Stakeholder Dialogue Speaker Series—
Are Benefit Corporations Truly Beneficial?

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Abstract: Michael Hannigan is the CEO and Co-Founder of Give Something Back Office Supplies, the third-largest office supply company on the West Coast of the United States. Hannigan began his business in 1991, long before any benefit corporation legislation was enacted. He reincorporated his business as a benefit corporation after California passed such legislation in 2011. On April 23, 2015, he spoke at the 22nd Annual Stakeholder Dialogue Speaker Series convened at the University of St. Thomas, Minneapolis, by Daryl Koehn and the Veritas Institute. His remarks cover the genesis of his interest in socially responsible business and the start of his company. Hannigan also discusses the arc of what he refers to as the “fourth sector”—the emergence of the social enterprise sector. He evaluates where benefit corporations began and shares his reflections on how they may develop in the future. Hannigan’s talk concludes with a short question and answer session with audience members at the event.

Key Words: benefit corporation, California Benefit Corporation, Give Something Back Office Supplies

Opening Comments from Moderator Professor Daryl Koehn,
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Tonight’s stakeholder dialogue centers on the question of how beneficial benefit corporations truly are. The topic is timely for a number of reasons. First, the state of Minnesota passed, effective January of this year (2015), a public benefit
corporation law. We already have at least twenty-nine firms that have chosen to be benefit corporations here in Minnesota. In addition, many other states now allow for public benefit corporations. The general requirement for becoming a public benefit corporation is that your firm must have a stated public benefit purpose and then must file some kind of benefit report showing how you have pursued this professed purpose. In some states, this evaluation is also conducted by a certified third party independent agent. The certification frequently considers dimensions such as employee engagement, impact on the environment, corporate governance structure, and so forth.

Here at the University of St. Thomas, we have begun to do some preliminary research on motivations of the people who are starting benefit corporations, and the number one motivation is that people want to do some public good. But the second primary motivator is the desire to be able to control how profits are allocated. The third motive is a desire to focus on people and planet as well as profits.

So you have this exploding growth of the benefit corporations, but, of course, along with any new trend comes some questions and doubts. Some critics have doubted whether benefit corporations will be successfully able to attract capital. Another issue is: How will benefit corporations be held accountable? We are basically looking to market mechanisms to keep the public’s attention focused on benefit corporations’ performance, yet some critics are saying it is very difficult to find information about what the benefit corporations have done. It’s hard to find their annual benefit report, for example. These are some of the challenging questions to be considered during tonight’s event.

We are going to hear from Michael Hannigan who is the president and co-founder of the organization Give Something Back Office Supplies (GSB), one of the first benefit corporations created in California after the state passed legislation in 2011. Modeled on Paul Newman’s Own food company, GSB donates its profits to a variety of nonprofit groups that are selected by customers and employees using a rather innovative approach. The firm began as a traditional corporation and then converted to a benefit corporation. I think we are going to hear a little bit tonight about what motivated that switch. I have to say that this firm has been incredibly inventive in coming up with ways to better serve the community. Its performance is especially impressive, given the super thin margins in the office supply industry—which are among the lowest in the retail industry.

So without further ado please join me in welcoming Michael Hannigan.
Michael Hannigan Comments

Thanks for inviting me. It’s really a pleasure to be here and to be talking about this topic.

This topic is so timely; and there are many important inflection points happening now, partly related to the statutory changes happening in the states. This is really the first time in the history of United States corporate law that social missions can have legal status within the articles of incorporation of a company. The social missions that identify corporations trump even the stockholder rights of investors. Regular corporations with social missions previously had to operate in the interest of their stockholders alone. So the stockholders legally would have the right to challenge the social mission if it compromised their interests. But, the benefit corporation allows that problem to be overcome. For our company, GSB, which gives away all of its profits to nonprofits, that’s a fairly risky proposition to put before private investors who expect a return on their investments.

