

## **Dollars and Change Podcast: How B Corps Are Creating a Stakeholder Economy with Bart Houlahan, Co-Founder of B Lab**

Bart Houlahan, Co-Founder of B Lab, joins host and Vice Dean of the Wharton Social Impact Initiative Katherine Klein to discuss the origins, work, and community of B Lab, the nonprofit behind the well-known B Corps certification. Houlahan describes how B Lab is building a global movement of corporations that meet the highest standards of social and environmental performance, and how these corporations are legally accountable to balance profit and purpose. Houlahan says we're at the tipping point in creating a stakeholder economy.

Transcript:

Klein: Welcome to Dollars and Change. I'm Katherine Klein, vice dean for social impact at the Wharton School. And I'm delighted to chat today with Bart Houlahan, co-founder and co-CEO of B Lab Global. Bart, thank you for joining me today.

Bart Houlahan: Thanks for having me, Katherine. It's good to see you again.

Klein: It's great to see you. So let's just jump into what the heck is B Lab?

Houlahan: Sure. So B Lab is a nonprofit that was started in 2006. In fact, we just had, this month, our 15th anniversary.

Klein: Congratulations.

Houlahan: Thank you, thank you. It both feels like a blink of an eye and an eternity at the same time, if I was really honest about it. And the objective of B Lab's been pretty clear since inception. We're trying to build an economy that will work for everybody, Katherine. One that is inclusive, equitable, and regenerative. So that's been our core vision for all 15 years. And we're fundamentally to get there trying to build a movement, a movement of people using this as a force for good.

Klein: So before we dig into specifics, let's talk about your origin story. How did you come to found B Lab? You had founded and built a company before B Lab, AND 1. So how did the shift come about, that you said, yeah we're ready to do [UNINTEL] [0:01:42.6] nonprofit to build a movement?

Houlahan: So there's three co-founders, and we all have slightly different origin stories. I'll share mine. One of the other co-founders, Jay Coen Gilbert, and I, along with a group of other folks had built an athletic footwear apparel company over about eleven years, a company called AND 1 Basketball. If you think about AND 1, it was kind of like Adidas or Reebok's basketball business on the side.

And so we were about as big as Adidas and Reebok, we grew into about \$250 million, and sold it, Katherine, in 2005. Believe it or not, AND 1 was a socially responsible business. We wanted to use those words describing ourselves back then, but we were just trying to build a company we were proud of. That meant taking care of our employees, and making sure they were centered in our work. Having an ethical supply chain, being and of a local community. By having strong charitable giving practices. And certainly being more and more aware of our environmental footprint.

And those values were really embedded in the business, Katherine. What we saw over the course of the eleven years, as it turns out it's really easy to be socially responsible when there's seven of you. And it gets harder as you start to scale. We did a leverage free capitalization with a private equity firm about seven years in. They were great investors, but we were no longer playing with our own money, right? Somebody had given us \$30 million, and we knew that we had a fiduciary duty.

And then at the moment of liquidity, the moment it was time to sell the company, it became abundantly clear that our requirement by law was to maximize the return to our shareholders. And so as we had conversations in our board room, we couldn't even talk about the values that we had embedded in the company due to our fiduciary duty. And though I bear no ill will to the gentleman who bought the company, he absolutely paid us a fair price, I don't know, within six months of the sale he stripped all of those values out of the business.

He fired our entire team, he eliminated our ethical supply chain, he got rid of all of our charitable giving practices, and all of our environmental efforts. And it fell to the back end that there had to be a better way, right? There had to be a way you could scale, raise capital, and even have a liquidity event and hold on to the mission of the business. And so for me that was the beginnings of the idea of B Lab. A way to essentially build a business with mission and purpose at the center.

Klein: And how does B Lab do it? What is your mechanism of choice? Is it the certification process?

Houlahan: Partly, partly. So zooming back out to that vision, right? To try to build a more equitable, inclusive, and regenerative economy, the approach that we take is really quite simple. We begin by finding leaders, best in class companies, who, you are right, we indeed certify as b-corporations. That certification is intended to manifest that which we're trying to create, right? A set of leaders who have determined that, indeed, you can both make money and make a difference at the same time.

And if we shine a light on those leaders and tell their story, and then give tools to others to follow, Katherine, we're trying to build this movement. And so the community of certified b-corporations, there's about 4,000 certified b-corporations, and they have inspired around another 160,000, 170,000 companies to use our tools to try to use their business as a force for good. And

so that's at the highest level of the strategy, right? Demonstration effect by shining a light on leaders and giving tools for others to be more like a b-corporation.

Klein: I'm curious about the decision to certify companies. We sometimes liken to a good housekeeping seal of approval for people who remember that term. But it is an evaluation of companies, companies go through this certification process, you ask them about all sorts of features of the business, footprint, how they treat workers, how they engage in the community, and so on.

