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Declaration of interdependence: B Lab Global's Andrew Kassoy

The CEO and cofounder of B Lab Global explains how business leaders can create the most value for shareholders, stakeholders, and society by recognizing the interdependencies that bind them together.

The first step to changing "the system" is to recognize that you're a part of it. Effective leaders understand that there are myriad constituencies at play and that narrowing in on any one of them won't work for long. The Business Roundtable stepped up to a systemic approach in releasing its "Statement on the purpose of a corporation" last summer; nearly 200 CEOs signed a commitment to *all* stakeholders, as public pressures on a shareholder-oriented model began to rise. The COVID-19 pandemic forces us to deal with interdependencies; massive protests and unrest brings the message home. All the while, fears of climate change roil world order, and rampant inequalities widen the gyre.

Andrew Kassoy, the CEO of B Lab Global, has spent years thinking about how it all fits together. In 2006, Kassoy, together with cofounders Jay Coen Gilbert and Bart Houlahan, founded the not-for-profit organization with the mission to channel business as a force for good; in the years since, B Lab has gone on to certify thousands of businesses across multiple industries and countries as Certified B Corporations, or B Corps. In order to earn that certification, companies must meet rigorous standards that require them to consider the impact of their decisions on their workers, customers, suppliers, community, and the environment.[1]

[1] B Lab has also been at the forefront in promoting the adoption of state public-benefit corporation laws in the United States and globally. Most large American companies are incorporated within a given state (for example, Delaware) as traditional C corporations, a form of organization under which directors' duties extend to the company and its shareholders (or, as they're called in Delaware, "stockholders.") A public-benefit corporation, on the other hand, provides a company's board of directors greater flexibility to consider the interests of constituencies beyond the company's shareholders.

Kassoy's aspiration for systems change, with purposeful business leaders at the vanguard, is born of experience—his own, from private equity, and that of his cofounders, who launched, grew, and exited the successful athletic footwear and sporting goods company AND1. Together, they have reconsidered the purpose of for-profit businesses and introduced standards and tools for companies to meet society's call. McKinsey's David Schwartz spoke with Kassoy to learn about B Lab's mission and how leaders can advance with purpose in an interdependent world.

The *Quarterly*: *How does your own business experience, and the experience of your cofounders, inform B Lab's mission?*

Andrew Kassoy: I founded B Lab with Bart Houlahan and Jay Coen Gilbert. Their experience over the arc of 12 or 13 years—from having built a basketball footwear and apparel company, called AND1, from the garage into about a $250,000,000 global business—had them thinking a lot as operators and entrepreneurs about how you might build a business differently, to be not just responsible but to also have a positive impact on society, and to be structured so that its DNA could withstand changes in not only management but also ownership. I spent 16 years in private equity, where I came to see some of those same problems, which started me thinking about how you might have a capital market that functioned differently.

At the same time, Bart and Jay were selling AND1. The three of us started having conversations about what we might do next in our careers that was more aligned to that set of values and how we could use the experiences we had had in the private sector. We went through an evolution, from thinking about building a business that could be the "shining city on the hill" example for everybody else, to realizing that there were thousands of entrepreneurs and larger businesses trying to practice business in a different way, but constrained both by the culture and the rules of the market.

We quickly realized that the market infrastructure didn't exist in any comprehensive way to allow any stakeholder—whether it was the business operators themselves or their investors or their consumers or the people who work for the company—to understand whether a company was having a positive impact on society and whether it could do that in a meaningful and lasting way. That led us to the idea that we should start an organization focused on changing the system, so that capitalism could create value for all stakeholders, not just for shareholders.

The *Quarterly*: *That sounds a lot like the Business Roundtable "Statement on the purpose of a corporation." Do you think the release of that statement last August represents an inflection point in what society expects from business?*

Andrew Kassoy: Yes. Over time, the standards that we've created have gained credibility, the companies that have become Certified B Corps are inspiring others, and the issues that have been raised by Larry Fink and the BRT [Business Roundtable] have become more mainstream. And all of those things have caused large public companies to start to approach us about certification. That has accelerated over the last 18 months.

The BRT announcement prompted a number of Fortune 50 companies to reach out to us to ask about certification. An important element of the culture shift in the BRT announcement was giving those companies a sort of “cover” to even have the conversation about thinking about business from not just a shareholder-primacy perspective.

The *Quarterly*: *Because shareholder primacy has been at the very foundation of our system.*

Andrew Kassoy: One of the earliest revelations for us, as three guys coming from the private sector, is that shareholder primacy is ultimately *undermining* the capitalist system. It became clear to us that shareholder primacy is the source-code error in capitalism. I’m not sure we would have put it in those words 13 years ago, but we had this realization that there’s a problem with the Milton Friedman statement of shareholder primacy.[2] This year is actually the 50th anniversary of that essay, which Milton Friedman wrote, which popularized an idea that lots of people had been talking about before that.

It’s important that the Business Roundtable statement specifically acknowledged the need to move away from the doctrine of shareholder primacy. I would say systems change, which we are calling for, requires some interdependent combination of behavior change, culture shift, and structural change. Our view is that unless we commit to making those changes—instead of just changing to a new message—and unless we make ourselves legally accountable by changing the rules of the game, we’re not likely to significantly change outcomes for stakeholders.

