**Alex:** The most important part of governance is it's about power – it's who has the same decision making, how are stakeholders represented, it's also what keeps a company true to its purpose. If you're a profit maximising business, then the governance is designed to ensure that shareholder interests come first. If you're a company like Cafédirect, on the other hand, the governance is designed to keep it true to its social mission.

**James:** The status quo for business has been that there is one criteria that governance is working towards, and that's driving shareholder value – this idea that a business is really only there to create profit and create as much profit in the shortest possible time, and I think that paradigm has really led to this reality in which business has contributed to some of the kind of big environmental and social challenges that we have today.

**John:** Hello, and welcome to Building Better Business, the podcast explores how business can shape our world for the better, and how we can all help. Today's episode is really important. We're going to focus on how business governance can make a huge difference to not only society and business, but also how we can save the planet. We're going to look at what is business governance, and why making it at the heart of a socially and environmentally sustainable system, we're also going to look at what good governance is and what bad governance has been, and the impact it can have. I’m delighted to have three very special guests today.

Firstly, we've got Lebi Gabriel Hudson, who is in Tanzania, from a tea cooperative called RSTGA. And Lebi is also on the board of Cafédirect. Fantastic to see [00:02:00] you, Lebi.

**Lebi:** Thank you very much, John. I’m also happy to join.

**John:** Secondly, we've got James Ghaffari, who is the Director of Growth & Product at B Corp, and great to have you here too, James.

**James:** Thanks for having me, yeah, great to be here.

**John:** Thirdly, Alex Maitland, who is the inequality policy adviser from Oxfam International. Good to see you here, Alex, thanks for joining us.

**Alex:** Thanks for having us, John.

**John:** Ithink, firstly, for those listening to the podcast, it'd be great to hear from you about what is the definition of governance effectively, and why is it so important for the way a business works. And James, we start with you.

**James:** For me, governance is simply the framework by which you manage your business – so who really makes decisions within a business, and on what criteria are those decisions actually made. And I think the reason why that is so important on a kind of individual company basis is because, essentially, it helps people to run companies aligned to their particular purpose or mission. So based on that criteria, what is the purpose and mission of the company, how do we make decisions that kind of move the company towards that purpose and towards that mission, but ultimately, and I think what we'll get on to, governance is extremely important as a collective, and because of the role in which business has in society, the impact it has on people and on the planet. And essentially, governance sets the status quo for what this role should be, and essentially what the impacts are acceptable within this framework.

**John:** Alex, can you build on James's thoughts?

**Alex:** Very much in agreement with what James says. Just to build on that, I think if you look up in a textbook the definition of governance, it will talk about [00:04:00] the processes of, and systems to ensure accountability and control. I think for me, the most important part of governance is it's about power. It's who has the same decision making, how are stakeholders represented. And as James says, it's also what keeps the company true to its purpose. If you're a profit maximising business, then the governance is designed to ensure that shareholder interests come first. If you're a company like Cafédirect, on the other hand, the governance is designed to keep it true to its social mission. And I think the interesting part, particularly in social enterprises, is there's often this tension between the social mission and the financial goals ensuring financial sustainability and good governance practices are there to help balance those tensions to ensure that it's mitigating against mission drift. Either you see social enterprises which have drifted too far towards perhaps a financial goal, or sometimes the other way and lose its financial sustainability in looking for the social goal.

**John:** It's very helpful, and certainly at Cafédirect, and, I suppose, I’ve been here what, 10 years now, you get very used to a very well governed organisation. And then, being part of B Corp and social enterprise, you also get to have a community of businesses that are striving to have the best governance possible. And at Cafédirect, I always say to people it’s quite heavily governed for the size of commercial organisation it is; but for the size of impact organisation it is, that's incredibly important to us. And we have very explicit articles of association, which we have adapted to make sure they're consistent with a B Corp as well. But also, within the way that we work, we have a construct called The Guardian Share Company, which both Alex and Lebi [00:06:00] are on, and I think that is quite a remarkable part of the governance structure to ensure that we don't get any mission drift whatsoever. For us, it's been phenomenally important, it makes the job of running the business, in a way that delivers for its stakeholders and against its mission, much more straightforward. So I think the work that B Corp is doing to change the ecosystem is phenomenally important. Lebi, it'd be great to bring you in at this point, and get your perspective as a Cafédirect non-executive director representing the producers that we work with, and feel for the kind of decisions that our governance leads us to make.