But there were other strategies you could have chosen, right? You could have chosen, well we'll be journalists, and we'll advance storytelling. We'll bring people together for workshops, and with some CEO's we'll try to inspire other CEOs. I don't know, we'll do board training. What made you think certification was a key tool to achieve the ends you wanted, and has it been?

Houlahan: Yeah, so I think certification was — it is a means, not an end, right? And the means is intended to identify a leadership set, a leadership set that can inspire. And so the certification is just about trying to make sure that people understand that these companies have indeed met the highest standards of social and environmental performance, that they've embedded in their legal governance a commitment to stakeholders. So they're legally accountable to consider stakeholders. And they're transparent.

And what's interesting, Katherine, is if you zoom back out about the certification, those three pillars, a set of standards that defines what's good enough, a legal framework that changes the governance structure of a business, so it must consider something beyond shareholder privacy, and transparency. We think that those three elements are the necessary infrastructure to build that more equitable and inclusive economy, and we embedded all three in the actual certification.

So that's why it's a means to an end, right? We can point to these leaders, say they've taken and passed this set of standards that defines a comprehensive approach to sustainability. That they have changed their legal framework so they're required to consider their impact on all of their stakeholders. And they're sharing with the world, not only their areas of excellence, but their areas for improvement. And those three pieces are the elements of infrastructure we think are necessary for that economy of the future.

Klein: Got it. And it strikes me that when you started this 15 years ago, people were talking much less about green washing and impact washing, and different things companies may do to make — in an effort to make consumers think that they are ethical, that they are good for the world, that they treat workers well, and so on. But now people are talking about that a whole lot more. Do you see people turning to a b-corp certification as a way to say, no, no, no, we're not green washing, we're not impact washing, this is the real thing?

Houlahan: Without question. Without question. I think the certification does a few things. It certainly provides evidence to stakeholders that you're the real deal. That you are walking the talk, that you've met those requirements to join this really exclusive community of leaders. And

so we see people using it, I'd say first and foremost, Katherine, with their own teams. It is a way to attract and retain great talent, right?

You've been telling your team for years that you indeed are a different type of business. You now have a third party validation that you've met this incredibly high standard. Certainly we see people using it with consumers. As consumers have migrated towards trying to buy with their purchasing dollars more purpose driven brands. But beyond that we see people use it with investors, to try to make sure that they're aligning their investors with the mission of the organization.

It also has been quite useful, frankly, with policymakers as companies have talked about governmental contracts and how we can shift government work towards a more inclusive economy. And so it's kind of a multi-stakeholder brand. And it certainly provides validation for each of those different constituencies.

Klein: So talk with us about companies people may have heard of, listeners may have heard of. What kinds of companies, where in the world, what kinds of industries, what size? Who is doing this, going through this b-corp certification, and passing the bar?

Houlahan: Well, perhaps what I am most proud of 15 years of work is the community and its diversity. Because you can now find certified b-corps in more than 70 countries, 150 different industries. They range from multi-billion dollar multinationals down to sole proprietors. And I'd like to give you some examples. It includes some of the leaders of the sustainability movement for the last 35 years, like a Patagonia or a Ben & Jerry's or a Cabot Creamery.

But it also includes some new economy companies. AltSchool and Kickstarter. We see new unicorns like All Birds. But we also have companies in Afghanistan, the largest cell phone provider in Afghanistan, Roshan, is a certified b-corp. Natura Cosmetics in Brazil, which is one of the early social enterprises, and has bought the Body Shop and Avon, is a certified b-corporation. [UNINTEL] [0:11:55.8], one of the founders of the Global Alliance for Banking Values out of Amsterdam, they're a certified b-corporation.

And so we have really tried to find leaders in every industry, and in every geography, that are showing that there's a better way to do business, to try to inspire this movement. That everything hinges on having a community of leaders that are inspiring. Otherwise our other strategies to build the movement really won't have traction.

Klein: And you talked about the legal framework. So as I understand b-certification is b-certification is a certification that doesn't change your legal standing. So do I have this right? And when you talk about a legal framework, are you speaking about benefit corporations? How should we be thinking about the legal element here?

Houlahan: Sure, sure. And so admittedly it is confusing. We have a certification that's called certified b-corporations, and then we have a legal framework called benefit corporations. Let's kind of take them individually. The certification in fact does, Katherine, have a legal

requirement, all right? The easiest way to think about the certification, it's companies that have met an extremely high bar of social and environmental performance, who have then built their performance to last by changing their legal governing documents so that they are accountable to all stakeholders, okay?

They also have to be transparent, as we mentioned, with their overall performance. But those are the three requirements. Meet the bar through what we call our b-impact assessments, an online assessment that evaluates comprehensively your performance on five different areas. Workers, environment, community, governance, and consumers. So first you've taken, passed the test. And then that second requirement is once you provide evidence that you are really meeting this high bar, we've got to make sure that lasts, Katherine.

