



THE TRUSTED ADVISOR

THE TRUSTED ADVISOR is our firm's regular publication, featuring not only articles and insights derived from our project work but also guest posts and interviews with leading business figures. They offer food-for-thought and practical advice on a variety of key topics in the leadership, ownership advisory, governance and strategy domains.

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The Benefit Corporation

Building a culture of purpose as the business model of the future?

by Andreas von Specht and Dr. Christian Bühring-Uhle

Traditionally, a business either operates “for-profit” or “not-for-profit”. The majority of businesses are, of course, “for-profit”, existing to generate revenue to benefit a sole proprietor, or a larger group of members or shareholders. By contrast, a “not-for-profit” organisation generally exists for the primary purpose of serving a “greater good” or social purpose other than profit. Non-profit organisations may certainly earn money and create profits; however, this money must always be put back into the organisation itself and used to benefit the mission for which it was formed. In other words, no money is distributed to owners or shareholders. Benefit Corporations, simply put, do not see a contradiction between “doing well” and “doing good”: they pursue the dual purpose of making money for their owners, and making the world a better place. They combine the “greater good” and social purpose of a non-profit organisation with the freedom to create and distribute profit among owners and shareholders.

Launched in the United States, Benefit Corporations fall into two main categories: legal “benefit corporations” which face legislative requirements to generate both shareholder and social benefit, and “Certified B Corporations” which are not legally bound but are certified by the not-for-profit organisation “B Lab”. Both types of entities are referred to among proponents as “B Corps”.

B Corps are for-profit companies that pledge to achieve social goals as well as business ones. Their social and environmental performance must be regularly certified by B Lab. B-Lab was set up in 2006 with three goals. The first goal was to create an externally valid mechanism for accrediting. That somebody could look at a company and with a relatively simple grasp could say: “that is a good business.” The second goal was to change legislation. In most countries in the world, including some states of the US, it is not even legal to have the governance of an organisation measured by purpose as well as profit. If you are a Director of a company and you make a decision that is not in the immediate financial interests of the shareholders, you could theoretically be sued. So changing legislation to allow purpose to be imbedded into the governance of organisations was critical. In the past six years, 27 states have passed laws allowing companies to incorporate themselves as “benefit corporations”. And the third objective was to create a kind of community, so that companies who are interested in more than just making money can learn from each other and do new things.

The commitments that these B Corps are making aren’t just rhetorical. Whereas a regular business can abandon altruistic policies when times get tough, a Benefit Corporation cannot. Shareholders can sue its directors for not carrying out the company’s social mission, just as they can sue directors of traditional companies for violating their fiduciary duty.

Why would any company tie its hands this way?

Becoming a B Corp raises the reputational cost of abandoning declared social goals. It's what some economists might call a "commitment device" — a way of insuring that you will live up to your original promises. Being a B Corp also protects a company against pressure from investors. Since the 1970s, the dominant ideology in the corporate world has been that a company's fundamental purpose is to boost investor returns: as Milton Friedman put it, increased profits are the "only social responsibility of business".

Many, if not most CEOs, still feel huge pressure to maximize shareholder value. At a B Corp, though, shareholders are just one constituency. In today's fiercely competitive business environment, one might assume that a company that thinks altruistically is doomed to failure. To a die-hard free-marketeer, a B Corp is just a way to waste shareholder money on "feel-good" projects. However, sustainability and good corporate citizenship are issues that are routinely covered by the media, and businesses are very aware of their reputation on these issues. Businesses are also increasingly aware that their reputation can hugely impact their ability to compete for talent and engage consumers, both as loyal customers and also as promoters for the brand. Having a social mission can hence offer distinct advantages. It's an important way for a company to attract and retain top talents. Research data shows that talents – especially younger ones, belonging to the millennium generation – want to work for socially conscious companies, and will even accept lower compensation in exchange for a greater sense of purpose. Until now, such people often work for not-for-profits, but B Corps may soon become a more attractive option.

Why does a culture of purpose matter?

Just watch the world around you. We are in the middle of another industrial revolution – but this one is happening so much faster than the original, which took almost a hundred years. The unbelievable pace with which markets, industries and business models are changing is stunning and unprecedented. In parallel, the political landscape is changing rapidly – causing a great deal of uncertainty and even fear. Systems of transportation, energy and communication are in the middle of this third revolution. Little will remain as we knew it in the 70 years before. And more and more, it becomes a common belief – even in the US, China or India – that we will have to treat our planet with more care. At the UN conference on climate change in Paris last November, 196 countries agreed to set a goal of limiting global warming to less than two degrees Celsius compared to pre-industrial levels. The agreement calls for "zero net anthropogenic greenhouse gas emissions" to be reached during the second half of the 21st century. Yet this will not be nearly enough in the long run; it doesn't suffice that only country leaders sign protocols and treaties. A huge challenge also lies ahead for company leaders around the globe to contribute to "saving the world": they will need to build a culture of purpose.