**Lebi:** The governance must make the decisions, and the decisions made by governance is not their personal decision, it can also affect the others, it can also touch other people lives, or other issues going on around the natural environment, whatever, but they make decisions for themselves, for the people, and specifically, and basically for the people. The next thing is what do they do on top of making decision. Governance do oversee. They are overseers. They have to oversee if their decisions are being implemented the way they were decided before. And they do evaluate. This evaluation is to see if they are really – their decision are really serving what they were intending to, but they evaluate in order to come up with the grounds to make new decisions, or to improve the existing decisions. If I look governance in that perspective, I can see governance has a lot to do with building our better future, building this planet to be the better future, the better place for everybody, everything to stay, yeah.

**John: I** would like to move us [00:08:00] on to the question of what is good governance, because, to me, as part of the Building Better Business podcast, it's very much, and working for Cafédirect, is very much about fairness and equality and social responsibility and climate change, and the mitigation of climate change. I think, and coming to James, I think is good governance driven by the ownership and mission of the business, or is it something that we can move forward with irrespective of that?

**James:** Well, I think it's interesting, because Alex previously talked about the criteria on which kind of people make decisions within businesses, there's governance, there's this purpose or mission, and that can be a good purpose or mission, or that can be a negative purpose or mission, and almost governance being the framework around which you kind of get the business to that end point. And actually, what Lebi has just kind of outlined there is that there's a vast array of responsibilities as board members that are kind of put on them by this governance framework, and those are kind of, you know, they're agnostic in themselves, but they, kind of, they're driving the company towards a specific purpose, or a specific mission. And I think, when we're talking about good governance, I think we have to kind of acknowledge that, at the moment, and for the last kind of number of decades, the status quo for business has been that there is one criteria that governance is working towards, and that's driving shareholder value, you know, this idea that a business is really only there to create profit and create as much profit in the shortest possible time. And I think that paradigm has really led to this reality in which business has contributed to some of the kind of big environmental and social challenges that we have today. And I think [00:10:00] from the example that you're kind of almost bringing to the table by representing Cafédirect, and with Alex and Lebi, and their roles within your business, really showing that it doesn't have to be that way. For us, good governance is about embracing all of your stakeholders as a business, so thinking about your producers, as you've said, or your employees, or the wider environment, and thinking about those stakeholders when you run your business and actually making decisions as if people and the planet matter. So in this way, we kind of understand the role of business, and the impact it has on things like equality, and the climate crisis, good governance is about kind of taking ownership of that role, and realising the impact that that business has towards that, and directing that towards a positive impact and trying therefore to minimise as well the negative impact that it has.

**John:** Fantastic. Alex, your thoughts on good governance?

**Alex:** I, and many others I think, always, within the social enterprise world, considered, if you're a PLC, a publicly listed company, by its very nature, it's kind of impossible for you to not put shareholder value first. But Cafédirect is a PLC, I could buy shares in Cafédirect from the ethics exchange, I think it's called, as well as having sort of different types of ownership, but it does have a distributed ownership model. And I think Cafédirect shows that you can be a publicly listed company while also prioritising social mission over creating shareholder value, and it does that by having a very interesting governance and ownership structure. If you take sort of a PLC, which you might start finding on a FTSE 100, they might talk about the social value they create and how they might even say they put social value on par with their creating value for shareholders. But when it comes down to it, because [00:12:00] there are constitutions and pressure and the power that the ownership can have over the company, they will always revert to putting shareholders first. It's kind of the model if you're listed on a stock exchange, and the shareholders can vote for all the board of directors, then if the company stops creating shareholder value, then it's very likely that the CEO and the board will be removed and replaced with people who will force the management to create shareholder value.

So then it kind of leads to the question what is different about companies like Cafédirect, and as John, you said, there's kind of multiple layers of governance, which do that. But I think this Guardian Share Company, which owns over 50% voting rights in Cafédirect really gives it that kind of backstop power. So if a, let's say, that someone wants to come along and buy up all the available shares on the market and take over Cafédirect, and then, turn it from a social driven organisation to a profit maximising business well, Lebi, myself, and other members of the Guardian Share board essentially provide a backstop. We could prevent that from happening and block something which might not be in the social interest of the company.

