisan salary. The result was a 36 percent increase in salary for 17 percent of the artisans. This bolsters our confidence in concluding that the lowest artisan salary is sufficient to live a decent life, raise at least one child, and save enough to have a secure outlook on the future.

*Artisan Profile:***CLAUDINE UMUHOZA,
TEAM LEADER, HANDBAG PREPARATION**

It was a sunny warm day, but Claudine wore 3 layers and asked if she could sit in the sun. The top layer signified her new life: it was the bright yellow vest assigned to her when she became a team leader.

In the past, Claudine had escaped an abusive marriage. She took her two children and moved in with her mother in Masoro. There, she occupied one of the lowest rungs in the community: she hired herself out to work other families' land, earning about 50 cents per day. Every once in a while, she landed a brick-carrying job at a construction site. The work was back-breaking but the pay was a little higher.

When ADC first publicized job opportunities in the new factory, Claudine did not hear the news. The second time, however, she came as soon as she heard. Yet two factors conspired against her: she had no skills and no phone. But Claudine had a sister with a phone so she provided the number. Still, she had little hope because the demand for ADC jobs was so high. But five months later her sister's phone rang: there was an opening for a cleaner.

From there, Claudine climbed the ladder: within a year she had taken and passed the sewing test. Shortly thereafter she was appointed assistant team

leader; but it was not long before she assumed the responsibilities of a team leader. These days Claudine might have up to 45 artisans on her team and she loves teaching them new things. Her salary has more than doubled and she cherishes the respect she receives.

Claudine describes her grinding poverty before ADC as fact but not complaint. The whole family was often hungry, her children in rags, and the house was crumbling. Now, the basics – food, clothing, school fees – are covered by her reliable salary. Her house is in good repair and she is proud to call it home. One chicken, bought with one of her first paychecks, has become 28.

Claudine has a vision for the future beyond ADC. She is saving for a future with more chickens, more land, and a cow. She told us that she wants to look out her window and see what is hers, not somebody else's.

A catchy ring-tone came out of Claudine's pocket and she laughed. "I have a phone now," she said. "A really nice one."



2.4 MATERIAL WELL-BEING OF ARTISANS VERSUS COMMUNITY MEMBERS

We also examined several elements of the artisans' spending and investment behavior in comparison to a control group consisting of a sample of Masoro-area community members. The data for these analyses were obtained by administering surveys to 151 artisans and 201 community members, as detailed in Part 2.1 above.

Spending patterns serve to confirm the previous findings: if artisan compensation compares so favorably with alternative sources of income in Masoro then we would expect to see their spending outpace that of their neighbors. To evaluate changes in material well-being, we asked artisans and community members several questions related to spending and investment behavior. In general, disposition of income may be targeted towards current consumption, investment, or a combination of the two. We did, in fact, find that the artisans are more likely than community members to have increased both current consumption and investment.

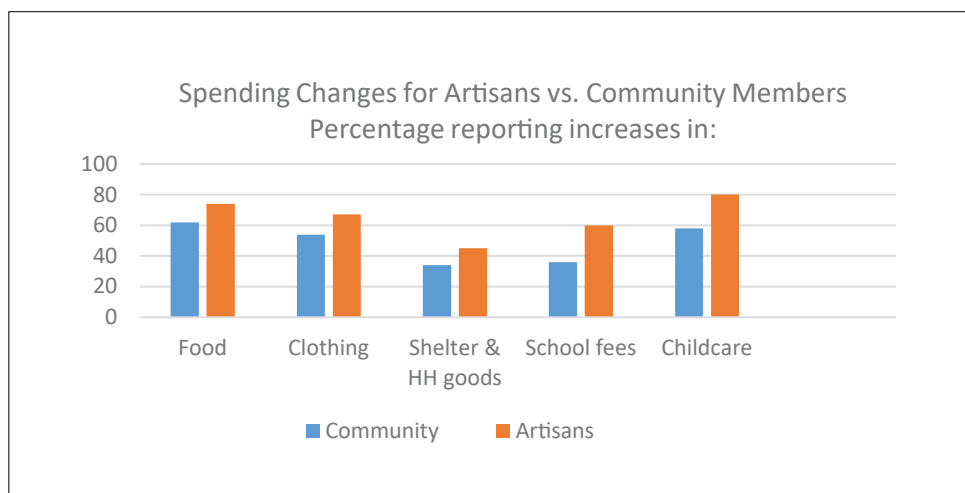
To evaluate changes in current consumption, we asked **whether or not spending had increased, decreased, or stayed the same over the past six months in five categories: food, clothing, shelter and household (HH) goods, school fees, and childcare.** The results below show that the percentage of ADC artisans reporting that their spending has increased was greater than the

percentage of community members reporting increased spending—for each of the five categories measured. All of these differences are statistically significant.

In addition to savings, the primary means of investing in rural Rwanda are land purchases and permanent household improvements. Importantly, these investments are less reversible than are changes in consumption. Under adverse circumstances households can immediately reduce clothing purchases, for example; but it is more difficult to sell land or reverse household improvements. As a result, investments in land and household improvements are indicative of higher levels of optimism and confidence about the future.

We asked respondents whether they had made household improvements during the past year in any of the following categories: roof, doors or windows, paint, flooring, ceiling, kitchen, plumbing, additional room(s), electricity, walls, other. We assigned a score of 1 for each improvement and found that on average, **artisans reported making nearly 3 times the number of home improvements as community members**, 1.43 versus 0.52.³⁷

We also asked about land purchases during the past year and found that **20.4 percent of the artisans reported**



purchasing land in the past year, as compared to 12.5 percent of the community members.

For both land purchases and home improvements, the results were statistically significant, after controlling for age, marital status, gender, and education.

In summary, a key component of economic empowerment is steady employment with adequate remuneration. In this section we have evaluated artisan compensation from several perspectives. We conclude that it compares favorably to alternative opportunities in Masoro and to private-sector wages in Rwanda. We also conclude that

the lowest artisan salary provides the means for one adult and one school-age child to live a decent life and save for the future. Finally, we show that consumption as well as investment in land and household improvements is higher for the artisans, relative to a control group of community members. Based on these findings, artisan compensation is economically empowering. In the next section, we address the remaining elements of empowerment: the requisite psychological resources (e.g., self-confidence) and the artisans' freedom to make life-choices.



Murals along a walkway connecting ADC production facilities

*Artisan Profile:***EPIPHANIE MUKAMPARIRWA, SEWING MACHINE OPERATOR**

Epiphanie's life is a testament to human resilience. She lost both of her parents in the 1994 genocide and became responsible for her two younger brothers when she was just 9 years old. After nearly a year in a refugee camp, the

three children were sent to an orphanage in Masoro, where Epiphanie learned to be a tailor. At the age of 16, she was on her own. She left Masoro for a nearby town, rented a sewing machine, and set up shop on the street. Some days customers came and some days they didn't. But Epiphanie persisted and eventually purchased the machine, and precariously supported the small family with her street-side business.

Epiphanie returned to Masoro when she heard about the opportunities at ADC in late 2013. She was hired after easily passing the sewing tests, and then quickly advanced from sewing fabric to leather. With her first savings, Epiphanie bought another sewing machine. Kate Spade may not always be here, she told us. But if she and her daughter both have sewing machines, they can survive.

Epiphanie is methodically securing her future. First she bought a home, then she purchased a plot of land as an investment, then another plot, and then a third. Cinder blocks and concrete stucco are gradually replacing the mud bricks in her home, and she is thrilled to have a front door that locks. Epiphanie tends her sweet potatoes, beans, and sorghum on the weekends, and still sometimes sews for cash.

Eventually Epiphanie would like to have enough land so that her brothers could marry and all three families could live nearby.

She is confident that someday soon, there will be a cow. With a cow and two sewing machines, she would finally feel secure. The family would no longer need to buy milk or fertilizer, and Fanny, her daughter, would have plenty of protein. Epiphanie sees her future in Masoro: though life as a single Mom can be tough, she is calling the shots in her life.

She is not sure where her daughter will be in the future. Fanny is smart and attending the best school in Masoro. Epiphanie recalls that before joining ADC it wasn't always possible to pay tuition. Now she is confident that Fanny will be able to attend the best high school. As for college, America is a possibility. Bursting with pride, Epiphanie says, "She may even go to Georgetown!"



PART THREE

Psychological Empowerment

In the previous section we concluded that artisan compensation is economically empowering. It stands to reason that a modicum of financial security would be empowering in other ways—improved health and psychological well-being in particular. We will document a number of such outcomes in this section. But before doing so, we would caution against concluding that employment in the fields and factories supplying global brands is a consistently empowering experience, economically or psychologically. A few key findings from the research on Global Value Chains (GVCs) will explain why employment, in and of itself, does not necessarily empower women and, under some circumstances, can be disempowering.

First, a Duke University study found that “social downgrading” was a common experience in GVC-related employment in Africa. The researchers concluded that while participation can contribute to economic growth, it can also erode social protections and other factors that contribute to well-being.³⁸ Other research has found that women are likely to occupy the lowest positions within GVC suppliers and that “gendered employment” is widespread. Also, women face unique social constraints within GVCs that can manifest in negative impacts when their employers are integrated into GVCs.³⁹ This outcome is the result of altered power dynamics that provide men with additional control over resources. As a consequence, women employed by suppliers to global brands can experience disempowerment.⁴⁰

Other GVC research sheds light on the factors that contribute to empowering employment experiences. Examples include training, education, access to networks and finance, and the engagement of global brands to reduce gender discrimination.⁴¹ Since ADC prioritizes the artisans’ well-being and invests in their development, we would expect their experiences to be empowering. To test that expectation, we examined how the artisans think about various dimensions of their lives. We utilized a range of measurements to capture their perceived social standing and health, as well as their levels of confidence, power, and anxiety. We also measured their perceived freedom to make decisions affecting crucial areas of their lives. Unless indicated otherwise, the results reported below are statistically significant, controlling for demographic indicators such as gender, age, marital status, and education.⁴²

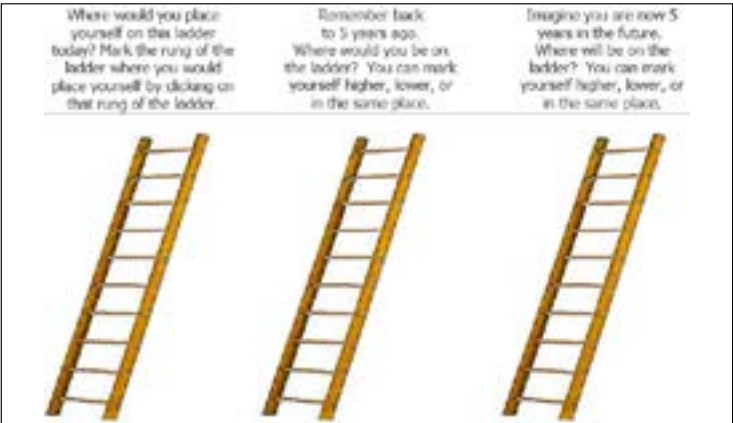
To preview our findings, recall our working definition of empowerment as *the **freedom** to make life choices and the **resources** to exercise it*. Economic resources were addressed in the previous section by showing that the lowest paid artisan has the wherewithal to live decently, support a child, and save for her future. In this section we show that artisans also possess the psychological capital (e.g., self-confidence) to make autonomous decisions, and the freedom to make them. Based on these findings, we conclude that ADC is delivering on its social mandate by providing an empowering employment experience.