That it's not another AND 1, right? That you can count on the company to be able to maintain its commitment to this purpose. And every b-corp, no matter what the jurisdiction, has to rewrite their corporate governing documents so that they are required to consider the impact of their decisions on all of their stakeholders. So that's that legal requirement.

But here's how it is we've learned over the years, that in some jurisdictions you can't just cross out your old articles of incorporation and rewrite them. Because it's against current corporate law. And so in some jurisdictions we had to create a new legally recognized corporate form to allow a company to change its purpose and be accountable to considering the impact of their decisions on stakeholders. That is the benefit corporation form.

So we have now passed in, I think 43 states and eight countries, a new way to incorporate. So Katherine, the next company you start, you can choose between a traditional corporation, a nonprofit corporation, or a benefit corporation. And you don't have to do anything with me, like you go directly to the Secretary of State in Pennsylvania or in Delaware, and you register your business as this new legally recognized corporation form that makes you accountable for making sure you are delivering a different kind of value. Not just shareholder value, but stakeholder value.

Klein: Got it. So let's talk about 2020, 2021. So obviously super difficult —

Houlahan: Crazy.

Klein: This time where the world has been upended by the pandemic. And I know you said when we talked before that you thought this was going to be a really difficult time for b-corps, difficult time for B Lab. What happened?

Houlahan: Yes, I was terrified, Katherine, if I'm honest about it, right? Going in when the pandemic, the magnitude of the devastation became clear to me somewhere around March, April of 2020, that we were in for a really difficult twelve to twenty four to whoever knows now, right? How long we're looking at this. But we're certainly looking at a tough 2020. And Katherine, like any responsible business leader, we started running our scenarios for planning for what could be, we thought, a pretty horrific collapse of our community.

We thought that the pipeline for certification was going to dry up, that no new submissions were going to come in, because companies were going to be focused on just keeping their doors open. And then we were also prepared for a 20-40% drop in the size of the community, that the community was going to suffer massive losses as people, again, chose to bank whatever capital they had to deal with the oncoming economic devastation that we were all going to be confronting.

And so we froze hires, we cut \$3 million from our budget, we prepared for just a huge drop. And what was remarkable is it never did. You know, for our movement, 2020 was our biggest year by orders of magnitude. Let me give you some numbers. It's quite remarkable when I look back on it, we had — since the beginning of 2020 until now there have been 70,000 companies that have registered to use our impact assessment, the b-impact assessment as a tool to measure, manage, and improve their performance, right? It's a free tool, anybody can use it.

And leading up to that, Katherine, we had maybe 90,000 companies already on the platform. In 15 years' time, right? In 18 months, we've added another 70,000. I just mentioned that we have 4,000 certified b-corps, right? All over the globe. In those 18 months, we had another 4,200 apply for certification. Just a massive surge of submissions.

And what I find perhaps most compelling is at a moment when companies were failing at record rates sadly all over the globe, our community had the lowest attrition rate in the last five years. Our attrition rate was a little over 5%. It was stunning. And I've been asked over and over again, probably like, why? Why did you see this enormous surge?

Klein: Like, why? How did this happen, yes, that is the question.

Houlahan: And I think, Katherine, there's a few things that we've both been watching for a while, because this isn't out of the blue, right? Like if we go back to 2019, there were some important cultural moments in this movement, to use business as a force for good. One of which was the business roundtable announcement in August 2019 when they indeed said that there's a new purpose for business, and that they were going to leave their company for all stakeholders.

This roundtable is about 181 American CEOs, but some of the largest companies in the world, right? Google and Amazon and GM, Jamie Dimon from JP Morgan. They all declared this new purpose for business. Now without going too deep into whether we really need more proclamations right now considering where the world is, it is a super important cultural moment when the leaders of the largest American companies declare there's a new purpose for business.

That went forward to Davos at the end of the year, when Davos came out with the new Davos manifesto, where they declared shareholder primacy and shareholder capitalism dead, and that we were moving on to stakeholder capitalism. That's now moving right into 2020. And so you already had this energy. And then in 2020, if there was ever a year for a proof point that we needed a different type of economy, it was 2020, right?

Sadly, Katherine, we saw the pandemic just lay bare the inequities of our system, right? It's a virus for goodness sake. It doesn't care who it attacks. But these impacts were vastly disproportionately felt across the globe, and still are. And so it was really clear that you had massive disparities. Simultaneously you had long overdue calls for racial equity across the globe. And you put those two together, and what we heard over and over and over again last year was that people were not looking to try to get back to normal coming out of a pandemic.

