



# Building a prosperous, impact-driven economy

B Lab Australia and New Zealand

Pre-Budget Submission to The Treasury 2020-21

December 2019

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## Overview

B Lab was founded to enable people to use business as a force for good. We support companies to measure, manage and improve their impact in five areas: governance, workers, community, environment and customers. We work with impact-driven businesses – from small and medium enterprises to multinational corporations.

Expectations of business have changed. Employees, consumers and investors expect companies to operate with more consideration for their customers, suppliers, workers and their impact on the environment. Financial success is now linked to a company's environmental, social and governance performance. Banks are offering loans to companies with cheaper interest rates on the basis that companies meet certain ESG targets. Businesses and leading institutions are embracing these contemporary expectations, by for example, announcing that the purpose of a company is to provide value to stakeholders and shareholders.

These trends were reflected in CSIRO's *Australian National Outlook*. The research highlighted six challenges to the nation's future prosperity and five key shifts that we could make to remain economically prosperous. Within the B Corp community, we see these five shifts – industry, urban, energy, land and culture – being embraced by impact-driven businesses. Australia should encourage more founders to start impact-driven businesses and established companies to transition to being impact-driven, given the benefit it provides to the community and its potential to reduce costs to government.

We see two key barriers for Australian impact-driven companies. One is legitimacy with customers, employees, investors and other stakeholders. Business leaders want government to signal that impact-driven business is valuable; and that it endorses and encourages more businesses to operate in an impact-driven way for the benefit of the economy and the community.

The second is that business leaders are currently operating under legal uncertainty. Boards need confidence to make decisions that align with a company's impact goals. This issue is prominent when companies want to scale and therefore require external investment. Many founders are fearful that diluting ownership will force the company to stray from its purpose.

We believe government has two prime opportunities to remove these barriers and ensure Australia's future prosperity by encouraging the uptake of impact-driven businesses. We recommend that the Australian Government:

1. Send a signal that government endorses impact-driven business
2. Clarify the legal implications of being an impact-driven business.

## 1. Employees, consumers and investors have new expectations of business

B Lab is the global non-profit behind B Corp Certification and B Lab Australia and New Zealand is the regional arm of the organisation. Our vision is for all people in Australia and Aotearoa New Zealand to participate in and benefit from an economy that builds community and regenerates the environment. We are part of, and privy to, a global dialogue about the role of business in society. It is a conversation that is being had around the world and the businesses that are paying attention will come out on top. Three words tend to dominate the discussion: purpose, impact and sustainability. Companies are seeking to define their purpose, measure their impact, and increase their resilience so that their success can continue into the future.

B Lab plays a significant role in helping companies to measure, manage and improve their impact against five areas: governance, workers, community, environment and customers. We work with impact-driven businesses – from small and medium enterprises to multinational corporations. We use the term *impact-driven business* to refer to companies that are committed to reducing their negative impact and/or achieving positive impact for the community and environment.<sup>1</sup>

There are many forces driving companies to embrace this way of doing business. Employees, consumers, and investors, for example. Two-thirds of employees expect their employers to have purpose and societal impact.<sup>2</sup> Two-thirds of consumers are willing to pay more for sustainable brands;<sup>3</sup> ESG or non-financial factors are now top of mind for executives at the world's biggest three asset managers (BlackRock, Vanguard and State Street).<sup>4</sup>

Influential institutions and markets are responding. In August 2019 the USA Business Roundtable retreated from its long-entrenched view that the purpose of a corporation is to serve its shareholders, with 181 of the world's most powerful CEOs declaring that companies 'share a fundamental commitment to all of our stakeholders.'<sup>5</sup> In 2018, sustainable investing assets totalled US\$30.7 trillion across five major markets, showing a 34 per cent increase in two years.<sup>6</sup>

It is in Australia's economic interests to embrace the trend toward impact-driven business, both in terms of investment and performance. Over the course of 2018, the Australian responsible investment market grew 13 per cent to \$980 billion. This figure represents 44 per cent of total professionally managed assets under management, which according to the ABS

<sup>1</sup> This definition is necessarily broad to reflect the variety of ways in which companies are *impact-driven*. For a visual representation of the charity/business spectrum see eg, Jane Horan, Amber Hosking, Steven Moe, Jackson Rowland, Phillipa Wilkie, '[Structuring for Impact: Evolving Legal Structures for Business in New Zealand](#)', *The Impact Initiative*, 2019, p 10.