So I think that is really interesting, for one thing, to have a company like Cafédirect, which is a PLC, but also is able, through its governance practices, and very well thought through kind of structures, to prevent that from happening. But in terms of the, if I may, the kind of the bigger picture of good governance, I think it's often a combination of various things that you have the social purpose, which someone like Cafédirect has, which is locked into its constitution and to its legal form, the power isn't held by one group, there's broader representation through the governance. And profit isn't just for those that provide capital via the kind of the investors or bondholders, but it's all those who kind of contribute. So in the case of [00:14:00] Cafédirect, a part of the profit goes to the farmers, and that's kind of written into the governance structure.

So I think, if we want to have, in terms of good governance, which ensures a social and environmental mission, you kind of need to have a combination of those social purpose locked in, power which is distributed, and a profit distribution model, which moves away from just concentrating on one group of people who tend to be quite wealthy people anyway, and further drives inequality.

**John:** It does lead on to quite a fascinating discussion, doesn't it? Because there's kind of spectrum of businesses in there, and there's a how authentic are you depending on your governance and your ownership and how sincere and real and genuine is it. And this is going to come back to you, I think, James, I remember doing a talk on behalf of B Corp, with a number of B Corps on this panel, and one of them was Danone, and we talked about governance, and then, we also talked about ownership. And at the time, this was about four years ago, somebody in the audience said, well, governance is fine, but it's about ownership, it's about who owns the business and what they demand and want from the business. I think subsequently Danone, the CEO, was voted off by shareholders, because ultimately, it's structured for the delivery of profit to a shareholder base, rather than to deliver against society and the environment. But yet Danone was wanting to do that, but without the ownership structure that enabled it. How does that work, James, in terms of this discussion of the tension between governance and ownership and the authenticity of that?

**James:** Well, I think, initially, all of us, here on this podcast, are looking for the same thing, which is to fundamentally change the way in which business is done, the role it plays in society, and almost to change the status quo of what is acceptable to do as a business, and what is an acceptable way to run. And I think governance is one of the tools [00:16:00] in that arsenal and ownership, but it's not the only one, and I think we have to pull on multiple levers to kind of try to work towards that, and [inaudible 00:16:10] that vision with B Corp, which is using business as a force for good, but to build an inclusive, equitable and regenerative economy. And I think the kind of through that lens, the Danone example you gave is really interesting, because we have to think then about how cultural change and governance are working together. So there's obviously a legal framework, and there's regulation, and those are the things that are kind of defining the governance in this instance. And then, there are kind of behaviours within businesses that dictate how people respond to this regulation. We always, we're constantly seeing the way in which kind of people within business circumvent regulation for bad or go beyond regulation for good, and I think that's kind of where, in this instance, cultural change kind of needs to pick up the slack that's maybe left by a kind of a vacuum of governance.

And so, these behaviours within the business are set really by the expectations that people have of business, the people like customers or suppliers or investors or employees. And so, in this instance, it might be a case that we need to drive further changes to those expectations of business, to change the behaviour of people within the business and how they respond to that legal framework and that regulation, and potentially, driving further the expectations of owners and investors in this regard. I think the direction of travel is there, certainly from what I’ve seen over the last few years – the direction of travel in terms of what those expectations are, those kind of cultural expectations of business are, is certainly changing, whether it be kind of in customer's mind, in employee's [00:18:00] mind, in investor's mind, or in the kind of mind of the public at large.

**John:** I want to come to Alex in a minute, but first, I just want to bring you in Lebi, because as part of the governance structure, you're voted on to the Cafédirect board by the community of producers to represent their interests. And I just wondered, you know, you've been doing this now for six years, I think two terms, and how do you see the impact that representing producers has on the decision making of Cafédirect?

**Lebi:** If I now go straight, or specifically to what Cafédirect is doing, and part of good governance and how the way it is impacting producers across East Africa and Latin America, however, specifically, I’m representing producers from East Africa, the way I can see from Cafédirect, the way they make the decision from the philosophical part of it, I can see that attitude of accountability to every member, and to the board itself, that everyone feels accountable to save the company, and to make sure that the company is delivering what is intended, especially when it is working in a direct relationship with the producers. We are living in a very different social and environmental context, but you can see the way Cafédirect, they're making decisions in a very different context, but fitting the context of small farmers, producers in East Africa.