The *Quarterly*: *I imagine Friedman’s rejoinder would be: “Well, business leaders can try to change outcomes for whomever they wish as long as they do so with their own money. But why, if you’re the CEO of a corporation, should you be able to take the corporation’s money and apply it for your own select causes?”*

Andrew Kassoy: It’s important to talk about Milton Friedman in the context of his time. If we were simply talking about corporate philanthropy, I would agree with Milton Friedman. There were lots of examples of CEOs who largely entrenched themselves and their personal reputations in the communities in which they did business by wasting lots of corporate money on philanthropy so that they could be on the board of this, that, or the other.

But that’s not what we’re talking about at all. We’re talking about creating value for the stakeholders of companies, not how companies can give money away. We’re dealing with how companies think about their stakeholders and create value for them, by considering the interdependencies that affect the companies. For example, are companies paying their workers a living wage and, as a result of that, are they building strong communities that allow for a strong economy that doesn’t require massive amounts of government spending to solve problems that are being created by externalities like low wages or environmental damage?

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[2] Milton Friedman, “The social responsibility of business is to increase its profits,” *New York Times Magazine*, September 13, 1970, nytimes.com.

The *Quarterly*: *Doesn't the COVID-19 pandemic, though, suggest that a focused, profit-driven model still has a lot going for it? Aren't there positive effects for everyone when investors allocate capital to, for example, getting a vaccine out, having quicker testing, and manufacturing more ventilators?*

Andrew Kassoy: Sure. And we are advocating to use the power of business to solve society's greatest challenges. I don't see anything wrong with people making money from switching production lines from cars to ventilators. But there's also the matter of resilience. In the last downturn, B Corps were 63 percent more likely to survive through the downturn, when we look at other companies of similar size and industry. This is a different kind of crisis, and my sense is that it's hitting small business much harder than the big corporates that have more resources to withstand a downturn. If the first condition for a systems change is recognition of systems failure, this provides pretty good evidence that we have an economic system that's not particularly resilient. Companies aren't resilient, and their workers aren't particularly resilient.

Obviously, you can't blame business for the coronavirus. But we can certainly say that the economic system isn't set up to allow people to be very resilient in the face of it. And—I don't want this to sound the wrong way—but this is pretty good training for climate change, which will be a far bigger disaster if we don't change the way we function. A virus has, eventually at least, a vaccine, which will limit its impact. The systems-level impact of climate change will be bigger. I look at coronavirus as a warning sign. It suggests that we need a more resilient structure to our economic system, and a more equitable way.

The *Quarterly*: *How does a business leader solve for a more equitable way, if he or she is not solving for shareholder-wealth maximization over the long term? How does she decide, really, whether to put a dollar into environmental footprint or to higher wages or to R&D? I imagine you've heard that critique before.*

Andrew Kassoy: I have certainly heard that before, and I think it can be a bit of a misdirect. It suggests that maximizing financial return is clear and linear—I should make this strategic decision, and we'll maximize return, or I should make this other one and we won't. As if it's not a multivariate analysis when it's all about maximizing financial value, but all of a sudden it is an impossibly complex multivariate analysis when we start thinking about ESG [environmental, social, and governance] issues. The fact is, the reason we pay CEOs lots of money is to make those judgment calls all day long. That's what competitive business is about in the first place. It requires balancing for the long term. To support that, we have a tool called the B Impact Assessment, which takes a company through a long process of assessing who their key stakeholders are and what kind of impact they're having on them. It doesn't say ignore the shareholders; you still have to make money. It doesn't say you have to choose this stakeholder over that stakeholder. It's asking you to balance. And that leaves plenty of flexibility for CEOs and their boards to make really good judgements about which stakeholders are most important for the company's long-term viability.

The *Quarterly*: *How hard is it to get buy-in for that approach from investors?*

Andrew Kassoy: It's unfair to expect the 181 CEOs who signed the BRT to be the change agents alone, individually, in the face of a capital market where fiduciary duties push companies toward shorter-term behavior, or to maximize their returns. But members of the Business Roundtable who signed that letter can push the investment community to have a longer-term perspective—as they make investment decisions and as they vote in proxy situations—about the systems that are affected by their investment decisions, whether that's social or environmental systems. For most of them, the end owner is the beneficiary of the pension fund or the index fund or the mutual fund or the life-insurance company. The end beneficiary is, for the most part, an individual who's also a worker and a member of a community, who's affected by the behavior of the companies far more than just by the financial return of any individual company.

That said, I think we have to be careful about always asking the question in terms of what's financially material, because what's financially material and what has a positive impact on society and the environment are not necessarily the same thing. Sometimes they're the same thing, but sometimes there are trade-offs. I think it's important to talk about both and not let the "where there are some trade-offs" be an out.