Purpose predicts success

The need to build a purposeful corporate culture, however, is not exclusively based on concerns for the environment and our world. Research clearly indicates that purpose oriented employees are 50% more likely to become leaders in their organisations, consider that their work makes an impact, and believe that they grow both personally and professionally. 79% of purpose-oriented workers plan to stay with their current employers longer than two years compared to 69% of their peers. They are almost twice as likely to recommend their employers. US research revealed that less than 1/3 of the U.S. workforce is purpose-oriented. It also revealed that women are significantly more likely to be purpose-oriented than men.

Non-purpose oriented employees by contrast tend to leave their job sooner, to gain less meaning from their work and to lack deep relationships at work. Purpose orientation of employees results in "higher net promoters of brand", "higher levels of meaning", "higher leadership potential" and "higher retention". By building a culture of purpose, organisations will likely get into a much stronger position to attract the best and smartest talents around the world!



Benefitting society as well as shareholders

An interview with Lorna Davis, Chief Manifesto Catalyst at Danone

by Andreas von Specht and Nick Harris

AvS: Danone has entered into an agreement with B Lab, the organisation that accredits B Corporations, or Benefit Corporations. What does the concept of the 'Benefit Corporation' mean for Danone as a global FMCG company?

Lorna Davis: It's about finding a credible mechanism for transforming a global business that is a marriage of purpose and profit. So B Corporation status would be – if you like my simple language – the 'Fair Trade of Business'; somebody could look at a company and with a relatively easy grasp say that is a 'good business'. It needs to be externally motivated and externally credited, with both a legal and a community purpose.

AvS: Why is this so important?

Lorna Davis: B Lab, the non-profit organisation who initiated this idea in 2006, started off from the "try-to-change-the-world" perspective. And if you look at the 220 questions in the 'B Impact' questionnaire that gets you accredited, they tend to be very small company focused. So, for example, you get a lot of points for local sourcing. However, when you are a big company, often you are globally sourcing and that has all sorts of benefits. Take Evian water. The carbon footprint of a bottle getting from Evian to Shanghai on a train and a ship is smaller than the carbon footprint of driving it in a truck to Brussels. We don't think that global vs. local is necessarily the only question. So what became clear to us is that B Corporation thinking is very interesting but to get this movement to build scale you are going to need big companies to get on board. And ultimately, consumers will say: "I want to buy from companies that are doing good as well as making money."

AvS: For Danone, this is the continuation of a long journey?

Lorna Davis: Indeed, yes. We have always been purpose driven in some ways. In 1917, when Daniel Carasso started this business, yoghurt was seen as very good for your stomach and was sold in pharmacies. Then Antoine Riboud took that on, saying publicly in 1972 that the responsibility of a company does not end at the factory gate, and launching what he called the 'Double Project'. Frank Riboud took it to another level again in the 90's, by creating the mission "to bring health through food to as many people as possible". The organisation then sold off bits of the business that were not consistent with that and bought into more healthy products, like Numico infant nutrition. In the early 2000's we started a system, a mechanism in the company called the "Danone Way": a training, accreditation and auditing system inside the company to ensure our people around the world are doing their job in an ethical way. In 2006, we launched 'Danone Communities', creating a partnership with Muhammad Yunus in Bangladesh, to launch nine social businesses designed to change the world, each in its own little way. Its only purpose is to make social change, not to

make money. Then in 2009, we created an 'Ecosysteme' Fund which received a hundred million dollars from the shareholders, and we said to all of the people in the Danone business, we want you to create meaningful projects that are good for the world in your local environment.

AvS: If you look into the future, transforming the core of the Danone business – what's your sense of how costly this will be, how difficult, and how long it might take?

Lorna Davis: The answer to the question is: I don't know. The question implies that this is an either-or-game, which it in fact has been in the past.

AvS: Is it still an either-or game today or is it possible to do both?

