

**Testimony before the
Connecticut House Commerce Committee
in regards to
Benefit Corporation Legislation**

**Erik Trojian, Policy Director, B Lab
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Chairman LeBeau, Chairman Perone and Committee Members,

My name is Erik Trojian and I am the Policy Director at B Lab, a nonprofit whose mission is to use the power of business to solve social and environmental problems. B Lab supports SB 23, benefit corporation legislation. We believe that business is the greatest source of solutions for the issues that we face as a society and that the free market can address many problems quickly and efficiently without having to resort to government handouts. However, through our work with entrepreneurs across the country we have found that in many states, including Connecticut, the free market is not truly free and is prevented from fully solving these issues due to current corporate law. There is nothing wrong with profit and it does many good things, but if a company wishes to combine the quest for profit with the desire to consider additional purposes, such as the environment, a social mission or simply procuring supplies locally in Connecticut the traditional corporate form acts as a roadblock. SB 23 is a pro-business bill that will create a new voluntary business form known as a benefit corporation. Benefit corporations deregulate the purpose of a corporation by allowing the free market and not government to decide on how the business operates. This new form gives the freedom to entrepreneurs and business owners to consider other factors in addition to profit. In all other areas, including taxes and regulation, benefit corporations are the same as a traditional corporation.

Yes, currently corporations can consider some factors other than profit, but to a limited extent and also with added risks, such as shareholder lawsuits. However, traditional corporations may only consider additional factors if their end goal is higher profits. This is referred to as the business judgment rule and was the very reason Delaware passed the legislation last year. They felt that without the law, the business judgment rule hindered the advancement of the free market. This is the case for many companies that must justify their pursuit of a mission for the sake of marketing or PR. However, they are always at risk of a shareholder lawsuit if they are not a benefit corporation. The impediments inherent in the traditional corporate form are particularly evident at the time of sale, succession or during any

capital raises, when many companies may have to abandon their missions in order to avoid a shareholder lawsuit or may have to simply not expand their operations. In addition, shareholders who have invested in the company because it had a social purpose, such as improving education in their community, have no accountability or transparency that the mission will continue over time. If the mission disappears these investors have no recourse but to sell their stock.

Benefit corporation legislation also provides a cost free economic development tool for States, because companies that voluntarily choose this form create an annual benefit report, similar to an annual financial report but focused on their qualitative activities. This additional transparency element helps investors by giving them a credible, independent and transparent analysis of the company, so they can make wise and quick investment decisions. It is important to note that this report does not need to be certified or audited and it can be produced internally without cost to the company. By reducing the due diligence required to make an investment, an investor's cost and time to perform the transaction is lowered, resulting in an increased likelihood the investment will occur. This is all done through the free market, where there is \$3 trillion in social impact investing money available today according to analysis conducted the Social Impact Forum Foundation, without any reliance on government or additional regulation.

Currently, twenty-one states have passed benefit corporation legislation with Utah passing out of the legislature last week. The legislation has received 22 unanimous floor votes and been signed into law by many notable governors. Connecticut's neighbors have already passed this legislation, including New York, Rhode island, Vermont and Massachusetts. The governor of Massachusetts even sponsored the legislation as part of this economic development package. The legislation is moving forward in 12 states this session, including, Florida, Michigan, and New Hampshire. New Hampshire recently passed out of the Senate with the support of numerous well-known companies, including Veris Wealth Partners, a social impact investor and W.S. Badger Co, Inc.

To date over 550 companies have already taken advantage of this new corporate form, many of them in the last six months alone. Companies such as Patagonia, the clothing company, and King Arthur Flour, one of the oldest companies in America and located in Vermont, have become benefit corporations in their respective states. Large companies support the legislation as well, such as Campbell's Soup

Company and Prudential. We have also witnessed several companies leaving their home state to incorporate in states that have benefit corporation legislation.

Benefit corporation legislation is a completely voluntary cost free option that deregulates the traditional fiduciary duty of a corporation and allows the free market to solve some of the pressing issues facing society. The legislation can help attract jobs and investment and provide economic development opportunities for Connecticut. I urge your aye vote on SB 23.

