



ELEVATE Business 2020

Where Capital Meets Heart
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I'm here today as an ambassador for the global movement of business as a force for good. This talk is your invitation to join this movement, if you haven't done so already.

I'm excited that you heeded the call to be here today because you are the Force for Good.

I was in your shoes when I attended the first Conscious Capitalism CEO summit in Austin in 2008. That conference changed my life and I have been a part of this movement ever since. We hope that this conference will change your life, too.

That CEO summit introduced me to Conscious Capitalism and the concept of multiple-stakeholder theory. The first edition of the book Firms of Endearment had just been published. Under this theory, a corporation is an interconnected ecosystem of stakeholders, including employees, vendors and suppliers, the communities in which the company does business, the environment, and, of course, stockholders. The CEO in this model becomes the steward of the ecosystem. That book reported that businesses that adopted a multiple-stakeholder approach provided a staggering eight times greater rate of return to investors than the S&P 500 as measured over a ten-year period. That's an 800% advantage!

I returned from that summit and told my law partners in Menlo Park that I had seen the future of capitalism and that the firm had a unique opportunity to introduce this way of doing business to Silicon Valley.

I had met Andrew Kassoy, one of the founders of B Lab, the creator of B Corps and the Certified B Corporation assessment, at that summit. In 2010, B Lab invited me to co-chair a group of lawyers to draft California's benefit corporation law. Our effort became law in 2012 and inspired 30 other states and several foreign countries to adopt similar legislation.

Patagonia was one of the first California corporations to become a benefit corporation. Its founder, Yvon Chouinard, stood with us outside the Secretary of State's office when our bill became law on January 3, 2012 and declared "this is the new paradigm".

Happily, you are in the right state, because Oregon is one of only five states to have not only authorized benefit corporations and but also benefit LLCs. I'll tell you more about benefit corporations later.

Twelve years ago, this was still a fringe idea. Using Geoffrey Moore's model for the adoption of disruptive technologies, we're Crossing the Chasm. This is the point at which enough pioneers and early adaptors have signed on and proven the efficacy of its methods so that you can safely join the movement.

Conscious Capitalism, and benefit corporations and B Corps, are part of a global movement that recognizes that business can be a force for good. This global movement is a response to a profound spiritual crisis facing humanity in which the survival of our civilization is threatened by global warming and the uneven distribution of wealth.

This crisis is caused by the hidden conflict between two incompatible moral systems. The moral compass for individual citizens around the world is each of our particular spiritual traditions' equivalent of the golden rule – do unto others as you would have them do unto you. The moral compass for public corporations and those who run them, however, is the requirement, by law or custom, to maximize profit for shareholders. This moral compass also normalizes the practice of externalizing the negative costs of corporate behavior onto society and the environment. Those who control our corporations often prefer to play by the rule of gold – he who has the gold sets the rules. This conflict is hidden because the corporation's moral compass operates behind closed doors in the board room. It's the golden rule vs. the rule of gold.

There is growing acknowledgement, however, that capitalism as we know it is broken, as evidenced by climate change and the extreme concentration of wealth among those at the top.

Marc Benioff, the CEO and founder of Salesforce, recently declared in a New York Times editorial "...as a capitalist, I believe it's time to say out loud what we all know to be true: Capitalism, as we know it, is dead." Mr. Benioff was also one of 200 public company CEOs who recently signed a Business Roundtable letter advocating a move to stakeholder capitalism.

Jay Coen Gilbert, one of the founders of B Lab, says that we now have the two conditions necessary for systems change. First, we have acknowledgment that the current economic system is broken. Second, in order for a system to change, there must be a viable alternative.

Let's talk about three key elements of that viable alternative.

Starting with leadership first, could you please raise your hand if you have ever had a job where you weren't engaged? Could you please raise your hand if you have ever had employees or co-workers who were not engaged at work?

According to Gallup, 70% of American workers are not engaged at work. Of those 70 points, 30 are actively looking for another job and 20 are sabotaging their employer.

We desperately need a new approach to leadership. In the viable alternative, leaders engage their employees by leading from the heart. Love is a better leadership system than fear but because the "L" word is a loaded term, we instead use words like "care" and "trust" to describe leading from the heart.

In Conscious Capitalism, the viable alternative is called steward leadership.

Bob Chapman, CEO of Barry Wehmiller, a St. Louis based manufacturing company, had an epiphany that every one of his employees was someone's precious child. He realized that everybody matters. His leadership style is now based on care. Mr. Chapman calls this Truly Human Leadership.

Trust-based businesses are likely to be more profitable because they increase employee engagement, productivity, and satisfaction and reduce employee turnover.