So that dilemma and the conversation about how to drive sympathetic capital to benefit corporations is really beginning to happen. I’m leaving, for example, to go to the Council of Foundations, which is having its conference in San Francisco. And, for the first time, the Council is having a serious conversation at the very highest levels about how to translate the trillion-and-a-half dollars embedded in endowment funds into a kind of community capital, in order to find its way to benefit corporations. If our missions can be seen as congruent with their achieving their missions, then that endowment capital would be available. And that pathway has been blocked up to now. There are some LC3s (low-profit limited liability company) that have been developed over the years to allow foundations to invest in social enterprises. But the pathway for large scale capital to come to a company such Give Something Back will allow us to grow to the size of Staples. So instead of donating a couple of million dollars, we can donate a billion-and-a-half dollars a year. That is the amount Staples made a couple of years ago on thirty billion dollars in sales. That’s the goal. But in order to get to that goal, we have to have capital in place to attract that kind of talent and infrastructure.

So I want to talk a little about our company, because I think nothing has really been said yet. We have been talking about benefit corporations, the community, etc., etc. But the most important fundamental thing to understand is that, in our company and every company like our company, our first priority is our customers. So, if we can’t satisfy our customers, if we can’t bring products to our customers—cheaper and with better service than Staples, Office Depot, or all the other independent supply companies—then we’re not going to get the
customers’ business. We are a business-to-business enterprise. We are the third largest office supply company in California. So we’re not a bunch of hippies selling tie dye T-shirts on Telegraph Avenue in Berkeley. We are for real. Our goal is to crush our competitors in the marketplace, metaphorically speaking of course. Understanding that that’s their goal as well—to beat us in winning business.

Our goal, then, is to take care of our customers, to convince our customers that we can take care of their needs—and their needs are fiduciary. So, if you are the purchasing agent for the University of California, and you are putting out an RFP for a five-million dollar contract, you are going to get bids from companies who want to compete for that business. You’re going to pick the one with the lowest number on the bottom. If we are not the lowest responsible bid, we are not going to win that business. And we shouldn’t win that business. Because first of all, those are tax dollars that are being spent, so the university has a fiduciary responsibility to spend as little money as they can on supplies so that they can pay the teachers more and subsidize the student tuition and things like that. The first thing to remember (and often the last thing that is said) is that our business success is a function of our success in taking care of our customers. When and if we fail to do that, we will fail to survive in the marketplace. And our goal is to do one thing—make as much profit as we can, responsibly, in a competitive market, where we are up every day proving ourselves against companies that are trying to take us out. Once we earn the profit, our goal is to give all that profit back to the community; and the community—through some democratic process—decides the most useful use of that money. I’ll talk about that process in a little while.

We started (Give Something Back Office Supplies) in 1991. And I had fifteen years of experience in the office products industry. By the way, I am an accidental product of the industry. I went to college at the University of California at San Diego. I was a math and science student. My goal was to be a marine biologist. But I landed on a college campus in 1969; and at that period of time the college campuses were exploding with social activism. The antiwar movement, the civil rights movement, the women’s movement—all of these things were happening in the late 60s and early 70s, and if you were a student coming out of high school, landing on one of those campuses, then you had to embrace it or reject it, but you could not ignore it. And I was one of those people that embraced it. So, I became a social activist. And as a consequence, my undergraduate degree is in philosophy. I wanted to go to Berkeley, because Berkeley was where you wanted to be in the late 60s, early 70s. So I went to graduate school at the School of Criminology in Berkeley—a doctoral program in criminology. This
program was essentially sociology and policy. It wasn’t like a police school; you weren’t studying to be a parole agent or anything like that. You were studying social policy in the area of sociology and crime and deviance. But before I graduated, most of the students in the Criminology Department were such a hotbed of radical critics of the criminal justice system, from the point of view of the administration, that they closed the School of Criminology and merged it with the Bolt School of Law at Berkeley.