Lorna Davis: We think ultimately that there is no trade-off. But the question is time. How does that work in a week, a quarter, a month, a year, a cycle? And that's where you need maturity, you need an understanding of nuances, and where we think you see a magical combination happening. For example, in Romania, our country GM partnered together with a local NGO and with the Red Cross, to promote natural birth and breast feeding. The Romanian founder of the NGO learned a huge amount from our business people about how to get things done, and our GM learned about how to make a real difference in the community. There are many people in communities who are trying to do real good, and then there are people in business who are really good at achieving results. And so if you put together the desire to do good and add that to the ability to really get stuff done, you get this magical combination. 15 or 20 years ago, people would speak about it but then they wouldn't deliver it. But as the issues of the world get bigger and bigger, as people realise that the system is not sustainable, as people realise that there is a better way, they say: "actually, I am going to put my money on what I believe in."

AvS: Does this resonate more with young audiences only, or is it not that clear cut?

Lorna Davis: Good question! It is complicated. For young people it is, in a way, not even news. Like that's the way the world is. But what I notice is that we are all complicated. People have this interesting internal dynamic around their desire for money, power, and success. Particularly people who have young families and are early on in their careers. They have this internal tension around making a difference versus climbing the ladder, irrespective of whether the ladder is against the right wall. We haven't really seen a pattern yet except to say there is a bunch of younger people that are very clear, they are in. There is a bunch of people on the sides, for example the people who work in Ecosystemes or Danone Communities, who are clearly in and who are willing to trade off more material ambitions. And then it gets more complex.

AvS: What kind of resistance do you encounter and how do you deal with that?

Lorna Davis: I love the concept that there are only two realities in life, either love or fear. And by definition, if somebody is coming at you with anything that isn't love, it is fear. So the question is: what are they afraid of? And so resistance is just fear. And it's understandable – we are all terrified; if we weren't terrified we wouldn't be awake! Life can be scary. So empathy is really important. I never met anyone who was purely nasty; people are just frightened. Empathy is therefore important to overcome initial resistance. Credibility is also important; if you don't know what you are talking about, then why should anybody listen to you? And then you have to have logic. If you think that someone's rationale doesn't make any sense, no matter how much empathy they show or how much structural power they have, people aren't going to listen. So a combination of empathy, credibility and logic is needed. But the biggest chunk of it, in terrifying times like these, is empathy, because people are afraid.

AvS: If you think about the challenges you are facing, what keeps you awake at night?

Lorna Davis: It's the balance between disruption and stability. Big corporations are generally structured around a manufacturing process; they are designed to organise, to create discipline in activities, to allocate tasks in a chain. Effectively what we are trying to do now is move from this 'mechanical' system to an 'organic' system where we operate more intuitively and are much more porous to the outside world, much more connected with NGO's, governments and communities. As you are moving from one system to another, you need to disrupt the first system enough so that people understand the old rules don't exist anymore. But at the same time replace that mechanism with another system, one that is more fluid, more natural, and more organic. That is not easy to do in real time.

AvS: Are employees getting actively involved?

Lorna Davis: When we launched the Danone B Corp manifesto, we asked employees: "if we would live this manifesto, what would that look like?" And we offered a prize for the top 21 ideas. Unbelievable ideas came in, mostly from the younger people in the company. One recent idea was to run a 'Manifestival', an open air festival where you combine a mixture of music, messages from inspiring young people who are trying to change the world, and demonstrations of socially valuable projects. The idea is brilliant. But then the question is: "how are we going to find a way to bring that idea to reality?" We will need to take resources from somewhere in the organisation, find the money, put a team together. And that is just one example. There are hundreds of ideas being generated and each one is an opportunity to learn a new way of communicating, to live a passion.

AvS: How do you try to prioritise from all the ideas coming in – do you have a matrix or do you go on intuition?

Lorna Davis: It's a combination. First of all, it is good crowd sourcing technology, so if a lot of people think it's a good idea, than probably it is a good idea. For example, one of the biggest ideas is that every 'Danoner' should be an ambassador for every division of the company. At the moment, we might have someone in the Water division whose sister is pregnant but he doesn't know anything about babies, even though Danone has a whole Infant Nutrition division. So the question is how do employees access the available knowledge? How do we get every single one of the 104,000 Danoners into a position where they know what they need to know about the rest of the company, and are able to access expertise and resources to make meaningful contributions outside the group? It is a big idea; it is complicated but the prize is significant. We are going after those ideas because there you've got leverage. It is like a matrix: size-of-prize / degree-of-difficulty. There are some ideas out there which are big and difficult. Equally, there are some ideas that are smaller scale but still important which I'm encouraging at a local level. One young employee came up with the fantastic idea for a recycled container that uses solar energy to clean water, for example in Africa. His idea is being funded by his boss directly. He is working on prototypes, and then hopefully we can scale it up.