3.1 SUBJECTIVE SOCIAL STATUS AND GENERAL HEALTH

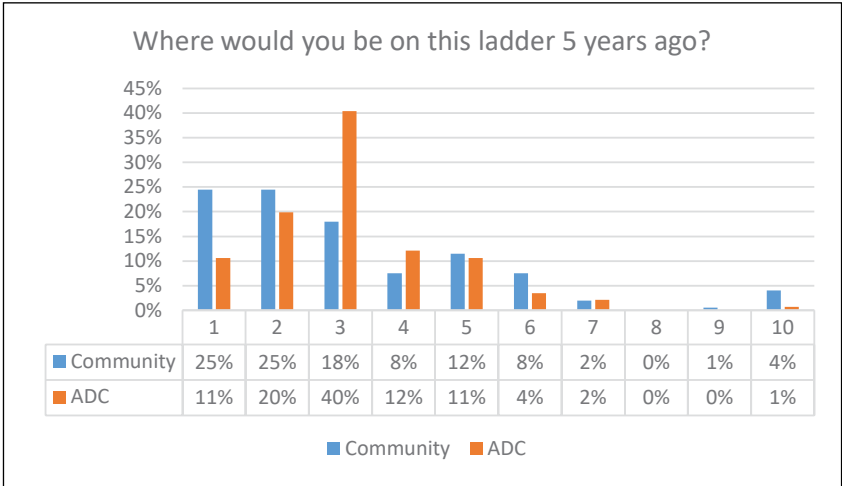
Societies are stratified or arranged in hierarchies based on factors such as education and wealth. Subjective social status (SSS) is a composite view of how someone perceives their standing in comparison to their neighbors, fellow citizens, or some other subset of their. The standard instrument for measuring SSS is the 10-rung ladder of the MacArthur Scale of Subjective Social Status. We administered the MacArthur Scale to the artisans and to a group of randomly chosen members of the Masoro community, none of whom were connected to ADC. Respondents were asked to place themselves on

a rung of the ladder based on their perceptions of their status within their community, where “community” was defined as local neighborhood.

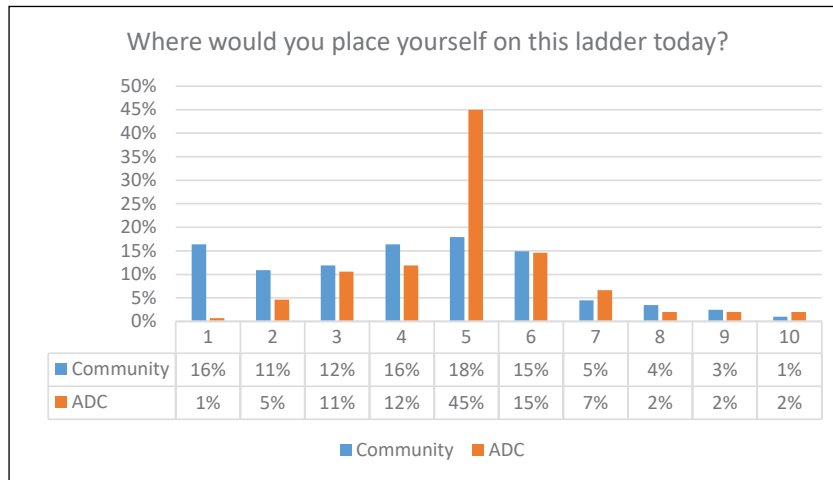
We administered three sets of ladders to measure perceptions of **past** social status (SSS 5 years ago), **current** social status (SSS today), and **future** social status (SSS in 5 years). As discussed in detail below, past research indicates that measurements on the MacArthur Scale of Subjective Social Status are highly correlated with objective measurements of physical and mental health. The results are presented in the following graphs.



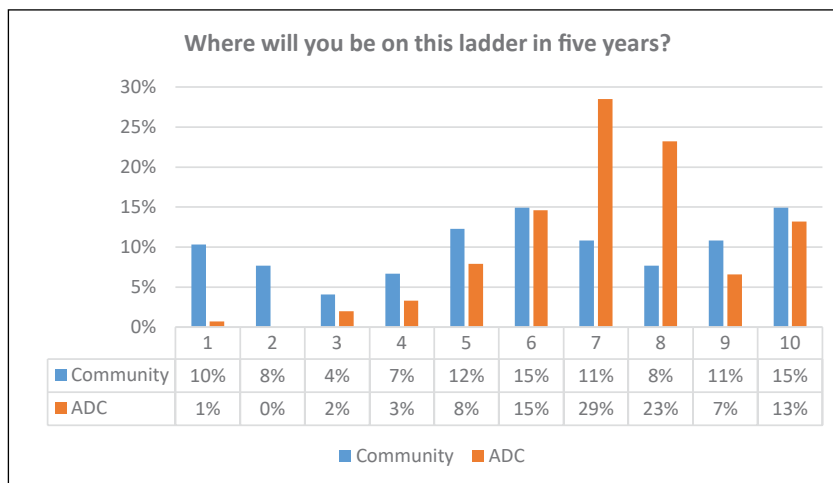
Artisans and community members assessed their past social status very similarly. And their assessments were extremely low: 83 percent of the artisans and 76 percent of the community members placed themselves on the bottom four rungs of the ladder. The average self-assessment was 3.2 (out of 10) for both groups.



Artisans assessed their current social status significantly higher than the assessments of community members: 55 percent of community members placed themselves on the bottom four rungs, while only 19 percent of the artisans did so. The average self-assessment was 5.1 (out of 10) for the artisans and 4.2 for the community members.



Artisans ranked their future social status significantly higher than did the community members. Imagining where they will be five years from now, only six percent of the artisans placed themselves on the bottom four rungs of the ladder, while 29 percent of the community members did so. The average assessment was 7.3 (out of ten) for artisans and 6.0 for community members



Notably, 72 percent of the artisans imagine themselves being on rung 6 or higher in five years, while only six percent of them placed themselves on those rungs when thinking about their past social status (i.e., on the “five years ago” ladder). The comparable percentages for the community members are 45 percent (five years from now) and seven percent (five years ago). Furthermore, 29% of the community members imagine that they will still

be on the bottom four rungs of the ladder in the future, as opposed to only 6% of the artisans. We believe these self-assessments of future versus past social status are proxies for optimism. And although both groups are optimistic, the artisans are significantly more so.

The following table summarizes the results from the three sets of MacArthur Scale ladders presented in the above graphs.

	High Top 4 rungs		Low Bottom 4 rungs		Mean Score	
	Artisans	Community	Artisans	Community	Artisans	Community
Past self (SSS five years ago)	3%	7%	83%	76%	3.2	3.2
Current self (SSS at present)	13%	13%	29%	55%	5.1	4.2
Future self (SSS in five years)	72%	45%	6%	29%	7.3	6.0

These results suggest that the ADC employment experience has increased the artisans’ subjective social status. The importance of this finding is the strong positive correlation between SSS and objective measurements of physical and mental health.⁴³ The correlation maintains across a wide variety of social settings and after accounting for socioeconomic and educational status. Studies utilizing the MacArthur Scale have documented its predictive validity in a variety of health domains, including depression, susceptibility to infection,⁴⁴ functional status,⁴⁵ and mortality.⁴⁶

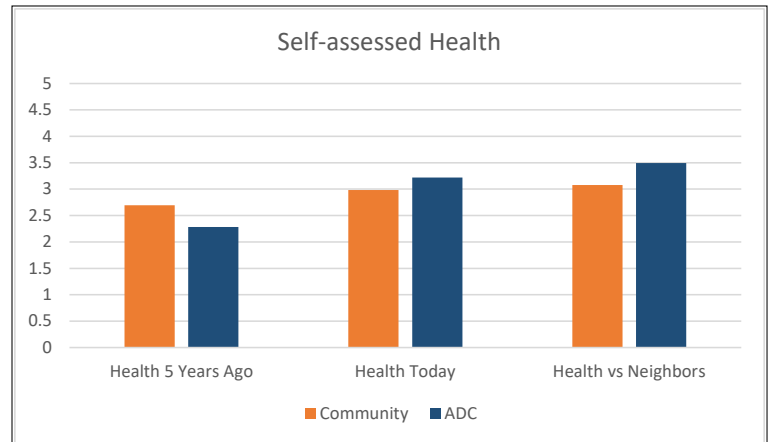
As a complement to the MacArthur Scale of Subjective Social Status, we asked artisans and members of the Masoro-area control group to reflect on their general health and rate it on a scale of one to five. We also asked the groups to rate their general health five years ago, and to compare their health with the general health of their neighbors. Prior research has documented the value of single question self-rated health measurements. As the

authors of a meta-analysis of the literature concluded, “Subjects’ responses to a simple, single-item general self-rated health question maintained a strong association with mortality even after adjustment for key covariates such as functional status, depression, and co-morbidity.”⁴⁷ The results are summarized in the following graph.

The artisans ranked their past health (five years ago) significantly lower than did the community members. The average assessment was 2.3 (out of 5) for artisans and 2.7 for community members. But the artisans ranked their current health slightly higher than community members ranked themselves (3.2 for artisans versus 3.0 for community members). And the artisans ranked their current health relative to their peers significantly higher than did community members (3.5 for the artisans versus 3.0 for the community members).

To sum up thus far, all of the aforementioned measures asked respondents to think about their current states relative to their past and future states, which provides

a sense of how change is being perceived. The results indicate that the artisans perceive steeper trajectories of life improvements than community members. The artisans' perceptions of their past social status and health is not higher/better than the community members' perceptions of their past states. But the artisans' have higher perceptions of their current states on both dimensions, and they are significantly more optimistic about their future social status and health.



Artisans attending a Lifeskills workshop



Lunchtime at ADC

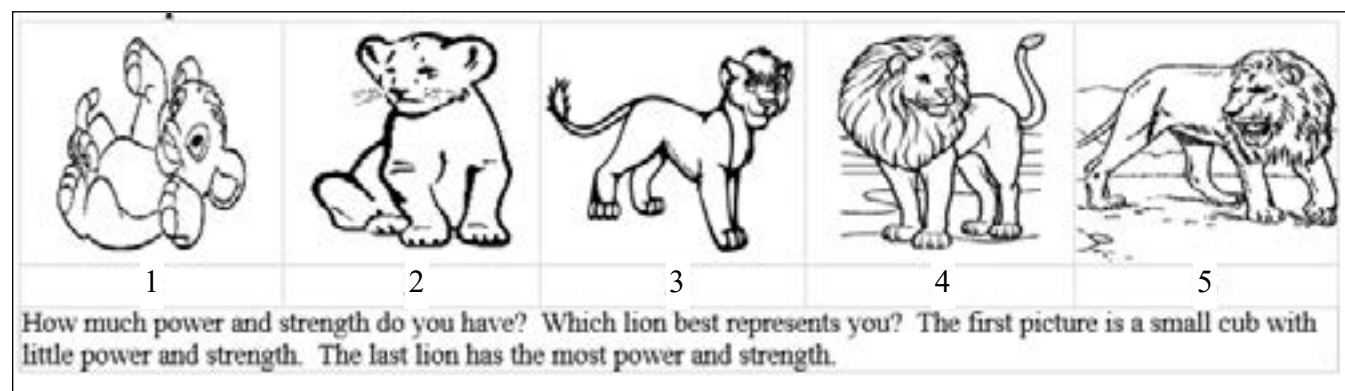
3.2 POWER, CONFIDENCE, AND ANXIETY

The artisans' perceptions of their power, confidence, and anxiety are indicative of the empowering influence of the ADC employment experience. To measure these perceptions, we employed the following picture-based scales.⁴⁸ To measure power, respondents were presented with five feline characters (from a playful cub to a ferocious lion) and asked to select the one with which they identified. To measure confidence, they were presented with walls of varying height and asked