Dr. Paul Zak, a neuro-economist at Claremont McKenna College, found that workers at high-trust businesses are 76% more engaged at work, 50% more productive and 60% enjoyed their jobs more than workers whose firms were in the bottom quartile as measured for trust. In addition, workers at

high trust workplaces were 50% more likely not to switch jobs over the next year than workers in low-trust workplaces.

Let's talk about governance next. Leading from the heart is a challenge in a traditional corporation because the doctrine of shareholder primacy requires a corporation's directors to put the interests of its stockholders ahead of those of its employees.

The multiple stakeholder approach espoused by Conscious Capitalism is in direct conflict with the traditional corporation's single-stakeholder model. Conscious Capitalism aligns perfectly with the benefit corporation because it expressly authorizes a multiple stakeholder corporate model. In a benefit corporation, the directors' fiduciary duties flow not only to stockholders, as usual, but also to all of the corporation's other stakeholders, including employees, society and the environment. This corporate form also puts the power of law behind leading from the heart because the law requires directors to extend their fiduciary responsibilities to employees.

Businesses which adopt a multiple stakeholder model out-perform their conventional peers in terms of economic performance. Professor Raj Sisodia and his co-authors of the second edition of Firms of Endearment showed that businesses that followed a multiple stakeholder model provided an even more staggering 14x greater return to investors over a 15-year period than the S&P 500. That's a 1,400% advantage!

With benefit corporation legislation, we made two changes to the corporate code that endow the benefit corporation with a social and environmental conscience. We extended the fiduciary duties of the directors to all of the corporation's stakeholders and we added an additional public purpose of creating a material positive impact on society and the environment. Directors in benefit corporations must optimize profit for shareholders while also optimizing their corporations' positive impact on society and the environment.

These small changes to the corporate law begin to address the conflict in moral systems by requiring corporations to operate more in alignment with the golden rule. These changes make the corporation more prone to beneficial, rather than harmful, behavior.

We can't change the system, however, without changing the foundational beliefs of neoliberal economics, which were themselves the solution to a similar conflict in moral systems between the totalitarian and the liberal orders after World War II. This conflict in moral systems resulted in the Cold War between the democratic West and the state-run, centrally planned economy of the Soviet Union.

What do I mean by neoliberal economics? Neoliberal economics refers to the global free market we have today. It started in 1947 when a group of thought leaders from the US and Europe met in Mont Pelerin, Switzerland, to design an economic system to address the totalitarian threat. Their original vision contemplated a free global market regulated by the rule of law and the moral standards of the West.

Neoliberal economics may have helped the West win the Cold War, but as economist Kate Raworth, points out in her book, Doughnut Economics, they have led civilization to the brink of collapse. Ms. Raworth identifies the 11 underlying beliefs of neoliberal economics. Key among them, for example, are the beliefs that "the earth is inexhaustible, so take all you want" and "society, which is non-existent, so ignore it". We are now seeing the unintended consequences of those beliefs.

To make the economic system more just, sustainable and regenerative, Ms. Raworth advocates replacing those old beliefs with 11 new ones. The fundamental flaw with these old beliefs is that the free market can ignore its effect on society and the environment. Since the entire economy is ultimately dependent on the Earth, she suggests a new belief: "the earth- which is life giving - so respect its boundaries". Since there can be no free market without a healthy and prosperous society, she suggests a new belief: "society - which is foundational - so nurture its connections." In the

viable alternative, the free market is responsibly embedded within society and operates within the ecological boundaries of our biosphere.

The infrastructure for the viable alternative is already in place, including here in Oregon. Portland State University, for example, has a highly esteemed green MBA program. My alma mater, Lewis and Clark Law School, has the leading environmental law program in the country. The Center for a Sustainable Society at Pacific University has a student-led impact fund. These important programs represent some of Oregon's pioneers and early adopters that position Oregon well to help lead this movement.

Happily, doing business in a sustainable way can provide a greater rate of return to investors. Robert Eccles and his colleagues' research at Harvard Business School suggests that businesses that adopt principles of sustainability, such as those embedded in the benefit corporation, provide a 5% points greater IRR per year to investors than their conventional peers.

By now you may be asking yourself, if a heart-based, multiple-stakeholder, sustainable approach to doing business can increase employee engagement, cut employee turnover and significantly increase shareholder returns, then why isn't everyone doing business this way? This is precisely the question I've been trying to answer ever since I returned from that conference in Austin in 2008.

I was convinced that this way of doing business would be Silicon Valley's next disruptive technology. I imagined that this way of business would go viral and quickly become the global standard as the personal computer, the browser and the cell phone had done. The only people who seemed interested in these ideas, however, were the enthusiastic pioneers and early adopters I met Conscious Capitalism and B Corp events.