AvS: If a general manager were to come up with a brilliant business idea in the sense of being commercially profitable, but which ran contrary to where the company is trying to go in terms of ethics, what would happen then?

Lorna Davis: It is a great question; it is one of the reasons we are so interested in the external community. We are not a very authoritarian company and we are much more interested in raising the internal awareness of our people. But when one makes a commitment to the outside world you then have to think very carefully before you break it. So I think that the external connections are coming now full circle to B Corp. When you are part of a community that wants to make a difference in the world and you have decided that you are going

to do something for the greater good – let us assume that you are going to change to a new kind of ethically sourced packaging. But the costs of that packaging goes up and you could easily go back to a non-ethically sourced packaging that is cheaper, and maybe nobody would notice. But if you are part of the community, you are going to think about these questions differently.

AvS: Lorna Davis, thank you very much for your insights!



Talent seeks purpose

The implications for talent at 'purpose driven' companies

by Nick Harris and Felix B. Waldeier

Competency based assessment and development has been around for decades, and while best-in-class companies have continued to evolve the individual competencies over time, the underlying bedrock – results orientation, strategic orientation, team leadership – remained broadly constant for a long period.

During the more turbulent times since 2008, the 'War for Talent' did not cease but rather has become more nuanced, context-specific and difficult. Finding leaders with a strong (historic) track record of driving results is no longer enough; companies needed to extrapolate into the future of executives and identify those with the potential, and the character, to perform in environments which are not just more pressurised and competitive but also continually changing. In a "VUCA" world (volatile, uncertain, complex, ambiguous), companies need more than just solid 'corporate soldiers'. They need leaders who demonstrate resilience, adaptability, intellectual curiosity, creative thinking – not least in order to be able to attract new talent among a target group that is becoming ever more demanding and "picky".

And as if that were not enough, a new dimension is increasingly coming to the fore – both for employers and executives: doing well is no longer enough, they also want to do good.

Talent magnets

Employees and consumers worldwide are increasingly saying that they do not want to be associated with companies that, put simply, "don't care about the world". Millennials, in particular, 'vote with their feet' and do not want to work for companies that appear unconcerned by the environment and society in which they operate, companies where they cannot see the purpose.

Big businesses have in-built advantages in terms of scale, resources, competences and expertise. Organisations that can take that existing structural power and then add the purpose-driven dimension, will win in two ways: firstly, becoming more attractive to consumers as a provider of goods or services, and secondly, becoming a magnet for employees who want to work in an environment which is not just successful but inspiring. Danone, for instance – which already had a history of "doing good through the provision of healthy food", and which is now one of the first Europe-based multinationals seeking to transform its organisation towards a 'Benefit Corporation' – has already seen this have a positive impact on its talent attraction.

The career helix: doing well vs. doing good

While for younger generations especially this concept of 'doing good' as a consumer or worker is not new,

the practical realities are more complicated. Employees and executives have complex, sometimes competing, internal dynamics around their desire for advancement, money, power and success. Particularly executives who are early on in their careers, or who have young families to provide for, often have an internal tension between 'making a difference' and 'climbing the ladder', irrespective of where that leader is leading to.

Curiosity is king

For those who aspire to reach the C-suite, (multi-region) international experience is now a must. Western business leaders who have spent time living and working in developing markets such as China often find that this experience changes their perspective, sometimes in a fundamental way. The standard, predictable solutions which they are used to finding in developed markets often don't apply there. The speed and unpredictability of emerging markets is greater, and reliable data is in shorter supply. Curiosity is a manager's best friend and the ability to learn on the go is vital. Aspiring executives who imagine that a business career is a smooth progression, or comes clearly marked with warning signs, are not going to enjoy managing an international business in today's environment. A different set of skills is required for navigating a journey where uncertainty and change are constant companions.

Orchestrating change

Inspiring an organisation to change itself fundamentally, whether to survive a new competitive challenge or to become a force for good in society, cannot just be commanded from the top. It requires both the right conductor, to instigate and engage the organisation from above, as well as an energised and enthusiastic groundswell of support. More junior employees also need to feel that their voices are heard and that they can operate within an organisation's matrix to make things happen. And companies must ensure that the interplay between their internal organisation and the world externally is more open and fluid, that they are simply more connected to the outside world.