The *Quarterly*: *Why aren't we seeing more publicly traded corporations receive B Corp certification?*

Andrew Kassoy: There are two big impediments. The first is that we've created a very high bar—performance is hard. We have always said the reason for a set of standards for our certification, and the reason for having those be transparent, was to help all stakeholders of the business know the difference between a good company and good marketing. For legacy companies that have been around for a long time—that have operations all over the place, low-wage workers, complicated supply chains, and big environmental footprints because of manufacturing or extractive elements to their business—it's hard to meet those standards. But that shouldn't be an excuse. Large companies have the resources to start that journey, and we have tools to help them.

The second is legal. Both Leo Strine[3] and the Delaware secretary of state were very clear when we originally talked to them about this: if a company were to try to amend its regular C Corp articles of incorporation to say, "We will consider the interests of our stakeholders," the Delaware secretary of state would have sent that amendment back with a "rejected" stamp on it. Their view was you *can't* make that blanket statement. Directors have discretion under the business-judgment rule, but they can't make a blanket statement that they are being held legally accountable to consider their stakeholders. So companies have to convince their shareholders to make a change in their legal accountabilities, to make them accountable to balance the interest of

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[3] Leo Strine served as chief justice of the Delaware Supreme Court from 2014 to 2019. Strine has most recently called for regulatory action to "encourage corporations and institutional investors to make the best interests of American workers, consumers, communities, and the environment an end goal of corporate governance, as important as serving stockholders," including requiring companies receiving bailouts or coronavirus subsidies to become public-benefit corporations under state law. See Dorothy S. Lund and Leo E. Strine Jr., "How business should change after the coronavirus crisis," *New York Times*, April 10, 2020, nytimes.com.

stakeholders and shareholders. Yet when you really put people's feet to the fire and talk legal commitment, that conversation can slow down. The big challenge ahead of us is to turn that cultural energy into structural change in the market—companies and investors need to go beyond nice statements of purpose by making themselves legally accountable to create value for society, and there are tools, like the Delaware Public Benefit Corporation, to enable that.

The *Quarterly*: *Do you think there is a limit to what the free market can solve? Or, properly channeled, can it solve more than we expect?*

Andrew Kassoy: Yes to both. The amazing thing, and for me the inspiring thing, about the first 16 years of my career was seeing the capacity of the private sector to create things, and to attract capital and talent in order to scale them. It's amazing what capitalism can produce that other systems have not been able to. It's pulled billions of people out of poverty and created innovations that have improved many people's lives. I think we, at our peril, underestimate how much business can do for social good if the system is structured in the right way.

I would also say we shouldn't be myopic and believe that free enterprise solves all problems, because there are plenty of challenges that the market simply can't solve. In the United States, we have racial- and social-justice issues that the market's not going to solve by itself. There are elements of the environmental crisis we face that are not going to be solved solely by business behaving differently. They're going to require public-policy solutions. The government and the not-for-profit sector are absolutely necessary. They're just insufficient without us changing the system of business and the capital markets as well. The reason we founded B Lab was not so that we could drive every company to be a B Corp, or to build an empire of B Corps. It was to create a model and a credible community of leaders who are using that model so that everyone else can follow and we can change the economic system.

The *Quarterly*: *Will every company get there?*

Andrew Kassoy: I'm a pragmatist. I drive a car that still uses gasoline. Engagement is very important, and there are lots of ways to engage with companies, whether they're B Corps or not. One of the things we recognized was that there are companies that want to get certified as B Corps, but it's going to be a long journey. We've recently created a program called B Movement Builders, which originally arose out of conversations with Paul Polman as he was transitioning out of Unilever, that is meant to engage with large public companies that aren't there yet. We want to engage with those kinds of businesses, because they, through a transformational journey, could dramatically change the kind of impact that they're having on society and the planet.

The *Quarterly*: *Are you concerned that companies, especially large ones, will cut back on these sorts of initiatives in the wake of COVID-19?*

Andrew Kassoy: I was at first. Several companies had signed up to be in the Movement Builders pilot cohort in early April, just before coronavirus really ramped up. And, I admit, I suspected that given everything that happened after that, each of them might put this on hold—you know, “We’re still interested, but not now.” But *all* of them have confirmed that they absolutely do want to proceed. In fact, quite a few additional multinationals then reached out to us as well. It’s turning out that the Movement Builders program could be something that we actually scale through this process. To me, that suggests that at least some subset of big companies recognize that this is a moment of truth. It’s a wake-up call.

The *Quarterly*: *What should CEOs read to become more informed?*

Andrew Kassoy: Particularly now, I think *The Water Dancer* [One World, 2019], a great piece of fiction by Ta-Nehisi Coates about the underground railroad. I recently read W. E. B. Du Bois’s *The Souls of Black Folk* [A. C. McClurg, 1903], which I hadn’t read since college. One of the most striking things about a book written in 1903 is how many things that the author talked about then that can still feel true today. And you know, as a middle-aged white man, I can both acknowledge all the ways in which this country and the American dream have served me, and at the same time see all the ways in which that experience is not true for lots of Black and brown people. CEOs should read those two books. They probably don’t need yet another management book. Q

Andrew Kassoy is the cofounder and CEO of B Lab Global, the not-for-profit behind the B Corp movement. This interview was conducted by **David Schwartz,** a member of McKinsey Publishing based in McKinsey’s Tel Aviv office.