At first, I could not understand Silicon Valley's resistance to embrace this as the new normal. This seemed like a no-brainer to me. Here was a free, new approach to business that generally makes a business more profitable while creating a material positive impact on society and the environment.

Going back to the Crossing the Chasm model, however, there simply were not enough pioneers and early adopters to validate this viable alternative to get to a tipping point so that it could be adopted by Silicon Valley and the mainstream.

Let's accelerate that tipping point by discussing four common points of resistance and their antidotes.

Talking about awareness first, most people are simply still not aware that there is a viable alternative. The first benefit corporation law was passed in 2010 and there are still only about 8,000 benefit entities in the US. Even though it has become law in 35 states, Puerto Rico and DC, most people still haven't heard of it. The pioneers and early adopters simply need to do a better job spreading the word. That's why I became an ambassador for this movement in 2013 to do everything I can to spread awareness.

Let's dispense with fear next. Sometimes, I tell people that I'm in the fear management business because directors of traditional corporations are terrified of becoming benefit corporations. The most common fears are: fear of making less money, fear of increased liability exposure, fear of making a mistake, fear of doing something new and fear of looking foolish. My job as corporate counsel for corporations converting into benefit corporations is to assuage these fears and make the directors feel safe.

To address each of these common fears, I put together board books like this.

This book, for example, has copies of Robert Eccles' article about the positive effect of sustainability practices on corporate performance and an article by the former Chief Justice of the Delaware Supreme Court, Leo Strine, from the Harvard Business Law Review that affirms the legitimacy of the

benefit corporation. Plunking one of these books down on the board table is often enough to put directors' fears to rest.

Let's dispense with behavior change next. We humans are not very good at behavior change because the need to change our behavior triggers a flight or fight response in the brain that releases cortisol and adrenaline which create resistance to change. The larger the change, the more resistance. The shift from a focus on maximizing profit to one that optimizes profit and social and environmental benefit is a lot of change that can create resistance. I've found that you can usually discharge this resistance just by naming it.

Finally, let's speak truth to power. Another reason this new approach to business has not become the new normal is because those with the power and capital are happy with the current economic system. Fear-based leadership, shareholder primacy and neo-liberal economics work very well for them and they have little incentive to change and give up their power. Those in power prefer the rule of gold over the golden rule.

This is one of the root causes of the spiritual crisis facing humanity today. We've allowed business to substitute maximizing stockholder welfare for the golden rule. Little will change unless we decide to hold business accountable to the golden rule or an equivalent common moral standard. Today, the struggle is not between the totalitarian and liberal orders but between the rule of gold and the golden rule. Neo liberal economics, which were the solution to the post WWII crisis, have unwittingly become the cause of our current spiritual crisis.

Otto Scharmer, a professor at MIT and author of Theory U, has observed that humanity suffers from a massive failure of capacity to face disruption. To better lean into a disruptive future, he says that we need to expand three core capacities: **curiosity**, which means having an open mind, **compassion**, which means having an open heart, and **courage**, which means having an open will.

What will it take to open the minds, hearts and wills of those in power to the viable alternative?

In the early 1990's, customers started asking Ray Anderson, the founder and CEO of Interface, a carpet manufacturer, about what his company was doing for the environment. He didn't have an answer. He had never given a thought about what his company was doing to the earth. He read Paul Hawkins' The Ecology of Commerce and wept. It was what he called his "spear in the chest" moment because he realized that our environmental problems were products of 'an industry system, of which his company, his third child, was an integral part.' From that moment, Interface embarked on a path to sustainability.

Globalization has made it clear that we are one human family sharing one fragile planetary home. What will it take for humanity to have its spear in the heart moment to awaken to take better care of everybody's precious children and our precious home? What will it take for business to have its spear in the heart moment to fully awaken as a force for good?

Returning to the principles of system change, holding business and its leaders accountable to the golden rule is the smallest possible change needed to change the entire economic system. Heart-based leadership, multiple-stakeholder models, principles of sustainability and Doughnut Economics are the golden rule applied in business.

In conclusion, I hope you approach today's conference with curiosity, compassion and courage. I have suggested three ways that you can accept my invitation to join this movement: lead from the heart, adopt a multiple stakeholder model in your business and join in co-creating a more, just, sustainable and regenerative economic system. I hope you will apply the golden rule to how you do business and expect others to do the same. You are the force for good. If we all awaken this force, we can change the world faster than we can possibly imagine. Let's cross that chasm together. To quote a fellow Marin County resident, George Lucas, may the force be with you!

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