Leading the parade

What then does it take, in terms of competencies, for a person to be a successful change agent? Successful, global companies increasingly look for people who display two competencies similar to those needed by managers in China: first, "enormous curiosity" and the ability to think broadly; second, the ability to handle ambiguity and navigate a way through the complex systems and dynamics that exist within a large company. The third competency, and arguably the most important, is they need to be able to get things done while at the same time "codifying" what they are doing so that they can turn a project into a lesson – make it happen, distil what success looks like and how it was achieved, and use the learnings to teach others. This parallel processing is a critical skill. The final key competency is influencing. Persuading people and acting as an 'ambassador' of change requires a combination of behaviours – empathy, credibility and logic. "You can't just turn up in a country and say: I am here from the head office and I am here to help!"

Turning up the heat on competencies

How companies grade and evaluate their people, the traditional career structure will all change significantly over time. While not looking to completely reengineer their existing career structures immediately, some of the most dynamic global corporations are already looking to "turn up the heat" on critical competencies such as learning agility. Expectations around behaviours are also being raised; career derailers are being highlighted more openly and red flagged earlier, for example 'territorial behaviour'.

The most highly rated, and in-demand, managers will be those who do not just score well on driving results

but who also have the ability and willingness to open connections externally, and to provide meaningful value for their employees, customers and community.

Equally, the most successful, and sought-after, employers will be those who do not oblige their workers to make a trade-off between doing good for others and doing well for themselves. Companies can give themselves a sustained competitive advantage through the attraction and retention of top talents with whom there is a shared harmony of (profitable) purpose.



AvS News

**Recent news and developments at
AvS – International Trusted Advisors**

The past months were marked not only by interesting client projects, but also by exciting developments within our firm that we are delighted to share with you in this edition of THE TRUSTED ADVISOR.

Presentation of a European study by EY and AvS on “External Executives in Family Companies”

Since 2014, we have carried out a study on “External Executives in Family Companies” together with EY and supported by ESCP Europe (Berlin). Company owning families and external managers form a strong team in many family businesses today. But what makes some of these teams more successful than others? What makes a family business an interesting work place for excellent managers? And what are the crucial sticking points that enable a harmonious and long-term cooperation for both sides? We have received answers to these questions as well as many interesting perspectives from large family businesses. Initial results were presented a few days ago during the “EY World Entrepreneur Of The Year 2016” conference in Monaco. Within this event, and as part of the “EY Global Family Business Summit”, Andreas von Specht moderated a roundtable discussion on “Effective leadership: attracting and retaining top talent in family business” in front of hundreds of family entrepreneurs from around the world. In the upcoming months, the main results and findings of the study are to be presented at different events with family entrepreneurs in Europe.

New office in Geneva

Our Geneva office, opened in early 2015, has moved to a new location a few weeks ago. From now on you will find us even more centrally located within walking distance of the main train station at Rue du Mont-Blanc 19. As an important centre for consumer and luxury goods multinationals, international organisations, family businesses and family offices, Geneva plays a strategic role within our firm’s global client support network.

Latin America practice is growing

After the introduction of Ricardo Sala and Nelson Echeverría as our two new Partners in the Bogotá office in 2015, we have completed various assignments not only in Columbia, Mexico and Peru, but also our first project in Ecuador. We advise, for example, the owning family of one of the leading industrial companies, as well as one of the largest agro-industrial groups in the country, in the development of owner strategies, succession and governance structures. Other projects have a broad international scope, for example the development of a regional expansion concept (strategy and organisational structure) in the Andean region for a global agricultural / mining group. We are also active in the development of a regional expansion concept (strategy and organisational structure) in the Andean region for a global agricultural / commodity group.

New website and e-mail addresses

A few days ago, our new website went "live". Please feel free to visit our completely redesigned website at our new domain www.avs-advisors.com to enjoy an overview of our consulting approach, our consulting services and our team, as well as our offices and cooperation partners. As part of the change of our internet domain our e-mail addresses have changed accordingly. The contact details for each of our offices can be found on our new website. Although all messages to the previously used e-mail addresses will be automatically forwarded, we would kindly like to ask you to update the contact details in your e-mail software.

THE TRUSTED ADVISOR now in English

Due to the continuously growing number of international clients and consulting projects, and the corresponding demand, we are pleased to offer you an English version of THE TRUSTED ADVISOR from this issue onwards. Please feel free to inform those people in your English speaking network for whom our publication might be of interest.

Please feel free to share any articles or entire editions you feel may be relevant with your colleagues or clients. All articles and editions can be found here:

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