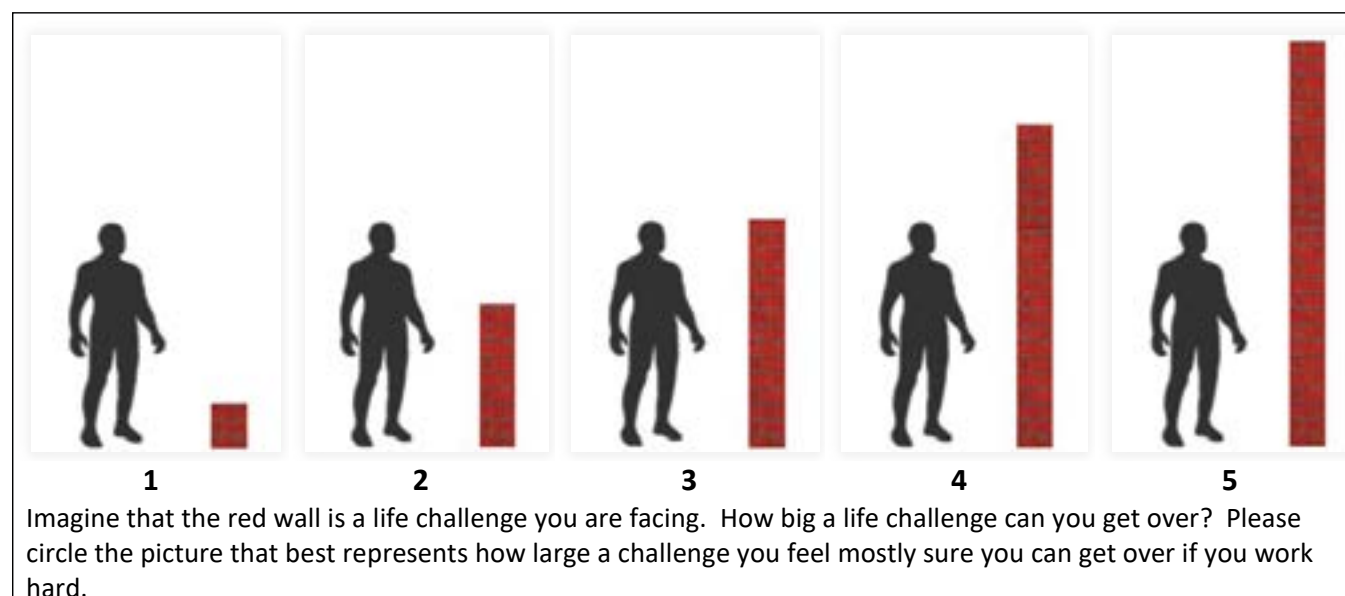
to identify the one they believed they could scale. And to measure anxiety, they were presented with five facial expressions (from calm and content to highly anxious) and asked to select the one with which they identified.

Each of the five figures in the three measurements was assigned a value from 1 (least) to 5 (most). Because these scales were generated for this project, they were extensively pre-tested and revised in advance of data collection. Following are reproductions of each measurement.






To measure perceptions of power:



To measure perceptions of confidence:



To measure feelings of anxiety:

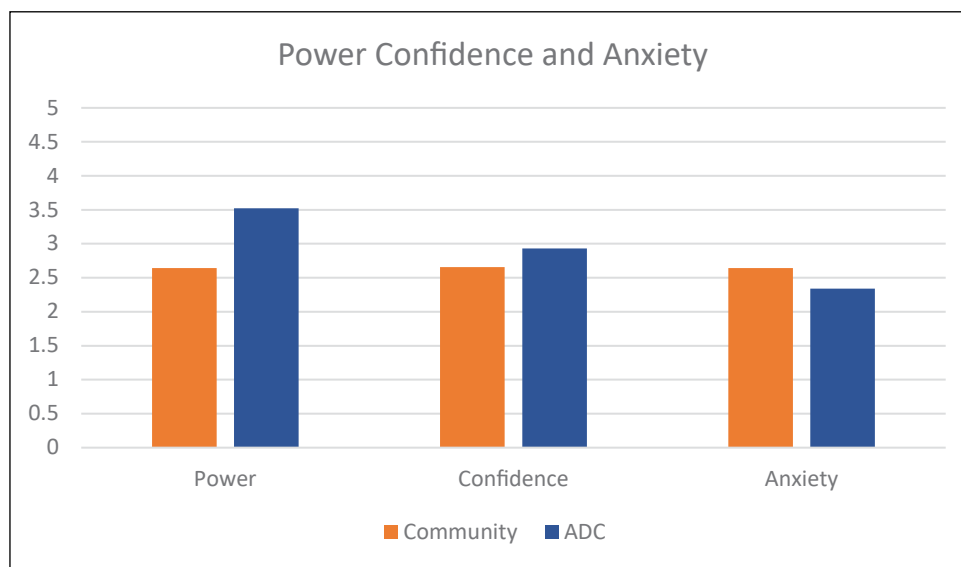
				
1	2	3	4	5

Think about how you feel most of the time. Do you feel calm or do you feel anxious and stressed? If you feel calm almost all of the time then circle the first picture. If you feel calm most of the time but some stress, circle number 2. If you are equally calm and stressed then circle number 3. If you are mostly stressed but sometimes calm then circle number 4. If you feel stressed almost all of the time then circle number 5.

As indicated in the following graph, the artisans' self-assessed levels of power and confidence were higher than the levels reported by the Masoro-area control group. Also, the artisans' self-assessed level of anxiety was lower than the level reported by the control group.

Power, confidence, and anxiety are associated with economic success and future productivity. Confidence, a fundamental belief in one's ability to achieve goals, is central to effective engagement across a variety of jobs and

responsibilities. Power or agency provides the freedom to experiment with new opportunities. Anxiety can be counter-productive, leading to rigidity and avoidance of new situations and opportunities. Thus, these findings with regard to the artisans are not just "nice to have" artifacts of the ADC employment experience. Rather, they indicate fundamental elements of the artisans' self-images and foreshadow resilience and potential.



3.3 SOURCES OF PSYCHOLOGICAL WELL-BEING

Thus far we have found that in comparison to a Masoro-area control group, the artisans reported lower levels of anxiety and higher levels of health, power, and confidence. We also found that in comparison to members of the control group, artisans ranked their current and future social status significantly higher. In the previous section we found that the lowest artisan salary is sufficient to support a decent life for one adult and one child. This raises an important question: are the artisans' elevated psychological indicators purely a function of their compensation?

To answer that question, we ran a multivariate analysis of variance on the psychological measurements reported above, controlling both for demographic data (i.e., age, gender, education, and marital status) and for the material outcomes documented in the previous section (i.e., number of home improvements, purchases of land, and increased spending on food, clothing, shelter and household goods, childcare, and school fees).⁴⁹ Results showed that after controlling for material outcomes, the artisans still judged their psychological well-being higher than that of the Masoro-area control group on three measures: power, general health, and future social status (a proxy for optimism). This analysis suggests that the artisans' higher sense of psychological well-being is not the result of their salaries alone.

What else might account for the artisans' relatively higher perceptions of confidence or future social status? Undoubtedly there are many factors, beginning with a respectful and caring approach to management. Another candidate is the opportunity to learn and progress, a

source of optimism for employees generally but especially in places where opportunities for personal development are scarce. Prior research suggests that female employees of suppliers within global value chains benefit significantly when given the opportunity to acquire skills.⁵⁰ Since the ADC employee survey included questions regarding skills acquired, we analyzed the responses to determine the impact of acquiring new skills on the artisans' psychological well-being.⁵¹

The survey asked artisans to rate the skills they had acquired from 1 (for "not learned") to 4 (for "highly proficient"). The skills could be slotted into one of two categories. Technical skills included sewing, embroidery, beading, handbag assembly, machine maintenance, and operating cutting and embossing machines. The second category consisted primarily of interpersonal skills and included communications, problem solving, attention to detail, teamwork, leadership, ability to ask for help, and English proficiency.

The results of this analysis showed that the artisans' confidence and anxiety were influenced significantly by the type of skills developed. Anxiety was reduced both by learning technical and interpersonal skills. But confidence was increased through the acquisition of three specific interpersonal skills: communications, leadership, and teamwork (each of which was covered in training workshops). Other research has identified skill-acquisition as critical for women to advance within GVC networks.⁵² These acquired skills are often transferable and, based on artisan, will oftentimes lead to the setting of ambitious goals.

3.4 DECISION-MAKING FREEDOM

Power and confidence should also have an impact on the artisans' perceived latitude to make life choices, a central element of our working definition of empowerment (i.e., the freedom to make life choices). Accordingly, we asked artisans to rate the extent to which their perspectives were considered in decisions affecting important facets of their lives. Responses ranged from 1 ("not at all") to 4 ("all of the time"). The same questions were posed to members of a Masoro-area control group,

results were compared, and tests of statistical significance were performed.⁵³ Results are presented and analyzed below.

Given the context of rural Rwanda as one where men might have more decision power than women, we disaggregated the community respondents (i.e., to male and female subgroups) and compared the artisans to each subgroup.⁵⁴

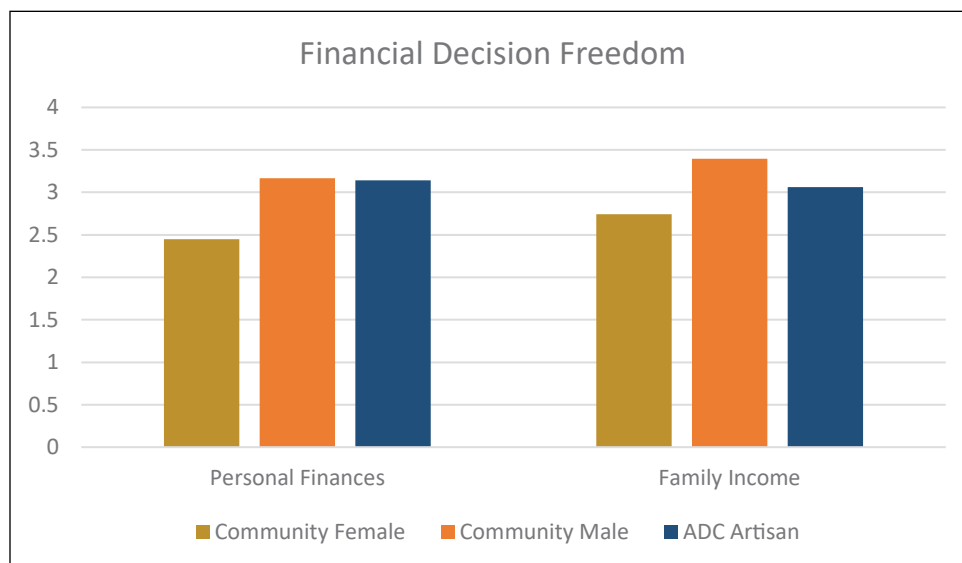
Decision-making Freedom—Personal and Family Income

Two questions tapped into the freedom to make decisions in two financial areas:

- 1 Is your perspective considered in regards to how your personal income is spent and/or saved, and
- 2 Is your perspective considered regarding how the family income is spent and/or saved?

The results show that the artisans have significant decision-making freedom: 3.14 and 3.06 (on a 4 point

scale) for personal and family income decisions, respectively. The results also indicate that the artisans have significantly more freedom than the Masoro-area females in both decision contexts. Indeed, the artisans' decision-making latitude related to personal finances is similar to that of the male community members. This would seem to indicate that they have an equal say relative to men on the use of their salaries. This is an important finding in terms of their empowerment because it indicates that the artisans are not apt to cede control of their earnings.