They wanted a new normal, right? We weren't trying to just get back to where we were, because where we were created 2020. It created this enormous disparity of impact from a virus. And so that energy has really propelled the movement. And if I even go back to 2019, I should add like two other critical factors that lead to the BRT announcement.

Number one, the acceleration of wealth disparity, right? And so the truth is wealth disparity is not new, it's been around for millennia, right? But sadly it is truly accelerating. We went into 2019, where two thirds of the world's population had less than 3% of its assets. That's insane, right? That's just an insane number, if you just pause and think about it.

And also going into 2019, finally business leaders globally were awakening to the existential business threat of climate change, right? Existential threats to their businesses through climate change. They were seeing it across the board. And so you put all of this together, right? You have climate change, acceleration of wealth disparity, a global pandemic, and calls for racial justice, and the end result is an unbelievable surge in interest of people trying to use business as a force for good.

Klein: Yeah, that's so hopeful. I don't know to what extent that story is known. I mean, you are such an encouraging bellwether.

Houlahan: I hope so, Katherine. I hope it's predictive rather than a moment, right? Like I do think we're at an inflection point. And I think you and I will look back a decade from now at this moment, and say either this was the tipping point towards the stakeholder economy, and this was the launchpad, or the powers that be, of the embedded institutions, that have lots to lose with that shift, thwarted this amazing shift.

I'm optimistic obviously. I'm optimistic. This has been my life's work, and I'm optimistic about where we're headed, but I do think that this is going to be a moment we'll look back on coming out of this pandemic, as either the moment when we, on all fronts, addressed climate change with open eyes, we started to tackle some of the inequities that are born in our system, and we recognized that business had an enormous role to play in both creating those problems and solving them. Or we miss the moment.

Klein: Right. Well you know, I share these hopes, but it's great to hear them. It's great to have them reinforced, and get your insights and analysis. Let me wrap up with a couple questions about kind of leadership lessons. I'm interested, as you were — let's focus first on building a movement. What do you — there are not that many people who set out to build a movement, and

who you can talk with 15 years later and say, “So what have you learned in this time?” And you seem to have contributed for sure to the building of this movement. So lessons learned?

Houlahan: Thank you, that’s generous. And I’d importantly point out that there’s whole bodies of research on how to build a movement, so I’m far from an expert. I think the one thing that’s become clear to me though in the last 15 years is the need to let go. There was a moment probably about ten years ago when I realized that this was no longer ours, you know? It was theirs. And when I say theirs, I mean all the community and teammates and people around the globe working towards building this movement.

And so there was this recognition that if we were really going to see acceleration, you had to let go, but you had to let go in a way, Katherine, where you certainly made sure that there were certain things that could kill you, but were certainly controlled. And so anything that didn’t kill you, you needed to let go of, and make sure that you stayed really focused on the things that could absolutely blow up a movement. And for us that was about credibility, right? At the core.

Any significant mistake on credibility, integrity, or rigor of our standards, or our certification could have upended this entire effort. And so that remains like a core focus. We talk all the time about scaling with integrity. That’s like the mantra at the organization, how do we scale with integrity? Because a movement needs the scale. But at the center of this work is the idea of values, and if the values aren’t embedded with integrity, rigor, and credibility, we have nothing.

Klein: Right. And then leadership thoughts, leadership lessons from 15 years of building this nonprofit? After many years, I don’t know exactly how many, of building a for-profit, a very successful for-profit, AND 1. So how do you think about things you’ve had to learn, things you’ve done well?

Houlahan: So I guess I would — the difference between leading a for-profit and a nonprofit for me haven’t been that significantly different. The critical component for me of being a good leader, or the leaders who inspire me, I should say, that I aspire to be, are leaders who have the humility to know what they do well and know what they don’t. It is extraordinarily rare to find businesses that have been successful built by one person, right?

At the end of the day this is a team sport, and I’ve been incredibly fortunate both at AND 1, where I worked with an incredibly talented team, and a group of partners that started that organization, and co-founders at B Lab, and the team that we’ve built around us. And then frankly we now have offices in 33 countries, and those offices, Katherine, are independent nonprofits, right? That have their own leadership teams that recognize the realities on the ground in those markets.

You have to — the height of hubris would have been these three Americans to say let’s go build a movement to use business as a force for good in Paris. At the end of the day, you have to find people in Paris who understand that local context and can drive this movement. And so for me the key is to know what you do well and what you don’t, and find great people who complement you and make you better.

Klein: Great. Bart, thank you so much for talking with us. It's always great to catch up, and as we struggle to know just how far — are we ending the pandemic, is the pandemic ending in the United States, what's really going on around the world, where are we in all of these challenges, the climate challenges, racial inequity. It is great to have some really hopeful signs that business is indeed stepping up. So thank you so much.

Houlahan: It was my pleasure, Katherine. Thanks for having me.

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