And I didn’t want to graduate with a law degree, so I went to the graduate placement center and asked for a job. I took a job at the Xerox Corporation. In 1975, right after I left my graduate program, I became a collection agent at Xerox. I thus began this bifurcated life. During the day I would make my living learning and operating within the context of a very competitive office products company. Xerox was the Google of its day. It was a virtual monopoly, before the Japanese copy companies came to the United States. At night, I would protest US foreign policy in Nicaragua and Central America. I had two lives. My community service life and my making a living life. I’m sure many people today live the same way. They make a living and after hours they do something else. Well, I found a way to merge those two, and the way I found it was, coincidentally, I got divorced that same year. It’s not unusual for a recently divorced man to eat spaghetti sauce out of the bottle for dinner on a regular basis. So, as I was shopping for my dinner at Safeway (grocery store), I noticed there were several products. There was Franco-American sauce, there was Ragu, and there was Newman’s Own. Newman’s Own had a big picture on it that said “all profits of this sale go to charity.” As a consumer, I was looking to meet my spaghetti sauce needs that night, but here was an opportunity for me to use my purchasing decision to not just get what I wanted as a consumer at a fair and equal price, but to also support issues in the community. The light bulb went on and I said to myself, “This approach represents an interesting business model.” Newman’s Own just won my business because it met my needs as a consumer and the result of that is not that Paul Newman gets richer, but that the community is enriched by a donation to support community needs.

That business model resonated deeply with me. And I also understood that the main mechanism in our society that is responsible for the creation and distribution of wealth, is the private sector. The public sector obviously has its role, the nonprofit sector obviously has its role, but the action happens in the private sector. The wealth is distributed in the private sector. And that is the mechanism that allows wealth to be distributed in a certain way. So I found a way through the Newman’s Own model and my experience to create a business model similar
to Newman’s Own in the industry I was an expert in. I found a business partner who had a unique set of skills—my skills are administrative and finance. I am not good at sales. You cannot have a business in my industry unless you have a business partner who is good at sales. So my partner and I got together $40,000; we each had $20,000 in savings and that was the initial capital that we used to build our business plan. That was in 1991; and the company has grown since then. We became profitable in our second year (1992) and have been profitable every year since.

Give Something Back Office Supplies is the third largest office supply company in California, and soon we will be number two if Office Depot gets bought by Staples. [Editors’ Note: A federal Judge blocked the merger in May 2016.] Our business is intended to earn as much profit as we can. What we have done is limit the private stockholder, so all of our profits are donated in the areas we touch. GSB won a major contract with the University of California–Berkeley because we had the lowest number. When we win, it’s because the customer believes we are the better deal, not because we are going to give their profit away—but that sometimes happens. That happened with Uber. We screwed up the original bid, we lost the bid, and then Uber called us up and said, “Boy you really screwed up this bid didn’t you?”, and we said, “Sorry.” And they said “Would you like a second chance?” So Uber basically walked us into winning the bid because it wanted to do business with us. But that’s fairly rare; and that’s a reflection of the values of some of these young people who start these billion dollar companies.

Our goal is to use the power of the marketplace to create wealth on behalf of the community. Our understanding is that [the United States] is the richest country in the world. The power and the wealth alone make it the richest country in the world. There is no reason a middle class family can’t afford to send its kid to a quality university. By the way, when I went to UCSD, my tuition was zero. It was all paid for by tax dollars. My parents didn’t have to suffer to send me to college; and most of those opportunities are not available anymore. It’s not because the resources are not available, it’s because the institutions that connect the resources to the needs don’t do it in a way that most of us would see as fair and equitable and just. Our view at GSB is not that there are a bunch of rich powerful greedy people saying how do we capture all the wealth for ourselves and keep everyone greedy—it’s the institutions that produce these outcomes and incredible disparities in opportunities that exist in our society.

I think this disparity is one of the reasons we are having this conversation now. That’s one of the reasons we have benefit corporation laws now. There is
a sense that things have gotten out of balance. That disparity between regular opportunities and other things is so far away from what’s possible, given the prosperity as a whole, that we need to start reengineering institutions with outcomes that are more compatible with what would be fair and equitable. Now back in the old days, people who thought like that would never go into business. We would be sociology teachers, go to law school, go into public health, non-profits—we would never see business as an available tool to create fundamental change to the flow of resources to meet community needs. It was not something that would even cross our minds. But you can’t go to a campus now, especially a business school, and not find the same people who were clamoring to go to law school and sociology departments, now in the business schools looking to use business not just as a vehicle to accomplish personal financial goals, but to do it in a way that helps the community and their sense of responsibility. I think we have come a long, long way—certainly from when we started in 1991—to create the institutional permanence that is of the same kind of permanence that we would normally say is the nonprofit sector.