Therefore, you can see that level of accountability, but on top of that, I can see transparency, that we see that the transparency of whatever Cafédirect is thinking, and whatever Cafédirect as a company want to hear from producers, there is a very clear way of transparency between the two. We share reports, we share information, [00:20:00] background of whatever context the, I mean, activity we want to implement. But also participation, you see people in the company from the board members themselves, but also the staff, they are really participating in the day to day, and therefore, of the producers in East Africa, either direct as a Cafédirect, but also by funding producer direct, which is really working together with the producers to address their social and environmental impact, and now we are even moving into helping producers in a business arena.

On top of that, also, you can see that democratic way of handling things, that freedom of everyone to speak, to contribute, to really give insight, and to feel that is respected or she's respected with the way you are giving your feeling or your thought, that has been having a very big impact to the producer organisation. We have changed a lot the way we are managing our organisation in order to fit with the other people, so we can work together to minimise challenges and conflict, and this we have been learning from the way Cafédirect is implementing. But the way we approach producers, that whatever, even here in Tanzania, and elsewhere in East Africa, we are also pushed by profit goals, but learning from Cafédirect, we are also learning only how we can push profit on one side, but taking other social and environmental goals all together in order to really be sustainable. That thing has impacted a lot, changed our behaviour, to change the way we are making decisions about what we are doing right here. [00:22:00] Therefore, to me, being a non-executive member in the board of Cafédirect, it has really a very big impact from the learning and change of attitude, and the way we implement things in our organization.

**John:** It's fascinating, because listening to James, and then, listening to you, Lebi, it's quite clear that the cultural aspect is working really hard, and certainly, it's working hard into the producer organisations that we're here to serve. But also, from my perspective, it changes the way employees see the way the organisation is delivering, and it changes the way you feel about the business you work for. So to your point, James, I think, over time, building an ecosystem of businesses that have got momentum shifting towards the right kind of governance and all the other aspects of being a good business, changes the way we all feel as human beings about business's role, which is the momentum that I think you touched on really.

**James:** Absolutely, and I think what we've kind of been talking about up till now is good governance and good in the absolute sense, so good for people, and good for the planet, and good for our survival. But actually, what's fascinating is kind of hearing from Lebi in kind of talking very passionately about his role and the way in which he feels as part of the Cafédirect business, is that there is this alignment, I think, when you kind of take a time horizon out of the next quarter, and what you have to deliver in the next quarter, and you move it further out, there is this alignment between good governance in the absolute sense, and good governance in the sense of business performance, and how are we actually going to be a successful business over the long term. And when you kind of think of it in that way, the idea of really kind of engaging deeply with your producers [00:24:00] or the communities in which you work, or your employees, does actually just make sense from a good business point of view, because you're kind of bringing everyone in to share within the identity of the business and to collectively feel like they are working towards the business's kind of survival and prosperity over the long term. And so, certainly, good governance has set in that is good for the planet, and good for people, is also good for the business's performance, by building resilience really, and then, focusing on kind of building those strong values align partnerships with all of your stakeholders.

**John:** Alex, just to get your thoughts?

**Alex:** It's really good that you brought up the example of Emmanuel Faber being removed from Danone he joins a long line of CEOs who have been removed from companies for trying to do the right thing. If you look at Sacha Romanovitch from Grant Thornton, who was removed for accused of being a socialist for trying to put out a wage cap or 20 to one wage cap in place. It's within those models of business, as you say, which don't have the underlying governance and ownership structures, they didn't have the underlying governance and ownership structures to ensure that those social missions can be put ahead of the profit maximising, whatever the company might say to the public through its adverts.