<sup>2</sup> Edelman Trust, [2019 Edelman Trust Barometer Australia](#), 2019.

<sup>3</sup> Nielsen, '[The Sustainability Imperative](#)', 2015.

<sup>4</sup> Robert G. Eccles & Svetlana Klimenko, 'The Investor Revolution', *Harvard Business Review*, 2019.

<sup>5</sup> Business Roundtable, '[Statement on the Purpose of a Corporation](#)', 2019.

<sup>6</sup> Global Sustainable Investment Alliance, '[Global Sustainable Investment Review](#)', 2018. Markets include: Europe, USA, Canada, Japan and Australia and New Zealand.

now sits at \$2.24 trillion.<sup>7</sup> Research shows that companies with high sustainability outperform low sustainability companies on the stock market as well as accounting performance.<sup>8</sup>

## 2. Financial success is now being linked to environmental, social and governance performance

Business for good is good for business. That is why companies are embracing these new expectations and shifting towards impact-driven, sustainable practices. Three multinational examples show how and why companies and lenders are valuing environmental, social and governance (ESG) factors as part of a successful business.

The first example is a case study in how embedding purpose and sustainability into business is associated with growth. Unilever is a multinational corporation that employs over 161,000 people worldwide, owns 400 brands and in 2018 made €51 billion in revenue.<sup>9</sup> The company owns 28 “Sustainable Living Brands”, and in 2018 they grew 69 per cent faster than the rest of its business. They also delivered 75 per cent of the company’s overall growth.<sup>10</sup> This example provides a business case for sustainability, and one that Unilever CEO Alan Jope plans to continue, saying that “in the future, every Unilever brand will be a brand with purpose.”<sup>11</sup>

The second and third examples show a trend in lending that favours ESG performance. In 2018 multinational dairy giant, Danone, received a discount on equity based on its sustainability performance. The €2 billion Positive Incentive Loan facility was assessed on a 12 month basis and was measured by Danone’s ESG rating and its pursuit of B Corp Certification.<sup>12</sup> In this example, ESG and B Corp Certification are used as proxies for social and environmental performance. These financial institutions are demonstrating that those proxies inform them about the level of social and environmental risk that Danone carries. Closer to home, in 2019 ANZ Bank granted Synlait Milk cheaper interest costs if it hits certain ESG targets for a \$50 million four-year loan.<sup>13</sup>

<sup>7</sup> Rebecca Thompson & Samantha Bayes, *Responsible Investment Benchmark Report 2019*, Responsible Investment Association of Australasia, 2019.

<sup>8</sup> Robert G. Eccles, Ioannis Ioannou, and George Serafeim, ‘[The Impact of Corporate Sustainability on Organizational Processes and Performance](#)’, *Management Science*, 60(11), 2014.

<sup>9</sup> Unilever, ‘[About Unilever](#)’, 2019.

<sup>10</sup> Unilever, ‘[Brands with purpose grow – and here’s the proof](#)’, 2019.

<sup>11</sup> Ibid.

<sup>12</sup> BNP Paribas, *Danone’s Positive Incentive Financing Strategy*, 3 August 2018.

<sup>13</sup> Rebecca Howard, ‘[ANZ ties \\$50m loan for Synlait to environment, social and governance measures](#)’ *NZ Herald*, 24 September 2019.

### 3. Businesses and institutions all over the world are embracing these new expectations

One example of the ways in which businesses are embracing these evolving community expectations is the growing number of company commitments and initiatives to reduce greenhouse gas emissions, as well as positively contribute to climate change solutions.

