

The Business as Mission (BAM) movement has matured significantly since the 1980s when authors like Ed Silivoso began highlighting commerce as an integral part of our Great Commission. Forerunners like Mats Tunehag facilitated the documentation of case studies and national SWOT analyses that gave practical guidance for starting and running businesses dedicated to expressing the Kingdom of God on Earth. More recently, organizations such as YWAM Emerge and Faith-Driven Investors (FDI) have begun providing physical and virtual forums for BAM practitioners to gather and explore collaboration opportunities. The resources are finally mobilizing to provide critical support to that part of the body of Christ that is “anointed for business”.

BAM companies are structured and operated in a wide variety of ways. Some are the income-producing arms of non-profits providing social services, while others are for-profit entities that generate a return on capital for investors. They serve a range of industries including agriculture, healthcare, manufacturing, and hospitality. Their missional activities range from simply demonstrating ethical management practices in corrupt parts of the world, to serving as the commercial hub for entire Christian communities. There are as many BAM expressions as there are opportunities for business to reach beyond the church walls to touch suppliers, customers, government, academia, the media, and all other parts of society.

Yet as far as the movement has come, much opportunity remains. Christian entrepreneurs mostly operate small businesses, whether by choice or because they have limited access to financial and other resources critical to growth. Their connection to consumer markets is thus often held hostage by much larger organizations possessing supply chain leverage, and their small volumes consign them to being price-takers with a minimal slice of overall value chain profits. They are exposed to local market risk with no ability to shift production or distribution away from depreciating currencies or corrupt regulatory bodies. Larger competitors with adaptive supply chains can better respond to changing consumer demands, and enjoy economies of scale that allow them to undercut higher-cost suppliers. Small businesses operating on market fringes have always struggled to maintain financial sustainability. These challenges may be acceptable, even necessary, for businesses giving quiet cover to missional work in closed countries, but they are a real impediment for those business persons seeking to broadly impact society. Like it or not, profits convey influence and voice, and social impact is a function of both.

How then can we position missional companies for greater commercial resilience? How do BAM companies managing to a triple sustainability bottom line (social/spiritual, economic, and environmental) compete for working capital against those that exist solely to maximize financial return to the suppliers of that capital? Importantly, how do we apply known business best practices in ways that enhance rather than dilute the heart and focus of the Great Commission?

This paper suggests several strategies, with the understanding that each must be locally adapted:

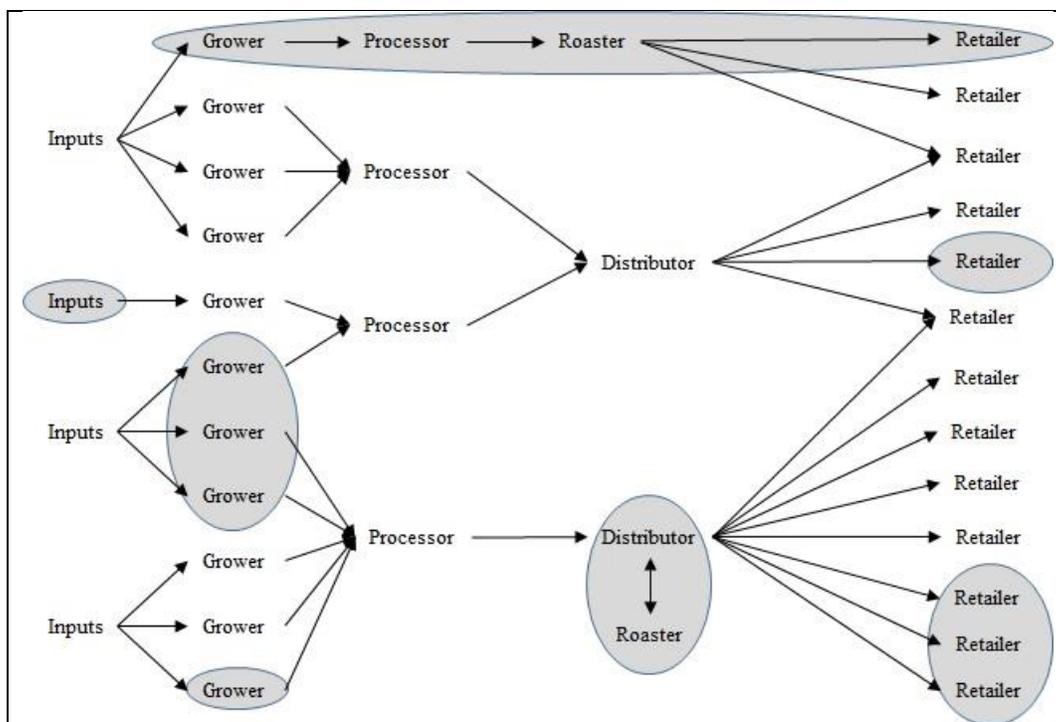
1. Smaller BAM companies should become part of Christian value chains that vertically integrate as much supply and distribution as possible to gain market control and maximize margin capture. Each participating organization leverages its comparative advantage to help maximize the performance of the whole.
2. Achieving value chain scale requires collaboration among participants that must rest first on a foundation of community love and trust.
3. Greater scale demands more sophisticated planning and execution business practices. These capabilities can be supplied by a shared service when expertise does not exist within the value chain.
4. Investing in value chains requires that capital transition from loans and donations to strategic social business private equity placements. Separating ownership and governance mitigates asset abuse while giving a broader stakeholder group an enhanced missional voice in value chain operating and financial decisions.

## Transition from Companies to Value Chains

A value chain is simply a connected group of value-adding suppliers looked at from the perspective of the total value delivered to the end customer. Value chain designers consider how to best include each supplier so it can add the greatest possible value appropriate for their position(s) in the network. They also reconfigure the supply network over time based on actual performance. The total income to the value chain net of its aggregated costs is the collective profit. Profit is allocated as part of value chain governance to various purposes such as reinvestment for growth, profit distribution to investors, and financing of missional activities.

In some industries, there are few BAM participants, and a given company occupies a lonely niche. The owners, managers and investors should regularly look for strategic expansion/acquisition opportunities evaluated through the lens of a classic Strength-Weakness-Opportunity-Thread (SWOT) analysis. Solid business plans that sustainably provide for a triple bottom line impact should be seriously considered for funding by the Christian investment community.

In other industries, numerous BAM organizations/projects are part of fragmented eco-systems. The diagram below illustrates a fictional coffee industry network with individual BAM company operations circled and shadowed. There is only one integrated end-to-end supply network. More typically, companies work with a few growers or operate standalone retail shops. There are numerous gaps in which the BAM companies depend on others controlling product movement, pricing, inventory, and margins. Our objective is to re-organize this network and fill in the gaps to take back the value chain margins and maximize societal impact.



The art of value chain design lies in applying core principles in ways that work for all participants in a group win.<sup>1</sup>

- *Aggregate everything.* Volume allows access to larger distribution channels, leverages economies of scale, allows broad dissemination of best agricultural practice, and provides more options for supply/demand balancing.

<sup>1</sup> Coke, James. "Economic Empowerment in the Agricultural Supply Chains of Lesser Developed Countries", 2012.