So I think I’d probably kind of challenge us to think beyond just trying to change expectations of investors. I know that there's a lot of good work which is done by investors to try and challenge big companies to do more, and to be better on their environment and social goals. But at the end of the day, you can have lots of companies – lots of investors, which are trying to push companies to do the right thing. But it really just takes a few bad apples in the financial model we have, you know, a hedge fund can come in, and they don't care about being [00:26:00] socially respectful and having a good reputation. But with the current structure we have, they can come in and buy up a company. In the case of Danone, let's say, you had activist investors, calling for the removal of Emmanuel Faber, because he wasn't seemed to be delivering enough profit ahead of, and putting a social mission first. Well, let's say, that there was – if the shareholders or the board had supported him, then a hedge fund could have come in and just privatised the business and removed it. That's always kind of the threat which businesses have.

But let's just imagine that Danone had something like a Guardian Share Company, or a governance structure which supported the social mission, let's say, that it was employee or stakeholder representation within the board of Danone, then you wouldn't have seen that same sort of action, you wouldn't have the privacy of shareholders, you have all the power, I’ve been able to push around the other stakeholders. And so, I think, as you say, John, really important to have those combination that is kind of governance and ownership structures in whatever way it might be. And I think, as I said before, Cafédirect is a really good example of how you could have a publicly listed company – Danone's PLC, Cafédirect's a PLC, the differences between the two and why Emmanuel Faber has been fired, but John still, you haven't been fired, for pursuing a social mission is because of the – is because of the governance structures put in place to protect that.

**John:** When Nespresso joined B Corp, which I think was last year, we had a lot of people talk to us and say, well, this is, you know, what do you think of this, all that kind of stuff. But there was definitely a tension in terms of people saying, there's a huge difference between Nespresso and Cafédirect in many regards. I’ve certainly had people looking in and being quite subjective about it, and quite pointed about it, and I find it it's quite a challenge, because we need Nespresso to change. And so, on the one hand, having [00:28:00] Nespresso join B Corp must be a good thing as we get them on the journey to change, but yet, many people look at it and go, how can that really be. I’ve never answered the question to me, but I’ve got somebody from B Corp here today.

**James: I** mean, this question, you've rightly kind of pointed out that Cafédirect and Nespresso are very different businesses, and this question really is about the role of all different types of companies, types of businesses in the movement, and the diversity of those companies. So we've talked a little bit about the scale of the challenge, and I’ve outlined a little bit about kind of what we are intending to do with the B Corp movement, the idea of driving cultural change in the UK and globally as to what is expected of business, and also, to driving a fundamental regulatory reform of the legal structure here in the UK. And so, those are kind of quite big ambitions, and ultimately, we need actors at scale to kind of create the change that we need. These questions, I’m sure, as you've articulated there, are very complex, and the answers aren't always clear cut. But I believe myself that kind of different types of companies as you've outlined can exist within the same system, acknowledging that companies start from different places, and they play different roles within the B Corp movement.

So companies with deep purpose at their core can show us what's possible, and they can kind of demonstrate innovative business models or innovative governance frameworks, as we talked about today, that can be an inspiration to others and actually show kind of the art of the possible, whereas larger companies, more complex companies, perhaps, can bring their influence to bear by improving their performance, and obviously, [00:30:00] the impact that that has at scale, but also by inspiring others, other companies of that size to be part of the B Corp movement, and actually to move the status quo of what business is for, and the role it plays in society.

So yes, everyone meets minimum standards, and it's about kind of getting across them is not easy, but also there are those that have gone far beyond those standards, and we want to progress companies along this spectrum. So ultimately, the urgency of the problem means that we do need to get kind of everyone on board, so that change can be as swift as possible.

**Alex:** Personally, I’m not sure. It's particularly helpful for a consumer who goes into a supermarket and sees similar labelling on both a Cafédirect and a Nespresso, they both see the B Corp certification on there. And I think Nespresso probably gets a lot more value out of its association with Cafédirect, than Cafédirect might out from Nespresso. And for me, okay, there's a kind of the rate which Nespresso got gets, I presume at least 80 points in their certification, so yes, they shouldn't be getting the B Corp certification. However, I'd be interested to know that Nespresso are planning on that continued improvement, as James described, but more fundamentally, if we just, again, just particularly talking about B Corp, I think it does maybe raise the question, especially in this case of how a subsidiary can be certified by its parent company. So, of course, with B Corp, to get certification requires a change to the constitution, which puts profit and social purpose on an equal footing. But how can it be the case that Nespresso, in this case, is doing that, while its parent company, Nestle are very much a profit maximising business, [00:32:00] which the main mission is to maximise profit for shareholders. And I find those tensions between a subsidiary whose parent company has got a completely different purpose doesn't quite add up to me – Danone, for instance, of course, was certifying its different subsidiaries as B Corp, and James, correct me if I’m wrong, but may have got, as an organisation as a whole, its B Corp certification. Unilever, obviously, have different business groups, subsidiaries, which have B Corp certification. I think Ben & Jerry's is probably one of the examples. But Unilever as a whole is still a kind of profit maximising company.