We know what the nonprofit sector is. Without defining it, it is a trillion dollar society. But they don’t have a nonprofit sector in France or Japan. They have the state and the private sector, they have some middle stuff, but they don’t have anything like the nonprofit sector with the power and ability to soften the edges of what’s left behind when those two institutions together can’t produce the quality of life that we think is acceptable. In this country, the nonprofit sector developed about a hundred years ago. Gradually, it has come to the point where the nonprofit sector was seen as the component to create the kind of conditions that we all see as available to somebody in a country like ours—with the prosperity that we have to the nation as a whole.

I think what is developing now is a fourth sector—and in fifty years, twenty-five years from now we will see not a couple of companies like Give Something Back, Patagonia, Clif Bar—you will see a fourth sector. You will say, “Oh, I know what that is,” because there will be four sectors including a massive number of people who are trained in business, trained in competition in the marketplace, but do business on behalf of a broader set of stakeholders whose interests are embedded in the charters and the bylaws of the companies. These charters will mandate measurement in terms of the impact of business on some aspect of the quality of life of these communities. And the range of these corporations will have all kinds of focus. Some of them will be involved in green tech and sustainability and employee rights. My company happens to be about income distribution. We have always been called Give Something Back; and our
main goal has always been to use the marketplace and create wealth on behalf of the community and we continue to do that and be profitable and sustainable.

When the community is your central stakeholder, there are things you do a little differently. It doesn’t make any sense, intellectually, if you are a profitable company, not to pay for your employee’s health benefits, and the backdoor you’re funding through your donations are public health institutions that handle people who don’t have health benefits paid by their employers. So it doesn’t make any logical sense. So even though that is more expensive for us and for our competitors, we are willing to subsidize employee health expenses in a way that prevents us having to do that through the back door via donations. If you were on the board of directors of Give Something Back, you would come to the conclusion that there is nobody in the room who says, “Wait a minute now, my dividend is going to be reduced this year from my investment.” There is nobody who takes that point of view. The POV is the net result of the decision (positive or negative) for the central stakeholder community, realizing that there are compromises between all of the stakeholders, the community of stakeholders, the nonprofit beneficiaries, the employees, the vendors—all the stakeholders that are affected by the company.

The process by which decisions are made, when the community is at a high level of priority in the decision making process of business decisions can create a different type of business model. I’ll give you a counter example. I think five years ago, Staples had the most successful year. It was at the top of the office supply industry. It had revenues of thirty billion dollars. We are somewhere between 1 percent and 4 percent profit in a good year. Office supplies is a high volume industry. So Staples, five years ago, did thirty billion dollars and hit 9 percent profit. It made like a billion, maybe two billion dollars, something like that in profit. So the firm had a boom year. That same year, it decided to cut the company’s contribution to its employee’s health care plan by 50 percent. You know, why would a company do that? The managers didn’t wake up in the morning and say, “Hey, give me five ideas about how can we screw our employees today? Oh let’s cut health care.” That’s not the way it happens. These are not greedy people, these are people like us, who live in communities and care about their communities. But what managers had to do was they had to compete with Office Depot and Office Max. Both of these firms had recently cut their employee contributions to their health plans. So Staples was kind of required to do that in order to meet the goals of its stockholders. And I’m sure the managers were kicking themselves, but it was the responsible thing to do— to serve their stockholders’ interest and to make their stock competitive against the others.
So it wasn’t because they were evil, horrible people. It’s because the mandates of the company’s stakeholder model requires managers to take actions which sometimes would seem to be different than the actions that we would take.