Globally, businesses are demonstrating leadership by reducing greenhouse gas emissions, even where government policy may be absent. For example, at the 2019 Madrid Conference of the Parties 25 (COP25), more than 500 B Corps publicly committed to achieving net zero greenhouse gas emissions by 2030 – 20 years ahead of the targets set out in the Paris Agreement. Among this cohort were 44 Australian companies, as well as multinationals including Intrepid Travel, The Guardian, Patagonia and The Body Shop.<sup>14</sup> Other global initiatives include '1 % for the Planet', which has had more than 2,000 companies commit to donating 1 per cent of their profits annually to environmental non-profits, totalling over US\$225 million.<sup>15</sup>

International institution, the World Economic Forum, is leading the 2020 Davos annual meeting with a bold new manifesto. Like the US Business Roundtable, the World Economic Forum announced that it believes that 'the purpose of a company is to engage all its stakeholders in shared and sustained value creation'.<sup>16</sup> The manifesto includes aspirations for how a company should serve its customers and society, treat its employees and suppliers, provide returns to shareholders, and on 'how it achieves its environmental, social and good governance objectives'.<sup>17</sup> The World Economic Forum embraces the idea of stakeholder capitalism as fundamental 'to sustain our economic system for future generations'.<sup>18</sup>

These changes are happening around the world, including more locally and organically in Australia. In September 2019 more than 3,000 businesses and organisations pledged to join the Not Business as Usual alliance to support the global student climate strikes.<sup>19</sup> In the same year, an unprecedented group of financial institutions came together to form the Australian Sustainable Finance Initiative (ASFI). ASFI is an industry-led collaboration to shape an Australian economy 'that prioritises human well-being, social equity and environmental protection, while underpinning financial system resilience and stability'.<sup>20</sup>

ASFI's steering committee and four working groups are made up of volunteers from across the financial sector, including the Big Four banks, superannuation funds, insurers as well as leading law firms, industry bodies and academics. This collaboration is a demonstration of the industry's commitment to embracing new expectations of business, and charting the sustainable path forward for the country's financial sector.

<sup>14</sup> B Corporation, '[500+ B Corps Commit to Net Zero by 2030](#)', 11 December 2019.

<sup>15</sup> 1% for the Planet, '[About us](#)', 2019.

<sup>16</sup> Klaus Schwab, '[Davos Manifesto 2020: The Universal Purpose of a Company in the Fourth Industrial Revolution](#)' *World Economic Forum*, 2 December 2019.

<sup>17</sup> Ibid.

<sup>18</sup> Klaus Schwab, '[Why we need the 'Davos Manifesto' for a better kind of capitalism](#)' *World Economic Forum*, 2 December 2019.

<sup>19</sup> Not Business As Usual, '[Participants](#)', 2019.

<sup>20</sup> Australian Sustainable Finance Initiative, '[What is ASFI?](#)', 2019.

## 4. Recommendations to encourage impact-driven business

### 4.1. The link between impact-driven business and Australia's future economic prosperity

The Australian Government plays a crucial role in a healthy economy. It sets the conditions under which businesses can thrive. In turn, business plays a crucial role in contributing to Australia's economic prosperity. A healthy economy depends on the government's ability to set the right conditions for the country to flourish. In 2019 CSIRO released the *Australian National Outlook*, a significant research project that highlighted six challenges to the nation's future prosperity:

1. **Rise of Asia** as a competitor in the region
2. **Technological change** that is transforming existing industries
3. **Climate change** that poses an economic, environmental and social threat
4. **Demographics** of a growing and ageing population
5. **Trust** declining in institutions such as governments, businesses, NGOs and media
6. **Social cohesion** declining over the past decade.<sup>21</sup>