Decision-making Freedom—Health, Family Planning, and Children’s Education

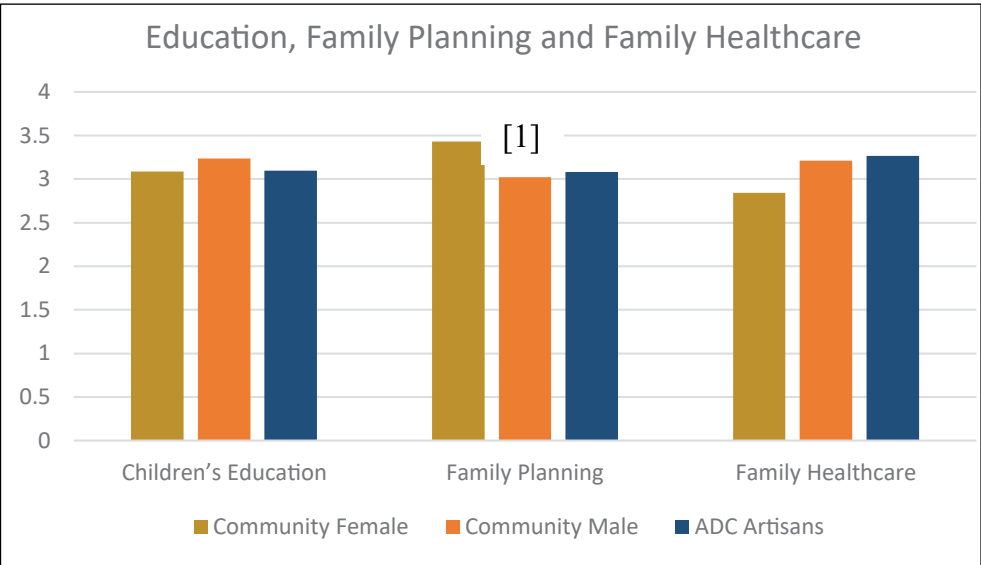
Three questions were asked to measure decision-making freedom in domains of family health and education

- 1 Is your perspective considered regarding family health decisions,
- 2 Is your perspective considered regarding family planning decisions, and
- 3 Is your perspective considered regarding children’s education decisions?

As indicated in the right-most cluster of bars on the following graph, artisans have significantly more decision-making freedom than female members of the

Masoro-area control group in regard to family healthcare decisions. Indeed just as with personal financial matters, the artisans have as much decision-making freedom as the male members of the Masoro-area control group.

For the other two questions (i.e., children’s education and family planning), the differences across the three groups are not statistically significant. That is, artisans, female members of the control group, and male members of the control group reported (on average) the same influence over decisions affecting children’s education and family planning. Perhaps children’s education and family planning are more squarely in the realm of “female issues” and, thus, Masoro-area females—artisans and non-artisans alike—exercise as much influence as male community members in these domains.



[1] It appears that female members of the Masoro-area control group reported on average higher levels of decision-making freedom regarding family planning. However, because there is wide variation in the answers of all groups to this question, the differences are not statistically significant.

3.5 A NOTE ON SELECTION BIAS

The results in this section illustrate ways that ADC workers are significantly better off than members of a randomly selected Masoro-area control group. But is selection bias a factor? That is, did the ADC hiring process select people that were better off to begin with? If it did, then the above results do not speak to the ADC employment experience, except to indicate that it did not make anyone worse off.

We offer two reasons to believe that selection bias is not a factor. First, recall that respondents were asked to reflect on their past states on two measures. On the first, ADC employees reported being no better off five years ago than their community counterparts on social status; on the second measure, they reported being significantly worse off in terms of their health. These results do not indicate selection bias favoring healthier members of the

Masoro community or those with higher perceptions of their social status.

The second reason to discount selection bias is that the initial selection process was not particularly selective. Everyone that responded to hiring announcements was given a chance to go through a training program. But the program was not a filter so much as a means of sorting applicants between beading, sewing, handbag preparation, and other jobs. Virtually everyone that responded to the announcement was hired and virtually all of them remain employed. Although the hiring process has become more selective, approximately two-thirds of the current workforce was hired in the initial round.

Based on these factors, we do not believe that the data are compromised by selection bias.

3.6 ECONOMIC AND PSYCHOLOGICAL EMPOWERMENT—CONCLUSIONS

In Part Two, we specified a working definition of empowerment as *the freedom to make life choices and the resources to exercise it*. In this section we addressed the first element and documented the artisans' decision-making freedom in critical areas, including the disposition of their salaries. In the previous section, we documented the artisans' access to the requisite economic resources. And in this one, we focused on the necessary psychological resources and provided evidence of relatively high levels of confidence and power and relatively low levels of anxiety. Collectively, our findings support the conclusion that ADC is delivering on its social objective to provide an empowering employment experience.

Our conclusion is reinforced by the company's turnover experience. Management reports that from inception in 2013 through August, 2016, only one artisan has departed voluntarily. Lest that experience be attributed to the dearth of employment alternatives in Masoro, we

note a study that documented turnover of 5.6 percent per month in factories manufacturing apparel and footwear in thirteen developing countries.⁵⁵ We would also note a recent study of five factories in Ethiopia in which turnover averaged 77 percent annually. The employees of the Ethiopian factories were not leaving for better jobs but because the work was perceived to be "unpleasant and hazardous to their health."⁵⁶ In sum, ADC's extremely low turnover rate is a telling indicator of the artisan employment experience.

The above studies also reinforce our finding that increased income alone does not account for improvements in the artisans' psychological well-being. A similar finding was derived by studying the workforces of two apparel manufacturing factories in the Dominican Republic. The work was very similar in the two factories but the employment experiences were quite different. Employees in Factory A were paid less than a basic needs

wage while employees in Factory B were paid a “living wage.” Additionally, employees in Factory B were managed respectfully and granted considerable workplace autonomy.⁵⁷

MacArthur Scale ladders were administered to both workforces with the following result: only 12% of the female employees of Factory A placed themselves on rung 6 or higher versus 75% of their counterparts in Factory B. A similarly wide spread was found on a self-rated health measurement. These findings are not abstractions. As the authors of the study note, “Decades of research have established that subjective social status and self-rated health are strongly associated with health outcomes.”⁵⁸

We close this section by calling attention to one final study. Abhijit Banerjee and colleagues assessed a program that used “sustainable self-employment activities”

as a pathway out of extreme poverty. They describe the program as “multifaceted” because “a holistic set of services” were provided (e.g., money, training and support, life skills coaching, and health information). The study documents significant improvements across a spectrum of welfare measurements, from food security and household assets to mental health and women’s decision-making. The researchers note that “the theory of change is that the combination of these activities is necessary and sufficient to obtain a persistent impact.”⁵⁹

The *on purpose* initiative shares the central feature of the foregoing theory of change: the ADC employment experience provides a similarly holistic set of benefits and services. And based on our findings, we believe it is obtaining a similarly persistent impact.



View from ADC to road and beyond

*Artisan Profile:***APPOLINARIE MUKARUGIRA, TEAM LEADER, BEADING**

Appolinarie did not pay much attention when she first heard about ADC employment opportunities. Work in a factory was a foreign concept, and in any case her days were already full: there were four children, two cows, a husband, and a home to take care of. There was water to carry and crops to tend. Like women the world over, she was already doing it all and could not imagine doing more. Yet even though her husband had a job at a nearby mine, money was tight—especially when four school fees came due all at once.

In the summer of 2015, ADC was behind on its production schedule and put out a call for temporary workers. Appolinarie applied. She thought that a bit of extra cash could give the family some financial breathing room, and then life would return to normal. To her surprise, Appolinarie liked the work right away, and especially enjoyed the camaraderie with other women. A few weeks later, ADC offered an opportunity to take the sewing test required for a permanent position.

Her husband protested immediately: It was impossible—how could she continue to work all day and take care of the land, the children, and the cows? She said, “I knew I couldn’t argue with him. I had to show him!” Rising early and staying up late, she kept up with everything. She was careful to always respect

him, and made sure he felt that he was still the head of the family. “I hear stories about bad husbands all the time,” she said. Appolinarie had a good husband, and his happiness was important.

By the time the test came around, he was on board. The household was running smoothly, the school fees were paid, and there was money left over to improve their home. The family now has a new kitchen, and they are gradually replacing the mud brick walls and dirt floor with bricks. Soon, they hope to have a solar panel to provide electricity. Appolinarie feels her voice is heard on all of the important household decisions.

Appolinarie is now a team leader in the beading department. When we visited in July of 2016 her team was preparing to begin work on a beaded clutch for the holiday season. The clutch required 10,000 beads to be hand-sewn, and each bag took a worker between nine and twelve days to produce. Appolinarie enjoys the intricate work, and imagines that the women who will buy the bags as very wealthy. She says a prayer each day that Kate Spade & Company customers will keep buying ADC’s products.

When asked what might be next, Appolinarie answered quickly: “Rabbits.” The whole family loves rabbit meat, but it is expensive. So she is saving to purchase two rabbits, which will quickly become more. The children will have fun caring for them, and dinner will be healthy and delicious.

Appolinarie no longer tends the land or cares for the cows. As she progressed at ADC and her salary increased, a young man was hired. In addition to paying him for doing chores, Appolinarie’s family is paying for him to attend school and learn how to read and write.

*Artisan Profile:***DONATHA MUKANKUBANA, STAMPING MACHINE OPERATOR**

The background of many ADC artisans is characterized by rural poverty and a life of subsistence agriculture. Donatha, however, is not typical. She grew up in Kigali, the capital city of Rwanda.

She purchased sweet potatoes from a market, rather than digging them from the soil. Donatha admits that unlike many of her colleagues at work, she has no idea how to grow yams and cassava.

In 2013, Donatha received a call from her uncle: he had heard that a factory was opening in Masoro and there might be jobs available—a chance for her to learn how to sew or embroider. Donatha made the trip from Kigali to Masoro to take the test, which involved intricate embroidery. She failed but tried again a few months later and passed.

Today Donatha usually operates a stamping machine, imprinting “Kate Spade New York” and “Made in Rwanda” onto leather bags. She has mastered almost every job on the factory floor. “She can do anything,” said Darius Habamenshi, General Manager Production.

The move to Masoro was frightening to Donatha. She was a city girl, used to being near her parents and five siblings, and used to the amenities of the city. She knew almost no one in Masoro and worried about how she would live. However, she soon found three roommates, all young and single artisans, and together they rented a house. It is a nice house, made of concrete versus mud bricks, and with electricity and

a TV. With four ADC salaries and no children to support, Donatha and her roommates can have a good time. They watch

movies together, and go to church, and sometimes visit Kigali on weekends. They even have a live-in housekeeper who helps with the cooking, cleaning, and carrying water from a community tap to the house.

Donatha is disciplined about saving, and her immediate goal is to pay the high school fees for her siblings. She studied entrepreneurship in high school and has been thinking about it ever since. Donatha likes business and people and feels confident about her abilities. When she has saved enough she plans to open a small shop, but in the long run she wants to own supermarkets.

Donatha is atypical in another way: she is the only artisan who did not ask for details about our children. We asked her if she wanted to get married. “Probably,” she said. “But not now. Not yet.”



PART FOUR

Business Model— Performance and Prospects

As a social enterprise supplier, ADC is expected to empower women and prosper as an independent supplier to multiple fashion brands. The previous sections examined the economic and psychological impacts of the ADC employment experience. This section is focused on the engine of those experiences—the company’s potential to thrive financially.