But, on the other hand, after the economic collapse, we found ourselves in the first quarter of 2008 losing like $350,000. We realized there was only one way we could stop the hemorrhaging; and that was to cut payroll. There was no other way, because there is no other fixed cost, because we don’t have inventory we can cut. We had to cut $40,000 a month out of our payroll. How does a company that is a community stakeholder business do that? Well, we brought people together; and we said, everyone is going to suffer. We cut the employees into five segments. The low income earners got no reduction; the medium, the second tier, got 5 percent reduction; the third tier got a 10 percent reduction; the fourth tier got a 15 percent reduction; and the top tier got a 20 percent reduction. We figured, if you’re making $150,000, you can better afford to lose 20 percent of your income for a period of time than somebody who’s making $30,000. And that approach shared the wealth; and it shared the pain and considered the net impact on all of the stakeholders. When business bounced back, we restored the payroll back to where it was prior to the cuts. But it was a process that was motivated by looking at what the impact of the decision would be on the stakeholders most affected by the decision without the shareholders being there and automatically vetoing the decision.

Let me go briefly into how Give Something Back donates money. We have about 150 people in this room right now. If I were to ask each of you, “What’s your favorite nonprofit cause in your community?”, I would get 150 different answers. And you know that’s because we have 150 different life experiences that lead us to 150 different conclusions, each of them as valid as the next. Usually, corporate philanthropy is a reflection of the C-Suite. You know, the CEO happens to love the symphony, so the symphony is struggling this year, we need to support the symphony. T. Boone Pickens gave $165 million one year to the Oklahoma State University golf program. I’m guessing that he’s a golfer, but I am also guessing that, if you were to ask his employees to whom to give the $150 million, not a lot of them would have given it to the Oklahoma State golf program. But doing so was his prerogative because that was his money to give.

We have a different approach at GSB. We feel we are agents of community service, so if you were our customers and you were from San Diego and you were from the Bay Area and San Francisco and you’re from Seattle or Portland, or Sacramento—we would send you a ballot with about fifty or 100 different nonprofit organizations from Sacramento where fifteen percent of our business comes. Then we would ask you to tell us, as a customer or as one of our
employees, to send us your top ten choices and if 10 percent of all your votes went to Save the Whales, then 10 percent of the money, of 15 percent of all of GSB’s profits, would go to Save the Whales. And believe it or not, for five years running, in the Sacramento region, the SPCA (Society for the Prevention of Cruelty to Animals) was the top vote for five years running. . . . I love animals. . . . I had a tasty one for lunch today, you know? But, the SPCA wouldn’t be my choice, it would be my mother’s choice perhaps. I would give it to the food bank. But, that’s me. You might give it to something else. That’s fair, that’s totally fair. As long as we each have access to the decision process. Our interests in the communities should decide where the profits came from in those communities, so they go back. That’s the process in theory. Money is made in the community, it goes back in the community, according to the needs assessed by the people.

Now we don’t give it all away, the day we make it. We are a business, we have to plan for the future, so next year’s business plan is to grow 15 percent. We have some experience in this, we have to have a certain amount of cash available to us through our bank lines of credit, we have to have a certain amount of liquidity to maintain our good relationships with our funders, with our bankers so we can decide each year how much we hold onto in order to keep ourselves financially safe and sound to survive another year and grow and then we give everything else away. So what that means over time—we have given away 92 percent of profit since we started. You probably know companies that are giving away profits every year. You know Apple is giving away $50 million this year in their accumulated dividends. They have $160 billion in the bank. IN THE BANK. They’re giving away $50 million of that to their stockholders.

Twenty-three years ago, the giving away of profit was seen as a weird thing—there’s no question about it. But over time a whole movement has emerged to recognize the power of business to create some kind of transformative change. Resources connect to needs broadly in our society. I think more and more people are not avoiding the business tool, but embracing the business tool as a form that produces social benefit as well as economic benefit. The evidence of that shift is represented in national organizations similar to the Chamber of Commerce, the National Association of Manufacturers, all these kinds of trade associations that are the accumulated wisdom and stability of industry. These national organizations exist now in the socially responsible business world—the Social Venture Network, the Sustainable Business Alliance; there’s hundreds of them, but there’s a couple of really big ones nationally that have thousands and thousands of members. BALLE—Business Alliance for Living Local Economies has 17,000 business members. They’re mostly small businesses, but they’re 17,000
members who pay dues and go to national conferences, drink beer together when they get together, and who do all that stuff that people do at conferences. The organizations exist and the metrics (the ability to measure success in relationship to social goals) is way, way beyond, what it used to be. The organizations have also taken on the task of helping the companies measure the impact they have on various community constituencies. And it’s very scientific now, so companies now have the ability and consumers have the ability to evaluate companies on the basis of what their measurements are in terms of the impact on the community. Every business school probably has a Net Impact chapter. Net Impact chapters have thousands and thousands of students in the business schools who are looking to link their business careers to the sense of social responsibility. That option didn’t exist twenty years ago. That’s beginning to flow. The capital is beginning to flow, to support the companies as they begin to grow.