- *Vertically integrate as much of the value chain's operations as possible.* When demand exceeds supply, processors and roasters have pricing power over distributors. When supply exceeds demand, distributors have the pricing power. Controlling both allows the value chain to best match supply and demand for optimal profits and customer satisfaction.
- *Optimize intermediary processing to balance transportation cost, harvest scheduling, and storage requirements.* This is often accomplished by distributing processing closer to the source of supply and turning inventory more quickly in smaller batches. Inventory storage is used at various positions in the network to synchronize supply with consumer demand patterns.
- *Differentiate products.* Branding of commodity products is used to convey unique value to the consumer, such as premium coffee from indigenous peoples or sponsorship of local sustainability projects (eg., sanitation, health, education). Alternatively, the formulation of specialized food and industrial products from commodity crops captures value added pricing from smaller markets. The key is matching agricultural potential to non-traditional market opportunities (eg., fermentation of saccharified starch to industrial intermediate chemicals rather than food-grade paste).
- *Pursue missional opportunities by owning or interacting closely with growers and retailers.* Evangelists functioning as crop buyers are uniquely positioned to meet with farmers, cooperatives, village leaders, and community influencers. They can also teach farmers best practices that bring blessing to their land and household.
- *Govern the supply network as one virtual organization.* Negotiating buy-sell (transfer) pricing between BAM entities is difficult and can lead to contests over who should capture the margins. This is avoided by a) recognizing system-wide revenue at the point of final product delivery, 2) paying every entity's reasonable costs (allocated fixed plus variable) from those revenues (or a working capital pool if cash flow timing is an issue), and 3) distributing profits as a group wherever needed most. The governance system must reflect the reality that not all of a BAM company's activity may be a part of the value chain.

A facilitator brings all the potential supply network participants to the table. Ideally, this is an entrepreneur or investor from within the industry trusted by all the parties. A value chain map like that diagrammed above is used to model various scenarios for collaborating and networking the various operations. The group identifies what activities are needed to build out the most effective supply network, identifies what part each company can play, and targets missing parts for acquisition or new company development. Some configuration of existing company operations may be required. The goal is to design flexible, end-to-end supply networks that can sell into additional markets and increase the financial and spiritual impact potential for everybody.

There may also be opportunities for horizontal expansion in which the vertically integrated value chain takes over supply of its own key inputs. Examples include:

- Raw material production (minerals mining, seed propagation)
- Resource management (energy, water, waste remediation)
- Logistics (transportation, customers clearing and brokering, warehousing)
- Packaging (box production, printing and labeling)
- Equipment support (maintenance, repair, replacement parts fabrication)

Operating these businesses allows the BAM value chain to impact the participants in supply chains serving other, unrelated industries. For example, the ability to fabricate basic replacement parts might lead to creation of an outsource contract manufacturing company that specializes in 3D printing or working exotic metals. The opportunities are endless to the extent there is a market within reach and retained value chain investment capital available to deploy.

## Operate as a Community

Covenanted communities of Jesus followers come in all forms; from monastic orders to communal villages to church congregations and business fellowships. Each is an affinity group organized around a common purpose or need. They are not sovereign in that they are subject to the laws of the nations in which they live, but they are otherwise autonomous and self-governing voluntary associations based on trusted relationships. Similarly, BAM companies are simply legal associations of God's people doing business together in daily obedience to Messiah's wishes. A missional value chain is also a voluntary, self-governing association of BAM companies.

Followers of Jesus who are called to business understand that their calling and gifting to bring resources into the community is sovereignly given, and not of any more value than mercy works or prophecy. All is God's, and business persons as financial stewards have an important role a) multiplying community assets through monetary velocity, and b) enabling the work of others through bottom-up Biblical finance, not top-down socialism.<sup>2</sup>

Communities can always find a way to do business together; just as they eat, worship, and raise children together as part of community life. But a lone business or entrepreneur rarely collaborates successfully with others absent the community ethos. This becomes readily apparent when negotiations around value chain integration start. BAM entrepreneurs, investors, and others gathered around the value chain map need to be humble in this understanding to allow group discernment to reveal God's perfect plan for the group. They need to be in trusted relationship with one another as a pre-requisite for doing business together. If the folks around the value chain table are protecting turf, they will never be able to decide how to align everyone's incentives and how to allocate collective earnings.