We emphasize *potential* because ADC is a small business in the early stages of its development. As such, it is premature to draw any conclusions regarding the sustainability of ADC’s business model. However, it is not too early to analyze the company’s financial performance thus far and examine ADC’s prospects for becoming a financially viable enterprise. We will do so in this section, and identify hurdles that remain on ADC’s pathway to sustainability. We conclude with observations regarding the replicability of this social enterprise supplier model.

Our main conclusions are as follows:

- ▶ The recently completed manufacturing facility should position ADC to

increase output and sharply reduce unit costs, a prerequisite to becoming price-competitive.

- ▶ ADC experiences offsetting cost disadvantages and advantages from its location in rural Rwanda.
- ▶ While long-term growth will require ADC to develop a number of capabilities and fortify its balance sheet, we have not identified any structural barriers to financial viability



Recently completed production facility

4.1 ADC'S BUSINESS MODEL: CURRENT CONDITIONS

Although ADC is transitioning to a full-package operating model, the company has operated since inception as a cut and make or CM supplier (see Part 1.7). As such, Kate Spade & Company provides the materials and ADC fabricates, packages, and delivers finished handbags. ADC is paid according to a “cost plus” arrangement in which Kate Spade & Company places orders for various quantities of ten or twelve different handbag styles each production period. The price for each style—the CM fee—is the sum of three factors: 1) an estimate of ADC’s costs to produce each style, 2) a profit allowance of ten percent of ADC’s costs, and 3) a \$0.50 per unit “social impact fee.” To illustrate this arrangement, presented below are the Pro Forma results for the Summer-2017 production period (12/26/2016 through 03/31/2017).⁶⁰

ADC’s ability to prosper as a supplier to multiple fashion brands depends on its ability to compete on price (among other factors including quality and timely deliveries). And competing on price requires the ability to charge prices that brands are willing to pay and earn a

profit in the process. Based on the above results, ADC has the ability to produce 7,000 units per production period at an average cost of \$19.24 per unit, sell them for an average price of \$21.57 each, and generate a profit of \$2.33 per unit. The \$19.24 cost per unit is a meaningful performance indicator, as is the company’s “cost structure” (i.e., the relationship between fixed and variable costs). However because ADC’s prices were determined by a formula, the company’s ability to compete on price is an open question.

In order to determine how price competitive ADC is, we considered how Kate Spade & Company evaluates the prices of its other handbag suppliers. Similar to the approach of other brands, Kate Spade & Company uses gross profit margin objectives to test the reasonableness of supplier prices. That is, if retail sales of a particular style generate gross profit margins that meet or exceed a specified target then the supplier’s price for that item is reasonable. We reasoned that since Kate Spade & Company is an established mid-luxury brand, the company’s target margins for handbags are a good proxy

ADC Pro Forma Results for the Production Period Ending March 31, 2017 (USD)				
			<u>\$/unit</u>	<u>% of Sales</u>
CM Fee	\$151,000		\$21.57	
Direct labor	\$43,800			
Packaging and sundry materials	16,900			
Factory overhead	<u>14,900</u>			
Cost of goods sold	<u>75,600</u>	<u>75,600</u>	<u>10.80</u>	
Gross margin		75,400	10.77	50%
Management labor	48,600			
Administrative overhead	<u>10,500</u>			
General and administrative	<u>59,100</u>	<u>59,100</u>	<u>8.44</u>	39%
Total Costs	<u>\$134,700</u>			
Cost per unit (7,000 units)	<u>\$19.24</u>			
Net Income	<u>\$16,300</u>		<u>\$2.33</u>	11%

for the margin objectives of other mid-luxury brands. So, if the sale of *on purpose* branded products during the Summer-2017 season can generate profit margins that meet or exceed the requirements of Kate Spade & Company, it is reasonable to expect that ADC can meet the price requirements of other brands.⁶¹

The retail gross profit margins on the styles produced by ADC for Summer-2017 are expected to be 7 to 16 percent lower than the target margins of Kate Spade

& Company. There are merchandising and marketing reasons for accepting below-target margins for small quantities of merchandise. However it would not be wise to assume that any other brand will relax its margin objectives. Indeed, Kate Spade & Company assumes they will not and, accordingly, expects ADC to close the gap over time. The plan for doing so is outlined and analyzed below.

4.2 ADC'S BUSINESS MODEL: A PUSH FOR EFFICIENCY

For companies at ADC's stage of development, price competitiveness is typically gained by increasing output with only modest increases in overhead. When they do, "economies of scale" are realized as more goods are produced from a stable investment in fixed assets and costs. In ADC's case, we expect economies of scale to arise from two sources.

First, ADC's fixed costs appear to be sized to support a larger organization. The main component, management labor, consists of a senior leadership team that covers all of the functional areas. But beyond adequate staffing, the individual leaders seem to be capable of handling more responsibility and managing a larger organization. We base that assessment on three rounds of interviews over the course of a year. Our assessment of the capabilities of ADC's leadership is shared by an embedded consultant and by the employees of Kate Spade & Company that work closely with the team.

The second reason we expect ADC to realize economies of scale concerns the company's direct labor costs. From inception through 2016, management prioritized the quality and timeliness of production. More recently the emphasis is shifting to efficiency with an informal goal of increasing output from 7,000 to 12,000 units per production period. The thinking behind this objective and the plans to achieve it are as follows:

1 Current conditions. Output of 7,000 units per production period has remained fairly constant as the

ADC workforce has gained experience. Based on time to completion and the pace of work, management estimates that the factory is operating substantially below capacity.

2 Production calendar. Each of the four seasonal production periods have been scheduled to yield (on average) 10 weeks of productive time and 3 weeks of training and/or holidays. However, less training is needed as the workforce has gained experience and as styles have become more repetitive. Management is currently scheduling between one and two weeks of additional production time per production period. This change is estimated to increase factory capacity by approximately 15 percent.

3 Capital assets and workflow. A new manufacturing facility was recently completed. By more than doubling the footprint of the handbag operation, the workforce can be arranged to streamline production. Additionally, ADC is adding 25 machines, including embroidery, cutting, and finishing devices. To make the most of these investments, outside experts are redesigning and reconfiguring the company's manufacturing process and helping to reengineer various production and administrative processes. In addition to streamlining the operation, management anticipates adding two assembly lines to the present five, without an increase in headcount.⁶²

4 Production management. ADC has in place a supervisory structure of coordinators, team leaders, assistant team leaders, and quality control specialists. Data are collected at each stage of the production process so the human and statistical resources are in place to support a system of accountability for daily production goals. Establishing production goals will mark a departure from current practices insofar as the pace of work has not been emphasized. Accordingly, management is collaborating with the

artisans to develop a system of reasonable objectives and appropriate rewards.

Kate Spade & Company employees are confident in ADC's ability to execute on these plans and sharply reduce the cost per unit produced. If all goes according to plan, they believe it is realistic to assume that output can be increased to 12,000 units per production period. Following is an estimate of ADC's cost structure at that production level.⁶³

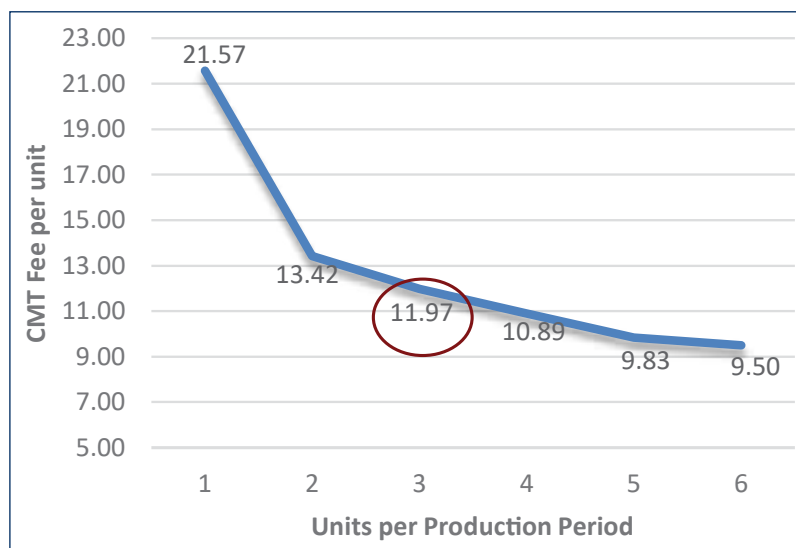
ADC Estimated Cost Structure At 7,000 and 12,000 Units Per Production Period		
	<u>7,000 units</u>	<u>12,000 units</u>
Direct Labor	\$43,800	\$43,800
Packaging & sundry materials	16,900	20,700
Factory overhead	<u>14,900</u>	<u>19,000</u>
Total production costs	<u>\$75,600</u>	<u>\$83,500</u>
Management	48,600	48,600
Administrative overhead	<u>10,500</u>	<u>12,600</u>
	<u>\$59,100</u>	<u>\$61,200</u>
Total costs	<u>\$134,700</u>	<u>\$144,700</u>
Number of units	7,000	12,000
Cost per unit	<u>\$19.24</u>	<u>\$12.06</u>
Decrease (\$ / %)		\$7.18 / 37%

The above model indicates that ADC's cost per unit would (hypothetically) decrease by \$7.18 or 37 percent as output increases from 7,000 to 12,000 units. As illustrated in the following table, a similar percentage reduction in prices is possible without affecting bottom line results.

ADC
Pro Forma Results
7,000 and 12,000 Units Per Production Period

	7,000 units		12,000 units		Decrease	
	\$	\$/unit	\$	\$/unit	\$/unit	%
CM Fee	<u>\$151,000</u>	\$21.57	<u>\$161,000</u>	\$13.42	\$8.15	38%
Direct labor	43,800		43,800			
Packaging & materials	16,900		20,700			
Factory overhead	<u>14,900</u>		<u>19,000</u>			
Cost of goods sold	<u>75,600</u>		<u>83,500</u>			
Gross margin	<u>75,400</u>		<u>77,500</u>			
Management labor	48,600		48,600			
Administrative overhead	<u>10,500</u>		<u>12,600</u>			
General & Admin	<u>59,100</u>		<u>61,200</u>			
Net Income	<u>\$16,300</u>		<u>\$16,300</u>			

The above model illustrates the relationship between volume and pricing. It is based on ADC's costs but the relationship is more or less standard for labor-intensive manufacturing firms. Unit costs would be expected to decline sharply as production increases. And the steepness of the decline would be expected to continue while the company, in effect, grows into its infrastructure of management and factory overhead. Thereafter, the decline would be expected to moderate as additional management and systems come on stream and as variable costs move in lockstep with production. The following graph illustrates how this trajectory may apply to ADC if we assume that 100 percent of the unit cost decreases are used to reduce unit prices.



The above graph is based on a model of ADC's cost structure over time. That is, the sharp decline in prices from \$21.57 to \$13.42 is explained by ongoing initiatives. Further reductions, from \$13.42 to \$9.50, result from the leveraging of ADC's fixed costs, primarily management compensation. We believe it presents a conservative estimate of ADC's financial dynamics at varying production levels. The circled figure is the point at which ADC would be marginally profitable producing 15,000 units per period and charging \$11.97 per unit. We estimate that a price point of approximately \$12 per unit is a threshold at

which ADC will satisfy the margin targets of Kate Spade & Company and other mid-luxury brands.

We conclude that there is a realistic scenario in which ADC will develop a necessary ingredient of sustainable business models: a financially viable cost structure that will allow the firm to compete on price. While we are not predicting the future, the scenario we modeled is not far-fetched. Indeed, it would seem that the effort to move ADC's production from zero to 7,000 units per month was more demanding than the challenges that lie ahead.