**James:** Yeah, I think it's a good point. I think, certainly, as I said before, a lot of these tensions and challenges are not easy, and the answers are sometimes kind of complex. But I think what we're trying to do with the B Corp movement is, in some cases, set the bar that's significantly kind of high, such that a number of businesses have to change fundamentally to be part of the B Corp movement, and the majority of businesses are beyond the ones that are really, really purpose driven at their core, have to make significant changes to become vehicles. But then also creating a system and a movement in which you can kind of inspire others, and that could be a big business joining improving their impact and inspiring peers at the same size as them, and kind of building the movement in that way; or it can be a business within a group structure that kind of have moved towards that kind of B Corp status, and built that understanding of the process to then go forward and inspire the rest of the company.

So, Alex, you gave the example of Danone and they are working towards their certification, but that's been driven by the certification of their subsidiaries over time. But as you can imagine, it's [00:34:00] a long, it is a long term journey for a company of that size. And ultimately, it's about kind of being able to move a company of that size to generate the impact that it has and with the level of influence that it has. So I think there are, for the coffee industry, in particular, that's not, you know, sustainability is easy to say and hard to do, a B Corp doesn't replace the work that needs to be done at industry level, but my hope is that the movement can be a kind of forum for cooperation between companies in that industry, that's not necessarily based on competition. So there's lots of coffee people in the B Corp movement, and I’d love to see them kind of come together. The great example is that there's a beauty coalition as well at the moment of B Corps who are kind of working on the spaces. So, on a personal level, I am interested also to see where kind of Nespresso goes, and the developments, the performance it drives over the next kind of few years.

**John:** Alex, give us some other fabulous examples of good governance.

**Alex: I** think it's the obvious ones you can point to people like Tony's, and their work as campaigners as well as producing fair and equitable chocolate from good supply chains or Divine chocolate with their ownership, and we Cafédirect which we've spoken out about a lot. But I think it's actually sometimes more interesting to learn from some of the smaller social enterprises, and especially in low and middle income countries, and we look at the World Fair Trade Organization, the WFTO, and those are nearly always cooperatives or often social enterprises, which have been spun out of cooperatives. I think there's a really interesting model which lots of World Fair Trade Organization members are, where there's a cooperative, which has formed a social enterprise, [00:36:00] which it wholly owns its marketing or distribution arm, and I think the important thing about WFTO, and perhaps maybe creates a bit of differential between World Fair Trade Organization and B Corp is that they do have a much more of this emphasis on kind of an export ownership portal baked in, and the governance and the emphasis which is played on that. And that's not to say, of course, that B Corp doesn't put emphasis on the ownership and the governance structure, but very much if you're a WFTO member, then you have this social mission not only baked into your constitution, which you might with a B Corp, but very much so within the governance and within this sort of the governance and the representation and the ownership. So things like having to have stakeholder representation on boards and profit distribution, which goes to the people who need your social mission is trying to support this call to WFTO. And so yeah, I think from the conversation we've had, it’s clearly an essential thing that drives business behaviour, and the consequences of bad governance and businesses which pursue just a profit maximising structure, this gaping level of inequality that we see and environmental destruction by a fairly small number of corporations that dominate the economy. I really welcome the work that's been led by B Corp to try and transform some of the legal frameworks, and I think it's important to remember that the governance is one part of the economic system that we have that drives this kind of behaviour and this inequality. And so, if we can do things like transforming the behaviour of directors and ensuring that they are putting such a mission alongside a financial one, that'll be a really good first part, particularly in the UK, but we also need to think more deeply about how companies are traded and owned and how things like the stock market operate, and it all goes hand in hand. [00:38:00]