For three thousand years, the Jewish people have been blessed by God to be leaders in finance, the arts, and the sciences way out of proportion to their numbers. This is certainly a result of being people covenanted to the principles of Torah, but it is also because they share a reality of persecution that demands mutual support. They became successful merchants and bankers during the Babylonian captivity based on a culture of trust. No other group could write a letter of credit in China and have it honored in France six months later. They were also great mercantilists who bought from their own while selling to foreigners, thus accumulating the pool of capital that funded Christian kings during the Middle Ages.<sup>3</sup> Christian community and commerce should be no different.

## Proactively Manage the Supply Network

Managing an end-to-end supply network involves plenty of daily execution activities that need to be coordinated among parties. Those found in the food /cold chain include:

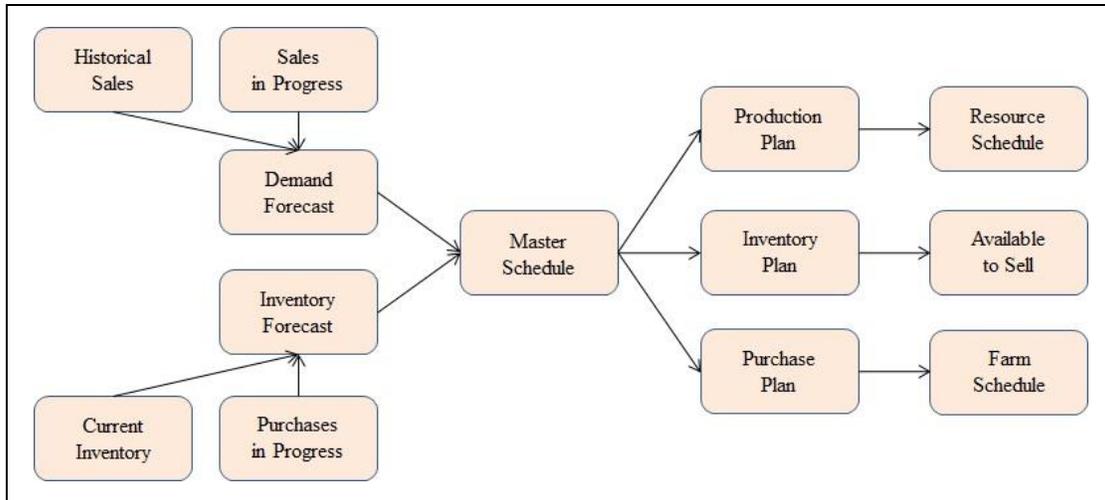
- Planting, cultivating, and harvesting crops
- Converting plant material into food and other products
- Moving material among all the cultivation, processing, warehouse, and retail locations
- Complying with government requirements for traceability, export/import, and food safety testing
- Contracting and paying participants, collecting from customers, and publishing accounts

Good planning is required to ensure that daily execution runs smoothly. The diagram below illustrates some of the planning tasks that balance demand and supply throughout the value chain. They ensure that farmers do not harvest all at once, producers do not exceed capacity, sufficient transportation is available, and inventory is never too high or too low to provide cost-effective demand satisfaction. It takes some analysis to know when to allow customer demand to set reorder levels and when to push forecasted needs to distribution warehouses. Long lead times for transport, customs clearance, product drying, and so on are factored into the schedules alongside the customer's own order fulfillment lead time. Too much inventory stuffed into the pipeline ties up valuable working capital and leads to product spoilage. Working capital dictates trade finance requirements.