CSIRO presents two scenarios: *Slow Decline* and *Outlook Vision*. If Australia fails to adequately address global and domestic issues, the likely result is for the country to fall into *Slow Decline*, with weak economic growth, investment and education outcomes. If, however, Australia embraces and adapts to the changes around us, economic growth can remain strong and companies can stay competitive in the global market. The difference between these two futures is stark.<sup>22</sup> The government must play its role in embracing and working closely with industry and community to make five shifts to achieve the *Outlook Vision*:

1. **Industry** – technology, skills, export-facing industries
2. **Urban** – higher-density, mixed land use zones, transport and infrastructure
3. **Energy** – transition to renewable energy, improve energy productivity, low-emissions energy exports
4. **Land** – food and fibre productivity, new agriculture and environmental markets, biodiversity
5. **Culture** – trust in institutions, entrepreneurship and innovation, social and environmental outcomes in decision-making.<sup>23</sup>

As a global non-profit that aims to help people to use business as a force for good, B Lab Australia and New Zealand works with businesses that embody these five shifts. Aspen Medical, for example, draws on Australia's human capital to build a competitive advantage in global markets and value chains. Its Mobile Surgical Unit enables hospitals to maintain activity during refurbishments and other temporary shutdowns, demonstrating how innovation and technology can create a new market opportunity.<sup>24</sup> Aspen Medical is a Certified B Corporation.

<sup>21</sup> CSIRO, [Australian National Outlook 2019](#), 2019.

<sup>22</sup> Ibid.

<sup>23</sup> Ibid.

<sup>24</sup> B Lab Australia and New Zealand, [Better Business for a Better World: A guide for SMEs that want to thrive](#), 2019.

Understanding the ways in which B Corps are leading the impact-driven economy informs our insights into how government can set conditions for all businesses to move towards the *Outlook Vision*.

**We believe government has two prime opportunities to ensure Australia's future prosperity by encouraging the uptake of impact-driven businesses.**

We recommend that the Australian Government:

1. Send a signal that government endorses impact-driven business
2. Clarify the legal implications of being an impact-driven business.

#### 4.2. Recommendation 1: Send a signal that government endorses impact-driven business

Each year B Lab Australia and New Zealand engages with thousands of businesses through our programs and services. Through these engagements we have developed an understanding of the barriers to businesses being impact-driven. One key barrier is legitimacy with customers, employees, investors and other stakeholders. Business leaders want government to signal that impact-driven business is valuable, and that it endorses and encourages more businesses to operate in an impact-driven way for the benefit of the economy and the community. We have spent considerable time engaging with Australian parliamentarians, public servants, legal experts, academics and others to understand and the ways in which the government could increase the uptake of impact-driven business.

Around the world governments have introduced legal models that differentiate impact-driven companies from others to signal the value of businesses combining profit generation and positive impact on broader stakeholders. In the USA, most states have passed 'benefit corporation' legislation and more than 10,000 businesses have opted to become benefit corporations, including major brands Patagonia, Allbirds and Danone North America.<sup>25</sup> In the UK, the government created the 'Community Interest Company' and more than 15,000 companies adopted the terms.<sup>26</sup> The New Zealand Government is currently exploring the most appropriate legal model to drive investment in the social enterprise sector.<sup>27</sup>

Over the last five years B Lab Australia and New Zealand has contributed to efforts to adopt and adapt the benefit corporation model for Australia. This process has evolved the thinking behind the model and enabled us to distill the gaps that exist for impact-driven businesses in Australia. The advantage of a legal model for impact-driven business is that it sets out a clear framework for how companies pursue profit and impact, which makes it easier for companies to take up. For investors, this facilitates more standardisation and comparison between companies.

<sup>25</sup> Jennie McLaughlin, '[Legislating the B Corp standard for Australia's 'purpose-driven' corporations](#)', *The Mandarin*, 9 August 2019.

<sup>26</sup> Regulator of Community Interest Companies, '[Annual Report 2018-2019](#)', 2019.

<sup>27</sup> Jane Horan, Amber Hosking, Steven Moe, Jackson Rowland, Phillipa Wilkie, '[Structuring for Impact: Evolving Legal Structures for Business in New Zealand](#)', *The Impact Initiative*, 2019.