4.3 LOCATION: COST ADVANTAGES AND DISADVANTAGES

Material and freight were not considered in the above analysis because ADC was treated as a CM supplier. But the cost of those items has a direct bearing on ADC's ability to compete on price. Regardless of the supplier model, brands are concerned with the total (or "all in") cost of delivered finished goods. So, it warrants considering whether ADC can be competitive when the "all in" costs of its finished goods are taken into consideration.

We believe ADC would be able to source raw materials at competitive prices by dint of its relationship with Kate Spade & Company. However, ADC's Asian competitors do not have to bear the cost of air-freighting materials from Hong Kong to Kigali and finished goods from Kigali to Ohio, Hong Kong, and England. To illustrate the magnitude of this cost, following are the estimated transport costs for the Summer-17 production period. ADC's management and direct labor costs are included for purposes of perspective.

	Cost	Per unit cost
Freight	\$57,000	\$8.14
Management	\$48,600	\$6.94
Direct labor	\$43,800	\$6.26

Management believes that freight costs will decrease as volume increases and air carrier contracts

are renegotiated. Nonetheless, it will continue to pose a competitive disadvantage. Although there is a cost of transporting materials from Korea to Chinese handbag manufacturers, it does not involve airfreight across such a long distance. Similarly, the cost of transporting finished goods by sea is a fraction of the cost of airfreight. For purposes of this analysis, we would estimate that ADC will suffer a net disadvantage of \$6.50 per unit or approximately 15 percent of the total, all in, costs of finished and delivered goods.

A 15 percent cost disadvantage threatens a supplier's ability to compete on price. ADC is able to overcome this disadvantage with two cost advantages of operating in Rwanda. The first is labor. According to an industry insider, employees of handbag manufacturers in urban centers of coastal China earned roughly \$700 per month in 2015, over six times the median Artisan salary of \$113 per month.⁶⁴ That difference alone is sufficient to erase the burden. And this cost advantage should widen as labor costs in China escalate due to demographic factors. In contrast, Rwanda will have a growing labor force for many years to come.⁶⁵ The second advantage is ADC's ability to export to the US without tariffs. Depending on the item, provisions in the African Growth and Opportunity Act or the Generalized System of Preferences can sharply reduce or eliminate the burden: tariffs on handbags from Asian suppliers range from 4.5 to 17.5 percent.⁶⁶

4.3 PATHWAY TO SUSTAINABILITY

The conclusion we draw from this analysis is that ADC's cost structure is not out of line with the prices that hypothetical customers are willing to pay. So in theory, ADC has the potential to grow and prosper. In reality, competitors have a say in the company's future, as do the skill of its leaders, and countless other contingencies. Financial viability is one of many necessary conditions for sustainability. To illustrate ADC's potential to transition to a more sustainable footing, we identified five other conditions. The list is not exhaustive but it covers some particularly pressing challenges. Insofar as ADC management and Kate Spade & Company executives share our concern for these items, their efforts to address them are included.

- 1 Talent:** A seasoned executive with broad-based skills is needed to establish a sales function and lead a larger more complex organization. To that end, Daphne Kajugiira was recently hired for the position of Managing Director.
- 2 Scale:** ADC needs considerably more productive capacity to be a relevant supplier to multiple brands. The new production facility opened in early 2017 will help to address this challenge.
- 3 Procurement capabilities:** The raw materials for ADC's current production are being sourced by Kate Spade & Company employees. Future customers may work with ADC in the same fashion, but some may not have procurement expertise and others may prefer full-package suppliers. In any event, the ability to source materials will improve the company's prospects. To that end, procurement capabilities are being developed within ADC.
- 4 Capital:** ADC's cash flow has been so predictable that its balance sheet has not been a concern. That will

change as the company grows and acquires new customers. Of particular importance is access to ample working capital to support raw material requirements of multiple customers, to finance receivables, and to provide a contingency reserve. In anticipation of this requirement, a consultancy has been engaged to identify potential sources of funds.

- 5 Systems:** ADC is on the verge of outgrowing the planning, monitoring, and accounting systems in current use. Upgrading the essentials is critical to maintaining control of a significantly larger organization. Less urgent but competitively advantageous is the ability to employ resource planning systems. It is our understanding that the new Managing Director will coordinate a consultant-led effort to upgrade ADC to sophisticated information systems.

While these development needs are significant, ADC has at least two offsetting advantages. One is the artisan's ability to render intricate designs in embroidered beaded panels. Machines can approximate the appearance but not the cachet of handwork. Although the process is so time-consuming that the margins are thin, the capacity to deliver embroidered beaded panels stands to differentiate ADC and open doors to more profitable business.

A second competitive advantage is also a source of differentiation. ADC is an inspiring story with the potential to translate into customer facing benefits (e.g., brand affinity). And there is a roadmap in the marketing of *on purpose* branded merchandise. Importantly, the message has been crafted as "meet our supplier," as opposed to "look at what we, Kate Spade & Company, are doing in Rwanda." As a result, the door is open for other brands to do business with ADC and leverage its social purpose. And they can do so without concern that their purchases will rebound to the benefit of a competitor because ADC is employee-owned.

PART FIVE

Doing Business in Rwanda

Rwanda is an unlikely place to manufacture handbags for export. Logistically, the country is cut off from Atlantic ports by its eastern neighbor, the Democratic Republic of the Congo, and there is no rail transport to either coast. Ports on the Indian Ocean can be reached by truck through Kenya or Tanzania, but travel time is approximately 24 hours over some difficult roads. Unlike some landlocked countries (e.g., Switzerland), Rwanda faces serious impediments to exporting outside the immediate region. As a result, the country is one of the least trade-dependent countries in the world. The table below presents data on Rwanda's comparative position on a range of economic, governance, and development indicators.

Masoro is an unlikely place to manufacture anything. Although the drive time from the capital city of Kigali is only about 90 minutes, the last five miles of the trip are on a heavily rutted dirt road. The electrical service fails routinely, requiring ADC to maintain a backup generator. Water is only available through standpipes, requiring ADC to maintain storage tanks. And there are no sanitary sewer lines. The area is on a wireless internet network but the speeds can be painfully slow. In other words, a factory is the last thing one would expect to find in Masoro.

So why did Kate Spade & Company choose to locate ADC in Masoro, Rwanda? As explained by Sydney Price, Senior Vice President for Corporate Social Responsibility, the location was chosen in part *because* of the challenging



environment: “We wanted to do this someplace really hard,” she said. “That’s how we were going to learn how to do it.” Also, the company was committed to operating in a smaller community in a rural area so that the initiative’s impacts could be observed.

One reason that Rwanda presents a challenging environment is the 1994 genocide. With a population of less than 6 million at the time, approximately 800,000 people were killed and two million were displaced. Thus, most Rwandans above the age of 23 were affected directly, and many bear the psychological scars of families lost and childhoods destroyed. The effects are close to the surface: Rwandans routinely divide their lives into two periods: “before” and “after.” The lingering trauma explains why counseling was the most urgently needed module of the Life Skills Empowerment Program. In addition

to the human devastation, Rwanda's economy was in shambles. GDP contracted 50 percent and the country's Human Development Index (HDI),⁶⁷ an indicator of life expectancy, education, and per capita income, touched an all-time low.

The challenges of operating in the post-genocide environment presented Kate Spade & Company with an opportunity to make meaningful impacts. And Masoro, Rwanda satisfied each of the company's five country

selection criteria: 1) a safe environment for people and property, 2) a pro-business non-corrupt government, 3) favorable trade laws, 4) indigenous skills (e.g., embroidery and sewing), and 5) a rural area so as to have a meaningful impact on a community.

As for the current conditions in Rwanda, the following chart provides commonly referenced statistical indicators.

RWANDA IN CONTEXT					Rwanda's Rank	Comparable Countries
Indicators						
Per Capita Income	1	10			168/186	Zimbabwe, Haiti
Trade Dependence	2	11			187/210	Uganda, Uruguay
Political Rights & Civil Liberties	3	13			182/210	Cameroon, Afghanistan
Human Development Index	4	13			163/188	Togo, Haiti
Life Expectancy	5	22			153/196	Gabon, Turkmenistan
Ease of Doing Business	6	71			56/190	Puerto Rico US, Chile
Absence of Corruption	7	72			50/176	Mauritius, Korea (South)
Primary Student Enrollment	8	81			39/210	Philippines, Saudi Arabia
Economic Growth	9	93			13 /196	Sierra Leone, Laos

Data Sources:

- 1 Per Capita Income: World Bank database, http://data.worldbank.org/indicator/NY.GDP.PCAP.PP.CD?year_high_desc=true
- 2 Trade Dependence: World Bank http://data.worldbank.org/indicator/NE.TRD.GNFS.ZS?year_high_desc=false
- 3 Political Rights and Civil Liberties: Freedom House <https://freedomhouse.org/report/fiw-2017-table-country-scores>
- 4 Human Development Index: Human Development Report, http://hdr.undp.org/sites/default/files/2015_human_development_report.pdf
- 5 Life Expectancy: World in figures, *The Economist*
- 6 Ease of Doing Business: World Bank, <http://www.doingbusiness.org/rankings>
- 7 Perceived Corruption: Transparency International, http://www.transparency.org/news/feature/corruption_perceptions_index_2016
- 8 Primary Student Enrollment: World Bank, http://data.worldbank.org/indicator/SE.PRM.NENR?end=2013&locations=JP&start=1973&year_high_desc=true
- 9 Economic Growth: World in figure, *The Economist*

While Rwanda still ranks in the bottom 10 percent of all countries in GDP per capita and the bottom 13 percent on the HDI scale, virtually every indicator of economic performance and development has improved dramatically since 1994. Rwanda has experienced an average annual growth rate of 7.8 percent in real GDP for the decade ending in 2013, the 13th highest rate in the world. Primary school enrollment is exceptionally high, and significant progress has been made in combating a number of poverty-related diseases.

Rwanda is ranked 56th out of 190 countries in the World Bank's "Ease of Doing Business" index, which measures barriers to starting and running a business such as access to credit, trade barriers, regulatory efficiency, and legal structures. At 56, Rwanda is far above its neighbors including Kenya (92), Uganda (115), and Ethiopia (159).⁶⁸ Indeed, aside from the island nation of Mauritius, Rwanda ranks higher than all sub-Saharan countries. This performance is consistent with the country's relatively low level of corruption: with a Transparency International score of 50, Rwanda is tied with Mauritius and 2 points higher than South Korea.

The "Ease of Doing Business" has been apparent in the manner in which Rwandan officials have proactively supported ADC. For instance, an official from the central government in Kigali has traveled to Masoro to resolve local disagreements quickly and according to the law. Another example concerns a law prohibiting the importation of plastic bags into Rwanda, a serious problem for ADC's packaging requirements. When this matter was brought to the attention of officials in Kigali, the law was amended to permit imports of plastic bags that are subsequently exported with finished goods.

The lack of corruption and a business-friendly environment have contributed to Rwanda's consistently strong

levels of economic growth. On the other hand, the above Freedom House score indicates that Rwandans have low levels of political freedom and civil liberties.

These statistical indicators suggest that Rwanda, like many developing countries, is a complex mixture of characteristics. Global firms such as Kate Spade & Company consider a wide range of factors when deciding to source from various countries. As global value chains (GVCs) increasingly dominate production and international trade, growth and development prospects for developing countries will become more and more dependent on these decisions. A recent study by the International Monetary Fund concludes that:

For countries with a limited manufacturing export base and a large pool of labor such as those in Sub-Saharan Africa, [global value chains] provide a golden opportunity. By specializing on a specific segment of the production chain, each participating country can generate a portion of value added—while producing the whole product from scratch would never have been within reach in an increasingly competitive world.⁶⁹

While Sub-Saharan African countries now have a low level involvement with GVCs, there are promising signs. Fashion industry experts increasingly mention Africa as the next hub for apparel sourcing, given rising costs in China and problematic labor practices in Bangladesh.⁷⁰ While Masoro seems to be an unlikely location for a manufacturing operation, ADC illustrates that a village in rural Rwanda can participate in the GVC of a global fashion brand. ADC also illustrates that by intentionally targeting social outcomes, GVCs can transform lives for the better.

