

**Testimony before the New Economy & QOL Committee regarding
HB6454
on allowing 'for benefit' corporations
Sep 22, 2010**

Hello ..my name is Robert Leonard Thank you, for taking this matter up and for letting me speak today in favor of this bill. Given the nature of this bill and the mission of this group this seems the PERFECT committee ...for this matter to come before. When all is said and done here ...I ask you to consider how many matters that have come before you, have aligned so well with both the concepts of .. The New Economy... andQuality of Life.

Who I am and how I got here:

I'm a business owner, I've been running our family's (auto supplier) manufacturing business in Redford for the past 20 years. My liberal arts degree included a concentration in economics ...but that was a long time ago, and little in the study of economics then or now prepares one for the 'new normal' in which we now find ourselves. There are no guidebooks to the new economy. In fact economists themselves are struggling.

In economics the (so called) 'quants' (with their much vaunted econometric models... that blew up and failed to predict) are discredited now and the current debate among economists--- is about whether the best new center of gravity for economics... rests with those pushing 'behavioral economics' or the 'economy *as an eco-system*' view of the field. I'm not an economist but then I'm not sure that is what is called for either.

Mainly what qualifies me (or at least got me elected) to address this subject I think is that I'm a generalist. I see the value in so called 'intersectional'* and 'integrative'** thinking and in looking across disciplines. When the innovation requires connecting lots of dots there are few thought leaders or subject experts. This bill seems to fit that category of breakthrough.

I'm a lifelong Republican but I mention that only because it was a Dem (Rep Barnett) that was the first person to recognize the merits of this 'for benefit' concept. The key is not party affiliation but an open mind.

I'm a sort of missionary for 'benefit corps' and an evangelist for innovative Econ Dev initiatives. When it comes to Econ Dev and fixing Michigan, I've come to the conclusion that two heads are better than one.

Well, since this bill was only introduced just days ago I figure there is much to explain.

So what's this all about?

Most importantly (aside from your time here) it does not cost the state anything to try this innovative approach.

This is not a partisan issue (it is not a... red or Blue... issue but what I like to call a 'PURPLE' one) It's a good approach because it is an innovative NEW approach and it is one that does not seem to 'gore anybody's Ox' so to speak ! And it may well have the effect of improving the state of the State.

This bill is about **enabling a small but growing community of 'good corporate citizens' to do well ...by doing good.** And it is about creating a climate that **welcomes and facilitates these types of businesses.**

It is about **enabling (and encouraging) the *private sector to have a social impact*** , and about promoting doing-the-right-thing as a daily business practice--- as opposed to just on a charitable giving basis.

Importantly (but perhaps not apparent is that—at least in the corporate world) it has the effect of **recognizing the value of, and need for, the LONG VIEW...** and of long term thinking. The old norm, the one that got us into this mess, was SHORT term thinking. What I've heard called 'short-termism'.

Short-termism skewed our thinking and drove bad decision-making, and short term thinking in the business world has been fostered by investor expectations of profit over all else. It is also a product of corporate statutes that have come to be interpreted as supporting that view. (see link on 'shareholder primacy' below)

Lastly and perhaps most importantly this bill is about creating an environment that could **stimulate economic growth in Michigan.**

The 'value proposition' here is this. *A key means by which economic activity is stimulated is the 'access to capital' ... that investment can bring.*

So I need to go briefly into a bit of esoterica here, on the issue of access to capital and new venture funds in the 'for benefit' space, and please bear with me because I'm new to this area.

This community of 'socially responsible' businesses is already attracting capital. By some estimates as much as 3 trillion (that's trillion with a T) dollars is in play in the so called SRI (socially responsible investor) community. One seemingly fitting term I've heard used to describe and differentiate the (long view) mentality of this type of investor is 'patient capital'.

At the same time despite this large pool of funds, (among the for benefit types), demand for capital far outstrips the supply. The SRI investors are essentially de facto 'angel' (ie early) investors. These are very deep pocketed and socially minded people or groups who can afford to take risks on innovative concepts and/or causes.

The pool of this type of investor is limited however. In large part this limitation arises from the lack of an 'exit' strategy for their ventures (ie a way to recoup their investment). In conventional venture deals the traditional route to 'exit' comes by finding, supporting and underwriting the winning propositions ---then take the resulting companies public once they are up and going.

However, in the case of 'for benefit' firms that are up and running, this is problematic. The problem is that short-term view of the world I mentioned earlier, and the short term profits expectations of conventional stockholders.

Michigan could facilitate these investments by listening carefully to and tuning in to the needs of this group. This bill is the initial work-product of that process.

How can this bill help?

It clarifies the stockholder relationship

HB6454 addresses the need for clarification of the relationship of 'for benefit corps' to their stock holders. Individual who invest in these types of companies do so specifically because they are drawn to the concept of benefit corporations.

It increases the options for initial investors

The issue is that (due to traditional stockholder expectations) it is difficult for such firms to enter traditional markets. In turn this limits the pool of capital by limiting 'exits' for the early investors who underwrite them.

It can help Michigan to attract capital

Michigan could become the 'Delaware' of the 'for benefit' or ... CSR (Corporate Social Responsibility) movement.

One key would be the creation of markets for the securities of these types of firms. (see article below about such a proposal in PA)

This type of entity also potentially enables a new type of 'for benefit' public/private partnership. In the UK they are experimenting with so called 'social impact bonds'*** that could perhaps be one option here.

Pennsylvania group pursues creation of a LOCAL Stock market

(for sustainably minded companies)

<http://www.changemakers.com/node/86212>

In short this bill is about economic development that taps and leverages an already growing 'good corporate citizens' trend.

It potentially portends a kinder-gentler and friendlier version of economic activity but ,in the process requires nothing of existing corporations (participation is strictly voluntary) and thus is merely additive (positive sum not zero sum) in nature.

It is a unique opportunity for lawmakers to achieve a sort of triple bottom line win. Michigan can profit (economically) by helping business *and* society at the same time.

Thank you for your time. Please don't hesitate to contact me if you have any questions, or if I can be of further help.

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* per the book THE MEDICI EFFECT

** per the book THE OPPOSABLE MIND

*** http://en.wikipedia.org/wiki/Social_Finance

As with many subjects these days there is a veritable alphabet soup of acronyms and jargon associated with this (socially responsible business) area. In order to fully understand the topic such terms are unavoidable but can also be helpful. I have included some of them , (as well as some websites useful for further research) below.

Definitions and resources

CSR –Corporate Social Responsibility

Triple bottom line (or 3P, People, planet, profit)

<http://www.triplepundit.com>

<http://getsustainable.net/triple-bottom-line.html>

SRI—socially responsible investing

Fourth sector <http://www.fourthsector.net/>

One representative group

http://www.sam-group.com/html/healthy_living/?showtab=current_topics

articles:

The Impact of Corporate Social Responsibility on Investment

<http://hbswk.hbs.edu/item/6484.html#sustainability>

The Business of Sustainability

<http://sloanreview.mit.edu/special-report/the-business-of-sustainability/>

Shareholder Primacy

http://en.wikipedia.org/wiki/Shareholder_primacy