We have also identified potential alternative pathways for the government to increase the uptake of impact-driven businesses. Business leaders suggested that they would appreciate clear advice from a regulator such as ASIC on how to set up governance structures that reflect the company's pursuit of profit and impact.

#### 4.3. Recommendation 2: Clarify the legal implications of being an impact-driven business

Business leaders want to ensure that they are legally protected and empowered to pursue both profit and impact. The lack of clarity and protection for founders and directors to be impact-driven is at the heart of the concern that business leaders raise with us. For example, if a Board makes a decision that aligns with its impact goal but costs the company more in the short-term, it may make that decision on the basis that it aligns with long-term value creation. In this scenario, directors may feel exposed to potential shareholder action.

This issue is particularly pronounced when companies want to scale and therefore require external investment. Many founders are fearful that diluting ownership will force the company to stray from its purpose and impact. In order to manage this issue, business leaders have sought legal advice on how to embed purpose or impact into their company. These leaders have indicated to us on numerous occasions that lawyers have advised them that while they can include an objects clause into the company constitution,<sup>28</sup> doing so could increase liability for directors.

There is, however, at least one example of a company that has taken this action. Chuffed.org is a Sydney-based crowdfunding platform for non-profit, charity and social enterprise fundraising. Initially a non-profit funded by philanthropy, the rapid success of the platform proved it to be commercially viable service. The team needed equity to grow so it restructured to a for-profit social enterprise and included an objects clause in its constitution to safeguard its purpose.<sup>29</sup>

On the question of increasing directors' liability to non-shareholder action, the company took the risk on the basis that action would be unlikely.<sup>30</sup> This risk has paid off, and the platform has raised \$43 million for its users through 11,500 campaigns from over 475,000 donors.<sup>31</sup> This example shows that change is possible but complex and risky. The risk may be lower for social enterprises that intend to reinvest their profits into their purpose, but for impact-driven businesses that are commercially focused, the risk of non-shareholder action and lack of case law is too high for many businesses.

These issues must be resolved if Australia is to embrace contemporary expectations of business that impact-driven businesses embody. We should encourage more founders to start impact-driven businesses and more businesses to transition to being impact-driven, given the benefit they provide to the community and their potential to reduce costs to government.

<sup>28</sup> *Corporations Act 2001* (Cth) s 125(2).

<sup>29</sup> Prashan Paramanathan, 'Introducing the Social Benefit Company - a new legal structure for Australian Social Enterprises' *Chuffed.org*, 2016.

<sup>30</sup> *Ibid.*

<sup>31</sup> Chuffed.org, *Homepage*, 2019.

The examples in Sections 1-3 show that companies create profit when they also consider the interests of their employees, suppliers, community members and the environment. It is in our nation's economic interests to embrace this shift to reach the *Australian National Outlook 2019 Outlook Vision*.

## 5. The cost of inaction

Research shows us that the cost of inaction will be severe. The version of the future presented in the *Australian National Outlook 2019 Slow Decline* is highly undesirable.<sup>32</sup> We must embrace the changes around us by setting in place conditions that will encourage impact-driven business.

Global markets are shifting and responding to new expectations of business from employees, consumers and investors. Financial success is inextricably linked to a company's environmental, social and governance performance. Impact-driven businesses are moving beyond measuring ESG performance and towards business models that link positive impact to profit. Businesses and institutions are embracing these shifts and proving that business for good is good for business.

The government has an opportunity to support economic prosperity and achieve the *Outlook Vision* presented by the *Australian National Outlook 2019*. It can do this by signalling its support for impact-driven business by creating a legal model or providing clearer advice on corporate governance structures for these types of companies.

The business community has shown leadership in working towards purpose, impact and sustainability. The Australian Government must now encourage the uptake of impact-driven businesses that will benefit the community, environment and economy.

<sup>32</sup> CSIRO, [Australian National Outlook 2019](#), 2019.