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<sup>2</sup> Coke, James. "Ekklesia Economy", 2015, p.33-34, 53, 74

<sup>3</sup> Ibid., p.13-14



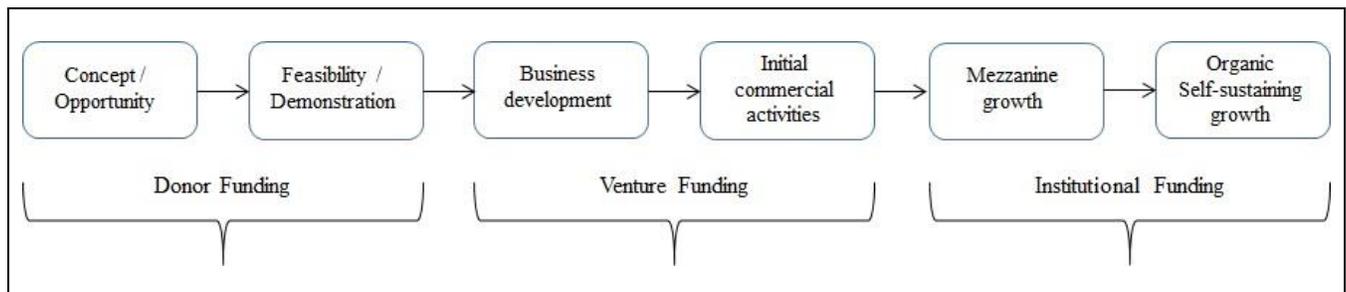
Unless the full supply network is simple, regional, and involves minimal product differentiation/postponement, computerized support is required to do all the planning, tracking, and reporting required. Additionally, technologies like RFID for product identification and monitoring linked with GPS movement tracking can be helpful in quickly identifying deviations from the plan that are going to unbalance supply and demand. Laboratory sampling of raw, intermediate, and final product is essential for quality assurance that minimizes potential legal liability. Blockchain-based traceability guarantees customers get what they expect.

All of this takes sophistication that most BAM companies possess only in part. For that reason, it may be helpful to offer a shared service to BAM value chains that provides the required capabilities so they can focus on their daily operations and ministry purpose. This would centralize the expertise and analytic infrastructure to gain further economies of scale.

Scale Investment

Christians are known globally for their generous giving and support of humanitarian missions. They fund through donor organizations a wide range of economic development initiatives, both faith-based and secular. Some of this funding makes its way to Christian entrepreneurs who are also aided by ministries that provide mentoring.

Christian investment is small in comparison with this donor funding, but fills a critical gap between donor-financed proofs of concept and mezzanine growth, especially for faith-based initiatives screened out by secular funding sources.<sup>4</sup> Much of this investment takes the form of loans, whether micro or venture, that are intended to be repaid out of business earnings. Many of the recipients have no collateral, but loss rates to investors are low since entrepreneurs typically turn to family and friends to help meet the required payoffs if the business fails.



<sup>4</sup> Coke, James. “The Social Business Revolving Aid Fund: A Tool for Economic Empowerment in Lesser Developed Countries”, 2012, p.4.

Many BAM companies start with some mix of donor and debt financing. They grow to a point where larger amounts of working capital are required and find themselves in the market for venture money. Entrepreneurs must choose between plateauing and accepting expensive/constraining investment. In too many cases when anticipated market growth does not appear, these arrangements result in the company's assets being liquidated to provide the investors with their agreed return.

We cannot consolidate value chains and grow BAM companies to an impactful size in this way without compromising their missional autonomy. If we want them to scale for impact, then we need to scale their capitalization. Additionally, providing finance to a virtual value chain instead of its member businesses requires a different approach to structuring the legal entities and their governance. Here are some thoughts on moving BAM finance to the next level:

- *Use private equity rather than debt.* This forces investors to be more rigorous in their investment screening, more active in company governance, and more patient seeing a cash return on their capital. The benefit is more robust stakeholder alignment, improved access to additional wraparound support when needed, and less risk of a forced liquidation. Private equity is an investment in the full sponsoring community, and partnership with its mission. Importantly, it allows us to avoid the Biblical prohibitions on use of debt that indentures families and tribes. One approach to distributing investor return is to provide dividends as a pre-agreed share of the profits being allocated until the principal is returned, after which dividend share follows a declining scale.
- *Investors also need to collaborate to reduce risk.* Investments in the millions rather than hundreds of thousands of dollars will be required to consolidate and grow some worthy value chains. Few Christian funds can manage this exposure, so the investment community needs to develop a protocol for more aggressively working together to mobilize the necessary capital. From the perspective of the entrepreneur, it is much more efficient to pitch a consortium with rapid follow-on due diligence.
- *Leverage a holding company when investing in the value chain itself.* It is sometimes appropriate to invest at the value chain rather than individual company level, which allows the network to add and delete collaborating organizations and services as needed without changing the capital structure. A (typically foreign) holding company provides working capital wherever it is needed in the value chain in exchange for a claim on specific assets that cannot be sold by the companies that may be using them. It may passively direct the investments and hold the assets, or actively manage network wide activities by receiving the end customer revenues and directly paying the various BAM company costs.
- *Separate ownership and governance.* We have made the case that community is a pre-requisite for doing business together, and this requires making a place for broader than normal stakeholder engagement in governance decisions. The community needs its own incentives and buy-in. But it is equally true that corruption can arise anywhere and we have seen instances of local Christians liquidating donor-funded assets for their personal benefit. For this reason, investors might retain legal ownership of capitalized assets while the broader community makes decisions regarding the most productive use of those assets. Keeping asset ownership in a foreign holding company also discourages local government corruption.
- *Sell investors appropriate Key Performance Indicators.* Investment funds sell participation in their portfolios based on some promise of return to investors. The sales pitch must shift to one in which success is measured by multi-dimensional impact. Explicitly Christian funds should report metrics on social/spiritual impact alongside portfolio company operating and financial performance. Tremendous business growth and missional impact can be happening without current financial return when stakeholders have decided to reinvest earnings in growth. These profit allocation decisions must be transparent to the fund's investors, and celebrated when expectations have been properly set.

It is notable that secular ESG and TBL investment funds have found it difficult to sell multi-dimensional impact to investors during the past 40 years. But a new generation is now receiving family wealth transfers that appears more amenable to socially redeeming investment. Anecdotal evidence even suggests that ESG-oriented capital is presently having difficulty identifying enough worthy projects. The funds lack the resources needed to properly evaluate the deal flow in the context of their investment criteria.

It is worth considering adding secular ESG funds to the Christian capital mix since they are already engaged in social business funding. It may be difficult for them to grasp the missional aspects, but sustainability practices and community governance are a big part of their investment criteria.

### Implications

The foregoing is theory until proven in the marketplace. We know the commercial best practices around value chain management hold throughout the business world. We are looking for faith-based commercial collaboration, funding, and governance applied at a scale that achieves national missional impact. We cast a vision via real world experience.

The ideal value chain for applying these principles is one with the following characteristics:

- The industry is simple to understand, with limited product families and basic supply network structure.
- A defined end customer market is stable with reasonable pricing margins.
- BAM companies are already concentrated in a geographic area with substantial aggregate production.
- Strong local community involvement in the industry is supportive of the BAM companies.
- Investors are already engaged with the BAM companies and supportive of scaling the value chain.

Agricultural ‘farm-to-fork’ value chains offering differentiated branding are always good candidates. So too are contract manufacturing and business process outsourcing companies that use emerging market resources to serve first world customers having higher cost structures. This is particularly true when a manufacturing process is geographically close to ores, fiber, and other required bulk raw materials.

Of course, mission connotes outreach to people, not ore piles, and investment should be strongly oriented to companies with lots of stakeholder relationships. That being said, a well-structured investment portfolio will always contain a few companies that simply generate lots of cash. God’s design was that man would steward creation via the principle of multiplication. We take a risk when we keep resources moving rather than sequestering them, but that is required for them to replicate.

Scaling up the BAM movement follows the principle of multiplication. It requires shared vision among practitioners willing to take the necessary career, relational, financial, and health risk that God will fill in whatever gaps we ourselves cannot. Faith is the currency of heaven.