PART SIX

Kate Spade & Company Leadership



Craig Leavitt is Chief Executive Officer of Kate Spade & Company and a member of the company's Board of Directors.

Our Company's heritage includes a strong legacy of empowering women to help transform their communities through trade-based initiatives. on purpose is the execution of our mission. By helping women develop a business and become a global supplier, we are confident that their economic stability will have a positive effect on their entire community.



Mary Beech is Executive Vice President & Chief Marketing Officer of Kate Spade & Company. In this capacity she has guided the development of the *on purpose* label.

I love to see the impact the program is having on the artisans. Visiting the factory in Masoro means seeing them exhibit tremendous pride in their craftsmanship, the products they create, in their business, and in one

another. When we first began visiting three years ago the women rarely smiled. Now the space is filled with smiles and laughter—the kind that comes from pride in a job well done. I also love seeing the impact it has on our community of associates in NY and NJ, and in our stores around the world.



Sydney Price is the Kate Spade & Company Senior Vice President of Corporate Social Responsibility. She assumed this role after a career in fashion merchandising, including

leadership of merchandising for Kate Spade & Company. Sydney authored the *on purpose* strategy and has led the company-wide effort to establish ADC, the proof of concept model in Masoro, Rwanda.

Leading on purpose is an opportunity of a lifetime. I'm reassured that I'm making the most of it when we see signs that the strategy is working. An early sign was in December of 2013 when we could point to over 100 women artisans graduating into full time employment when previously unemployed. Or in May of 2016 when we learned that artisan households had created 88 new economic opportunities in the Masoro community. These signs indicate that Kate Spade & Company is making a real difference—not through charity but by helping to establish an employee

owned for-profit social enterprise and integrating it into our value chain as a true manufacturing partner.



Darlene Collova is the Kate Spade & Company Vice President of Global Trade Compliance.

ADC required a great deal of effort in the early stages—but it was worth it. We got to play a role in a project that's positively impacting lives. Every time we get feedback and see videos from our team, we can see what we helped to build. What we have accomplished makes me smile. I helped make a difference!

Brennan Lowery is a program manager with Karisimbi Partners providing day-to-day support to the ADC management team. She previously held a number of positions with Kate Spade & Company.

For the last year I have had a ringside seat at ADC. Among the things I have seen, nothing is more inspiring than the growth in the people. Sometimes I'm struck by something they do or say that reminds me how far they have come. I have a particularly vivid memory of one situation, the day the US Trade Representative visited ADC. Alphonsine



Brennan (front row, left) with the ADC management team

Mukeshimana gave a talk about the work in her area, in excellent English. She is a very quiet leader and can be shy. But on this day she was poised, confident, and utterly professional. What an inspiration!

Taryn Bird is a member of the Kate Spade & Company Corporate Social Responsibility team. She had previously worked with social enterprises in Rwanda and Ghana as a part of Indigo Africa and managed the Global Corporate Citizenship program at the US Chamber of Commerce Foundation. A regular presence in the factory, Taryn has played a hands-on role in building the business, developing its leaders, and liaising between Masoro and New York.

As we have evolved our collective work over the last four years, the women and men of ADC have continuously embraced change and innovation with open minds and a persistent desire to improve. Particularly moving are the women who have overcome so many obstacles and hardships in their lives but continue to treat each day and challenge with a fresh and positive perspective. They have shown me what it means to live with resilience and to be committed to self-improvement and empowerment each new day.



Taryn with General Manager Production, Darius Habamenshi (left) and Production Manager, Bruce Kayitare (right)

Endnotes

1. See United Nations Conference on Trade and Development, *Global Value Chains and Development 2013*, page iii. Available at http://unctad.org/en/PublicationsLibrary/diae2013d1_en.pdf (accessed 04/30/2017)
2. For the general point that factory work in GVCs may not benefit the disadvantaged members of society, see Lee, Joonkoo, Gary Gereffi, and Stephanie Barrientos. 2011. *Global Value Chains, Upgrading, and Poverty Reduction*. Briefing Note 3, November. With regard to the situation in Africa, see Goger, Annelies, Andy Hull, Stephanie Barrientos, Gary Gereffi, and Shane Godfrey. 2014. *Capturing the Gains in Africa: Making the Most of Global Value Chain Participation*. Duke Center on Globalization, Governance & Competitiveness. And with regard to the experience of women in particular, see Riisgard, Lone, Anna Maria Escobar Fibla, and Stefano Ponte. 2010. *Gender and Value Chain Development*. Danish Institute for International Studies.
3. Christopher Blattman, Stefan Dercon. *Occupational Choice in Early Industrializing Societies: Experimental Evidence on the Income and Health Effects of Industrial and Entrepreneurial Work*. NBER Working Paper No. Issued in September 2016. Available at <http://www.nber.org/papers/w22683> (accessed 04/30/2017)
4. Passariello, Christine, and Suzanne Kapner. 2015. "Search for Ever Cheaper Garment Factories Leads to Africa." *Wall street Journal*, July 1.2
5. Market capitalization is the value of a company's outstanding shares. Google Finance and Bloomberg Markets reported that Kate Spade & Company had 128.29 million shares outstanding and a closing price was \$23.75 on March 13, 2017.
6. Percentage is for the year ended January 2, 2016. Kate Spade & Company, Inc. 2015 – Form 10-K, at p. F-47, available at <http://www.katespadeandcompany.com/web/guest/annualreports> (accessed 1/22/2017).
7. Figures are for the year ended December 31, 2016. Kate Spade & Company, Inc. 2016 – Form 10-K, at p. 10, available at <http://www.katespadeandcompany.com/web/guest/annualreports> (accessed 3/12/2017).
8. Kruse, Douglas L., Joseph R. Blasi, and Richard B. Freeman. Does linking worker pay to firm performance help the best firms do even better? National Bureau of Economic Research Working Paper No. 17745, 2012. Available at <http://www.nber.org/papers/w17745> (accessed May 9, 2017).
9. Artisans sign standard employment agreements annually. They also sign supplemental agreements specifying job category and salary at the beginning of each production period.
10. Available at <https://www.ideo.org/approach> (accessed May 09, 2017)
11. See <https://herproject.org/herhealth>. Accessed January 22, 2017. Generic curriculum for this program is available at [http Francine Nituragire, Health Peer Educator](http://FrancineNituragire.com), leading a session on nutrition s:// herproject.org/resources/curriculum/herhealth/introduction. Accessed February 08, 2017.
12. See <http://www.akilahinstitute.org/>. Accessed January 22, 2017.
13. See <https://www.bsr.org/en/our-insights/blog-view/investing-in-workers-through-financial-education-herfinance-curriculum-laun>. Accessed January 22, 2017. Generic curriculum for this program is available at <https://herproject.org/resources/curriculum/herfinance>. Accessed February 08, 2017.

14. See <https://resonateworkshops.org/>. Accessed January 22, 2017.
15. Adhvaryu, Achyuta, Namrata Kala, and Anant Nyshadham. "Soft Skills to Pay the Bills: Evidence from Female Garment Workers." Working Paper October 2016 Available at http://jobsanddevelopmentconference.org/wp-content/uploads/2016/10/ADHVARYU-Namrata-Kala-Anant-Nyshadham-PACE_aug2016.pdf (accessed January 14, 2017)
16. This cooperative was created in 1995 to assist widows of the 1994 genocide. It continues to play a prominent role in the Masoro community. See, for example, <https://heifer12x12.com/tag/lassociation-dushy-igikirane/> (accessed on May 9, 2017)
17. Masoro is one of 17 administrative units called "sectors" in the Rulindo District of the Northern Province of Rwanda. The population was estimated to be 20,733 in a 2012 census. See <http://statistics.gov.rw/publication/phc-2012-district-profile-rulindo>.
18. Gary Gereffi and his colleagues at Duke University have detailed the practices at these various levels of development in the apparel value chains. See, for example, http://www.cggc.duke.edu/pdfs/2011-11-11_CGGC_Apparel-Global-Value-Chain.pdf (accessed May 9, 2017)
19. Cornelia Staritz and Stacey Frederick. Harnessing Foreign Direct Investment for Local Development? Spillovers in Apparel Global Value Chains in Sub-Saharan Africa. Duke University GVC Initiative Working Paper, 2016. Available at http://www.oefse.at/fileadmin/content/Downloads/Publikationen/Workingpaper/WP59_FDI-spillovers-SSA-apparel.pdf (accessed on May 9, 2017)
20. "on purpose" is a registered trademark of Kate Spade & Company.
21. Noting that there were 29 different definitions of "empowerment" in the literature in 2005, Masset describes the concept as multidimensional, contextually determined, and inherently difficult to measure. Our formulation of empowerment is not intended to resolve the matter but to explain how we are using it. See Masset, E. (2015) Measuring empowerment in rural India using vignettes. *Journal of Development Effectiveness*, 7(3), 346-356.
22. United Nations Foundation. A Roadmap for Promoting Women's Economic Empowerment, pp. ix Available at http://www.womeneconroadmap.org/sites/default/files/WEE_Roadmap_Report_Final_1.pdf (accessed May 9, 2017)
23. *ibid*, 45.
24. According to the National Institute of Statistics of Rwanda, subsistence agriculture accounts for 72 percent of the employment base. National Institute of Statistics of Rwanda (NISR), Rwanda Poverty Profile Report, 2013/14, August 2015.
25. Employment statistics are provided in World Bank. Rwanda Economic Update February 2016 Issue no. 9, Rwanda at Work. Inflation rates in the intervening years were 6.3% in 2012, 1.8% in 2013, 4.2% in 2014, and 2.5% in 2015. The nominal rate for the 4 years was 14.8%. To account for the effect of compounding, we used 16.5%. Therefore, 18,175 RWF in 2011 inflates to 21,173 in 2016.
26. World Bank data is accessible at <http://data.worldbank.org/indicator/NY.GNP.PCAP.CD?locations=RW> (accessed May 9, 2017)
27. The factor for translating a quantity of Rwandan Francs to Purchasing Power Parity was 270.7688 in 2015. The most recent World Bank data is available at <http://data.worldbank.org/indicator/PA.NUS.PRVT.PP?locations=RW> (accessed May 9, 2017)
28. The poverty rate for Rwanda is reported at <http://povertydata.worldbank.org/poverty/country/RWA>. (accessed May 9, 2017)
29. The after-tax base artisan salary in PPP per day was derived as follows: 56,826 FRw per month or 1,869 FRw per day (30.4 days per month), divided by 270.7688 equals \$6.90. This is \$1.20 or 21 percent higher than \$5.70, the poverty rate for a family of 3 (\$1.90 per day time 3).
The after-tax salary of an assistant team leader (sewing) in PPP per day was derived as follows: 66,654 FRw per month or 2,193 FRw per day (30.4 days per month), divided by 270.7688 equals \$8.09. This is

