



AN ENTREPRENEUR ACADEMY WORKBOOK

RESPONSIBLE BUSINESS

Lesson 2: Starting a Responsible Business

**“It takes 20 years to build a reputation and five minutes to ruin it.”
- Benjamin Franklin**

Corporate social responsibility is an evolving business practice that incorporates sustainable development into a company's business model. It is not enough for companies to generate a profit anymore. Today's customers want to do business with companies that also demonstrate good corporate citizenship.

In the days of timber barons and steel magnates, making money was the primary and often only purpose of any enterprise. Times have certainly changed. More and more, employees and customers want to forge a relationship with a company that has a higher purpose, something tied to an important social cause such as the environment, hunger, homelessness, equity or social justice.

Millennials seem to be leading the charge in this realignment of consumer practices with personal values and work ethics. A Pew Research Center study showed that 75% of the workforce will be composed of millennials by 2025. A second study showed that 64% of this generation wouldn't accept a job at a company that didn't have strong corporate social responsibility values. One can safely assume they have a similar view when it comes to their spending habits.

How can a new business make a difference and money at the same time? Patagonia is an excellent example. Since 1985 the company has pledged 1% of sales to the preservation and restoration of the natural environment. That's more than \$89 million in cash and in-kind donations to domestic and international grassroots groups against nearly \$1 billion in annual sales.

The idea of a Social Purpose Corporation (SPC) is relatively new in Washington State, becoming law in 2012. It is sometimes referred to as a "triple bottom line." When the legislature created SPCs, they made the list of purposes that roughly translate into these four buckets:

- *Environmental*
- *Philanthropy*
- *Ethical Labor Practices*
- *Volunteering*

A lot to think about already, right?

As a Social Purpose Corporation, the directors of the organization can weigh and consider the designated social purpose before making decisions, even if it results in a lower financial return to shareholders. Directors are legally protected in instances where they decide to choose environmental or social impact over economic gain.

On the plus side, this form of corporation makes it clear to your customers what you stand for. It is relatively easy to form, even if you're currently an S or C Corp that wants to convert to a Social Purpose Corporation structure. As an SPC, it's easier to attract investors who are liked minded, and the formed business is built with the long term in mind. It's difficult for shareholders to mount a lawsuit since the purpose takes precedence over profits. Still, shareholders do have a say in determining the corporation's mission, so there is a substantial amount of buy-in to the direction of the company from the get-go.

On the downside, you're still on the hook for all sales and use taxes, just as a corporation is. If there are dissenting shareholders who want out, you'll need to cash them out, so you'll need to make sure your financial projections factor this in.

Profit and purpose can go hand in hand.

Making a buck and tackling an issue are not mutually exclusive. The secret is to align the "why" (your purpose) with the "how" (your operations), then creating products and services that fulfill real needs. As you think about your company's purpose, choose something you are passionate about. Be bold and be steadfast in your vision and mission as your entire team will need to embrace it and infuse it into every action and decision your company makes.

One of the benefits of the SPC structure is that it protects your stated purpose from future influence. Even if new investors come in or there are changes in senior management, the company is legally obligated to consider its social purpose as well as its stakeholders when making decisions. This adds a level of consistency and sustainability that traditional corporations are rarely able to achieve, let alone maintain.

This is particularly true for businesses whose designated purpose is aligned with the environment. As external pressures to be good stewards of the environment continue to build, a social purpose corporation can clearly articulate that connection.

Combining a for-profit and social purpose model has an added advantage when it comes to attracting and retaining workers. As noted, future generations want to tie their labors to meaningful work, and that often means working for a company whose mission and activities are aligned with personal and professional values. Additionally, the culture of Social Purpose Corporations tends to be stronger, as employees and management are all on the same page.

This is a new way of thinking about corporate wealth, one where social and environmental change occurs in parallel with profits. Wealth becomes more than quarterly earnings reports. It permeates on many levels, changing the trajectory of the company from the beginning.

Your story tells itself.

Increasingly, customers want to support businesses that stand for or support what they do. Paying lip service to a cause in an ad campaign or doing some gimmicky marketing play to appease an audience doesn't work anymore. Customers want to know who you are, they want to hear authentic stories and they want to see that you stand by what you say and deliver the goods.

A great example of this is Tom's Shoes, which was founded on the idea that for every pair of

shoes they sold, they would donate a pair of shoes to a child in need. Since 2006, they have donated 95+ million pairs of shoes. For every \$3 in profits, \$1 goes to one of their causes, whether its kid's shoes, sight restoration procedures (780,000), weeks of safe water (722,000) or any other social cause that is important to them and their customers. Tom's doesn't have to do a thing to embellish them or connect them to a cause. The work speaks for itself and public opinion takes care of the rest.

Lead authentically, and others will follow.

Social Purpose Corporations tend to draw like minds. That's not to say you want a team of clones, built in your own image. Instead, you want people from all walks of life who have the same purpose. They are all committed to your company's vision. If your team, customers and suppliers are excited and proud to be associated with your company, sustainable growth will come naturally.

This all begins with you, of course. As you think about your new enterprise, think about what is important to you. What do you genuinely care about?

As you formulate a social purpose that is aligned with your own values and passions, extend it to what a team would look like.

- *What would make them proud in terms of their work at your company?*
- *What causes align with that sense of pride?*
- *What undertaking is large enough in scope that you can make a lasting impact over time.*

It's easy to give money once to a smaller cause. Any business can do that. But this will be your continual focus; it will inform your culture, shape your operations, and over time, become the lasting legacy of your business. Think about Patagonia's workforce. They come in all shapes and sizes and are interested in a range of outdoor pursuits, from flyfishing

and mountain climbing to surfing. But they are all bonded with the same purpose – good stewardship of the environment – creating a motivated, almost fanatical workforce that is committed to the company, its customers and its reason for existing. Everyone, from the CEO to the mailroom clerk, is part of the salesforce.

Finding your purpose.

Yvon Chouinard didn't start out to found Patagonia. He spoke out regularly about the environment, taking a strong stance for Yosemite Valley way back in 1988. He also put his money where his mouth was. When he started Patagonia, he pledged to donate 10% of pre-tax profits to small nonprofits dedicated to environmental preservation. Later, that pledge was raised to 1% of total sales.

Now, you may never be Patagonia. You may be content to be a small business on main street supporting a local food bank. The beauty of a Social Purpose Corporation is that the structure scales nicely for companies large and small. And if you do end up being the next Patagonia, you don't have to change anything about your structure down the road.

Getting started.

1. Decide on your business name.
2. Create an account on the Secretary of State's website. You may want to talk to an attorney before going further since there are specific requirements regarding the formation of a Social Purpose Corporation that are a little more complex than a basic sole proprietorship or partnership. For example, you will need a registered agent, someone who lives in Washington who will receive all the official notifications about the business.
3. Create your articles of incorporation. This is where you can articulate what your social or environmental purpose is.
4. When you file, you will receive your Unified Business Identifier, commonly referred to as the UBI Number. This is used by other state

agencies such as the Department of Revenue or Employment Security Department to track your business.

5. You will need to create bylaws, which cover how you will conduct the business of your corporation. You will also need to be sure that you are filing the correct forms that create a Social Purpose Corporation as opposed to a C or S Corp or LLC.

6. Once you have your Unified Business Identifier (UBI) from the state, you can file for your federal employer identification number (EIN) with the IRS. You will need this to file taxes and open a bank account.

7. Depending on your type of business, you might need additional business licenses and permit. The Business Licensing Wizard is an excellent place to start your research. You'll also want to check with the county and/or city your business is in for additional licenses and tax filings.

Assignments

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