We had our first Certified B Corp go public a couple of days ago. This event raises all kind of different questions but it’s a big event. Ben & Jerry’s is certified as a B Corp, even though it is part of a multinational organization [Unilever], so there’s thousands of companies now that have self-identified, proven long-term success that shows this business model is not just a fly by night thing. It has permanence and capability.

But, the most important thing of all, I think, is the development of benefit corporation law. What benefit corporation law does is to allow for companies that are specifically designed to produce social benefits and not just financial benefits for the owners, to protect that mission against the threat of changing, shifting ownership. For example, if you were a huge philanthropist and a saintly person who wanted to invest in Give Something Back before we were a benefit corporation, we could have taken your investment. Let us suppose that you were totally committed to the mission and didn’t want a return on your investment. But, then you die and your greedy kids take over the stock; and they say that they don’t believe what their father or mother believed. So what now? They own ten percent of the company; and they want ten percent of the profit and they would win that case in court. They would never win that case in court now, since we have officially registered as a benefit corporation with the state. These kinds would lose the court case because our bylaws say that the company profits will be donated SOLELY to a nonprofit organization. So the investors who are interested in sharing that mission can invest in the company now without having to worry about other investors changing their mind or selling their stock to somebody else. GSB started with $40,000 in capital. That’s the last capital we have ever had. We need more capital to get to Staples size, to get to the $200 million, $500 million size.
Which is clearly possible. But you need capital; and capital will bring you talent and infrastructure that you need to compete at that level. And so the formation of the benefit corporation is the last missing piece that allows for the stabilization of the benefit corporation to exist in a safe environment. The company can be as radical or as serious as a particular benefit corporation is about identifying a social mission without being challenged by the neutral stockholder interest.

And the final piece, is as I said, I’m going to the Council of Foundations for its annual conference in San Francisco. For the first time, the top people at the Council of Foundations will be talking about how to unlock the trillion and a half dollars that foundations collectively have in their endowment funds which they invest to keep their foundations going. Not their program grants, but their endowment funds. They own stocks and bonds; and they are trying to figure out a way to link their dollars as capital investments in benefit corporations—so they can invest in private corporations’ efforts that sync up with the missions of their foundations to use their capital to allow companies like Give Something Back to exist and grow. But I think this piece of the puzzle will really show what the benefit corporation movement, and in a broad sense, the socially responsible business movement, can do ultimately.

Over the arc of the twenty years in my career, this change is what I have seen. This social change is here to stay. It’s going to get bigger. Fifty years from now, we’ll look back and we’ll say, “Oh, yeah, American society, that’s the government sector, the private sector, the nonprofit sector, and the fourth sector—the social enterprise sector. This is the good news. We still have to do it and congratulations to the couple of people here who are already on that path. Thank you.

**Audience Questions**

**Q:** One of the things that I have observed about not only Give Something Back, but also about Patagonia and a number of other companies, is that they managed to create those companies before there was ever a benefit corporation statute. You were in business in a privately held company for a long time doing what you do—and you did it without the structure; and I think you touched on why that structure may be helpful going forward. Did you see other advantages now, in terms of your ability to attract capital, or other disadvantages?