- \$4.49 or 6 percent higher than \$7.60, the poverty rate for a family of 4 (\$1.90 per day time 4).
30. "Poverty" is defined as the inability to purchase a basic basket of food and other necessities, RWF 159,375 in January, 2014 prices. "Extreme poverty" is defined as the inability to purchase the food component, RWF 105,064 in January 2014 prices. Expressed in PPP (2014 conversion factor of 264.631), the poverty threshold was \$588.60 (\$1.61 per day) and \$388.02 (1.06). National Institute of Statistics of Rwanda (NISR), Rwanda Poverty Profile Report, 2013/14, August 2015, pp 38-39. Available at www.statistics.gov.rw/file/4135/download?token=cylGgLRl (accessed May 9, 2017)
 31. We estimated the non-ADC salaries on the basis of information provided from multiple sources. One particularly valuable source was Benjamin Ngendahimana, Branch Manager of the Masoro branch of Sagar Ganza (a bank and micro-credit lender). His information was based on the directly deposited payrolls of local employers and the loans he processes. Another was James Setzler, an architect and general contractor with ongoing projects in the Masoro community. We interviewed the general manager of the local mine to get an understanding of the single largest source of non-agricultural employment in the area. And we learned about prospects in the agricultural sector from artisans. Many of them had worked on farms before joining ADC, some are employing workers on their family land, and some of their family members continue to work the land of others. Through these and other sources, we were able to cross-check information and compensate for the lack of any published salary data.
 32. Wages in the Masoro area are quoted in net, after-tax, values. Our sources for these alternatives were unable to provide pre-tax values. Likewise for the artisans: although they knew their take home pay, none of our interviewees could recall their gross salaries.
 33. National Institute of Statistics of Rwanda (NISR), Rwanda Poverty Profile Report, 2013/14, August 2015. pg. 41 Available at www.statistics.gov.rw/file/4135/download?token=cylGgLRl (accessed May 9, 2017).
 34. The World Bank reported that consumer price inflation in Rwanda was 4.2 percent in 2014 and 2.5 percent in 2015. 6.81 percent is used in order to account for compounding of annual rates over the two year period. The World Bank. Rwanda Economic Update. February 2016, Issue no. 9. Rwanda at Work. Available at: <https://openknowledge.worldbank.org/handle/10986/24023> Accessed April 30, 2017.
 35. National Institute of Statistics of Rwanda (NISR), Rwanda Poverty Profile Report, 2013/14, August 2015. pg. v. Available at www.statistics.gov.rw/file/4135/download?token=cylGgLRl (accessed May 9, 2017)
 36. This survey was conducted in April of 2016, shortly before the base artisan salary was increased from RWF 2,200 per day to RWF 3,000 per day, a 36 percent increase that affected 17 percent of the artisans.
 37. The minimum/maximum/mean/standard deviation for artisans and community members were 0/5/1.43/76 and 0/7/1.52/1.05, respectively.
 38. Goger, Annelies, Andy Hull, Stephanie Barrientos, Gary Gereffi, and Shane Godfrey. 2014. Capturing the Gains in Africa: Making the Most of Global Value Chain Participation. Duke Center on Globalization, Governance & Competitiveness. Available at <http://www.capturingthegains.org/pdf/Capturing-the-gains-in-Africa-2014.pdf> (accessed May 9, 2017)
 39. Cornelia Staritz and Jose Guilherme Reis, Global Value Chains, Economic Upgrading, and Gender. The World Bank, 2013. Available at http://www.capturingthegains.org/pdf/GVC_Gender_Report_web.pdf (accessed May 9, 2017)
 40. There is a large body of research examining the social constraints that limit the gains for women from economic growth and development initiatives. For a review, see Mayra Buvinic and Rebecca Furst-Nichols, Promoting Women's Economic Empowerment: What Works? Policy Paper 7087, World Bank, November 2014. <http://documents.worldbank.org/curated/en/864621468337180679/Promoting-womens-economic-empowerment-what-works> (accessed May 9, 2017)
 41. Cornelia Staritz and Jose Guilherme Reis, Global Value Chains, Economic Upgrading, and Gender.

- The World Bank, 2013. Available at http://www.capturingthegains.org/pdf/GVC_Gender_Report_web.pdf (accessed May 9, 2017)
42. Statistical significance was evaluated using a multi-variate analysis of variance, controlling for age, gender, education, and marital status. The multi-variate analysis of variance allows for the fact that these perceptual measures may be empirically correlated given that the constructs they are measuring are conceptually close. The multivariate analysis controls for correlated errors. Except as noted in Part 3.3b, this analysis showed that all differences reported below are statistically significant. Also, the differences in anxiety reported in Part 3.2 reduced to marginal significance. However, the multivariate analysis had a reduced sample size (N=156 for the community and N=50 for the artisans). This results from the fact that while each question may only have a few missing data points, across all the questions there are only complete data for 50/151 or 33% of the artisans. A univariate analysis of variance on the anxiety measure, controlling for age, education, gender, and marital status, showed the differences to be significant.
 43. According to Landefeld and colleagues, "In almost 200 studies over the last fifteen years, scores on this instrument consistently and strongly demonstrate a positive correlation with health outcomes across a wide range of domains, including obesity, depression, salivary cortisol levels, susceptibility to infection, functional status, and mortality." Landefeld, John C., et al. "The association between a living wage and subjective social status and self-rated health: A quasi-experimental study in the Dominican Republic." *Social Science & Medicine* 121 (2014): 92. For a recent review of the MacArthur Scale, see Nobles, Jenna, Miranda Ritterman Weintraub, and Nancy E. Adler. "Subjective socioeconomic status and health: relationships reconsidered." *Social Science & Medicine* 82 (2013): 58-66.
 44. Cohen, S., Alper, C.M., Doyle, W.J., Adler, N., Treanor, J.J., Turner, R.B., 2008. Objective and subjective socioeconomic status and susceptibility to the common cold. *Health Psychol.* 27, 268-274.
 45. Chen, Bonnie, et al. "Subjective social status and functional decline in older adults." *Journal of general internal medicine* 27.6 (2012): 693-699.
 46. Kopp, M., Skrabski, A., Rethelyi, J., Kawachi, I., Adler, N.E., 2004. Self-rated health, subjective social status, and middle-aged mortality in a changing society. *Behav. Med.* 30, 65-70.
 47. DeSalvo, K.B., Bloser, N., Reynolds, K., He, J., Muntner, P., 2006. Mortality prediction with a single general self-rated health question. A meta-analysis. *J. Gen. Intern. Med.* 21, 267-275.
 48. All pictures scales we created were extensively pre-tested (February, 2016) on a sample of workers and community members, and refined until feedback suggested they were comprehensible.
 49. For the latter categories of increased or decreased spending we created a scalar variable by summing across all 5 categories in order to conserve degrees of freedom.
 50. Cornelia Staritz and Jose Guilherme Reis, *Global Value Chains, Economic Upgrading, and Gender*. Washington, D.C.: The World Bank. January 2013. Available at http://www.capturingthegains.org/pdf/GVC_Gender_Report_web.pdf (accessed May 9, 2017)
 51. We evaluated the relationship between skills development and well-being by regressing confidence, power, anxiety and subjective social status on the two categories of skills the artisans could be accruing (technical and interactional). We used step-wise regression so that we could control for age, marital status, education, and all material well-being measures.
 52. Cornelia Staritz and Jose Guilherme Reis, *Global Value Chains, Economic Upgrading, and Gender*. Washington, D.C.: The World Bank. January 2013. Available at http://www.capturingthegains.org/pdf/GVC_Gender_Report_web.pdf (accessed May 9, 2017)
 53. To test for statistical significance, we ran a multivariate analysis of variance controlling for age, education, and marital status. We executed planned

- comparisons between each of the 3 groups (using a Tukey's LSD correction) to determine whether or not a group average was significantly different from the others.
54. The artisan population included three men but for this analysis we omitted their responses.
 55. 2012 Annual Report. Fair Labor Association, Aug. 2013. Web. <http://www.fairlabor.org/report/2012-annual-public-report> An expert in the handbag manufacturing industry in East Asia confirmed that this finding is applicable to handbag fabrication plants.
 56. Christopher Blattman, Stefan Dercon. Occupational Choice in Early Industrializing Societies: Experimental Evidence on the Income and Health Effects of Industrial and Entrepreneurial Work. NBER Working Paper No. 2263 Issued September 2016. Available at <http://www.nber.org/papers/w22683> (accessed 04/30/2017)
 57. Factory B is documented in Kline, J., & Soule, E. (2014). Alta Gracia: Four years and counting. *Reflective Engagement Initiative*. Available at <https://ibd.georgetown.edu/Alta-Gracia> (accessed 05/08/2017)
 58. Landefeld, John C., et al. "The association between a living wage and subjective social status and self-rated health: A quasi-experimental study in the Dominican Republic." *Social Science & Medicine* 121 (2014): 91-97.
 59. Banerjee, Abhijit, et al. "A multifaceted program causes lasting progress for the very poor: Evidence from six countries." *Science* 348.6236 (2015): 1260799.
 60. Data for this period consists of budgeted costs and targeted production. To verify its reliability, we confirmed that the costs are based on actual expenses for the third quarter of 2016; and we confirmed that the production estimates are realistic. To verify that the information is representative of ADC on a forward looking basis, we confirmed that any anticipated cost increases were included; and we confirmed that the planned production is a typical product mix. In sum, we believe our analysis is based on a reliable depiction of ADC's cost structure and productive capacity in the immediate future.
 61. Target profit margins are established at full retail sales prices. Markdowns are ignored in our analysis because Kate Spade & Company executives indicated that the sell-through rate of *on purpose* merchandise is consistent with the rates of other collections.
 62. For example, the current configuration has sewing machine operators in a separate part of the factory. As a result, work-in-progress must be moved in batches from the assembly lines to the sewing areas, then back to assembly, and so forth multiple times. With the new space, sewing stations will be embedded in the assembly lines.
 63. Our estimate includes the following assumptions: 1) larger purchases of packaging and sundry materials will reduce the cost per unit, 2) the new facility and additional machinery will cause a step increase in factory overhead, 3) higher production volumes will cause a step increase in administrative overhead, and 4) headcount and compensation levels will not change. These assumptions may not be born out but the point of this exercise is to get a rough idea of ADC's costs at higher volumes, the determining factor in the company's ability to compete on price.
 64. We cannot draw precise conclusions regarding relative labor costs without accounting for productivity differences. However, we are confident based on observation and discussion that productivity differences will not eliminate the entire difference of \$587 per worker per month or approximately \$88,000 for 150 ADC artisans.
 65. The median age of Rwandans is 18.2, among the lowest in the world. Pocket World in Figures, 2016. *The Economist*.
 66. Tariffs can be found at <https://hts.usitc.gov/>. The HTS code for handbags is 4202.
 67. The Human Development Index (HDI) is a "summary measure for assessing long-term progress in three basic dimensions of human development: a long and healthy life, access to knowledge and a decent standard of living." <http://hdr.undp.org/sites/default/files/Country-Profiles/RWA.pdf>
 68. World Bank. *Doing Business* 2017. The index incorporates factors such as the tax and regulatory system,

- contract enforcement, construction permits, and export and import procedures. Available at <http://www.doingbusiness.org/data/exploreeconomies/rwanda> (accessed May 9, 2017)
69. IMF 2016. Trade Integration and Global Value Chains in Sub-Saharan Africa: In Pursuit of the Missing Link, 21. Available at <https://www.imf.org/external/pubs/ft/dp/2016/afr1602.pdf> (accessed May 9, 2017)
70. Passariello, Christine, and Suzanne Kapner. 2015. "Search for Ever Cheaper Garment Factories Leads to Africa." Wall street Journal, July 1.2

A Social Enterprise Link in a Global Value Chain

Performance and Potential of a New Supplier Model

Edward Soule • Catherine Tinsley • Pietra Rivoli