**A:** Well, let me clear up a couple of misconceptions. Benefit corporations are all structured differently—or they have different themes which define them as providing a benefit. We are on the weird fringe; we give our profits away. All benefit corporations don’t give their profits away. I wouldn’t even advocate that all benefit corporations should give their profits away. I know, for example, a benefit
corporation whose mission is to create the only manufactured fair trade soccer balls—that’s its mission. The fair trade is the core benefit to paying the corporations’ core manufacturer—the people who actually manufacture the soccer balls. But these folks pay themselves, they don’t give their money away. The result of what they do is that their supply chain gets more fairly treated, more fairly paid. Of all the benefit corporations, some of them have sustainability focus and others don’t. What benefit feature defines them is not necessarily that they give their profits away. I think I made it very clear, but the hugely transformative thing for us with the benefit corporation law is that we can now ask for capital. People have tried to invest with us for years; people have tried to buy us many times because there have been lots of consolidations in the office products industry. But you can’t trade equity to an investor with the realization that investors can’t pass it on to someone else who doesn’t share their ideas. So if you share equity with someone who doesn’t share your mission, your mission is at risk—unless you can embed your mission in a legal structure that protects the benefit corporation.

And from my point of view there are a lot of flaky benefit corporations around. For example, you can put childcare for your employees as your “benefit” and that’s all you need to do, but that would qualify you as a benefit corporation. Now you’ll be held accountable for that commitment, but that will qualify you for this legal protection. Now you’re a benefit corporation. So what will the ultimate benefit community really be remains to be seen. From an entrepreneur’s point of view, someone who sees himself as a business person, who is using his business specifically to build a social benefit—it allows a level of protection that has been unprecedented. I fully believe that we are now thinking about how to approach community capital, where the community capital’s interests are sympathetic and congruent with our interests. For example, let’s consider a foundation that is going to use its endowment and its program dollars to provide for the community. I don’t have a problem with giving this foundation a return on the investment because it’s going to do the same thing with the return that we are going to do with it—invest it in the community in some definable, measurable, sympathetic way. So that kind of investment is now possible with the legal protection that we would need in order to seek out and consider it. I think this relationship is the flex point that will launch this whole movement into a different level of success. We can’t grow much faster than we have grown with the capital we can generate internally from our operation.

Q: Is it the foundation or philanthropic body of capital that holds the most promise? Or do you think there are other sources of capital through crowdfunding or other kinds of things that might play into this?
A: I’m not sure about this one. That’s not an area of competence for me, but here’s one thing about this movement. And it really is a movement. It’s that the benefit corporation is a huge benefit to us; we didn’t do the work. We didn’t hire lawyers to go lobby legislation and sit in California to pass this legislation. Neither did we do the work here to pass the law in Minnesota. That was done by a whole level of talent and skill committed to the same goals, to create an infrastructure that facilitates the growth of businesses that are committed to social goals. So the investment side, how capital can flow to a benefit corporation—that’s going to be solved by investment experts. And guess what? There are a lot of socially responsible investment experts who have the expertise, the legal and the tax expertise that I don’t have and that I never will have, who will provide the solution that would make sense for us. They’re using their skill set, which is unique in a way that is compatible with our needs and we’re using our skill set and that’s why it’s a collective effort. A lot of work that is being done is really done beyond my comprehension.

Q: How does a benefit corporation stay competitive and attract top talent without offering stock options that are generous?

A: Most companies don’t offer options. You know, most people don’t make a living with any stock options. Most people don’t require that. But if that’s a fatal flaw, then we are going to have to figure that out. What we are not willing to trade is a perpetual private claim on profit by equity investors. But if you come in and make us $4 million, I don’t mind paying you $2 million.

Q: Are there tax benefits to being a benefit corporation?

A: No, we are an S corporation; and we are a benefit corporation on top of it. There is no exemption, but we do get charitable tax deductions, the same deductions available to any other business. Two cities have introduced purchasing preferences applicable to benefit corporations: Philadelphia and San Francisco. So if I bid, and I am within 4 percent of the lowest bidding companies, I win, because I am the benefit corporation. Now this is not a tax benefit, but it is a purchasing preference. The theory behind the preference is not just a “Let’s do the right thing, San Francisco” deal. It’s measurement. There is documented evidence that San Francisco did receive a benefit. There is a beginning of the movement for the government to operate in the interest of its citizens, which is the whole theory of government and democracy by the way. Government will get on board and will help business connect to help them amplify that benefit. So we will see how that ends. You can’t have a socially responsible business if you don’t have a successful business.