
**We're at a place in history where incremental progress
won't yield the kind of positive results that we need**

Jeffrey Hollender
Seventh Generation

C. Otto Scharmer: *What are two or three formative experiences in your life that shaped you as a person and prepared you for the kind of work you are now doing?*

Jeffrey Hollender: Growing up during the tail end of the Vietnam War and experiencing a significant level of student and community uprising against the war created for me a sense of possibility, as well as the obligation for citizens to take a very, very active role in what is working and not working in our society. **That experience, which, unfortunately, hasn't been replicated very much after the '60s, left me with a very clear sense of obligation that those of us who are able to have a positive influence must involve ourselves in the process.**

The second strain that runs through my life is **having had a series of interesting teachers**, an eclectic group that included R. D. Laing, who I studied with in London and Marshall McLuhan, who I studied with in Toronto—**people who helped me see that there is no one reality and no one way to understand the world, and that it is essential to know whatever you're seeing is only a very little part of what there is to see and that there is really unlimited possibility for things to be better and different than they are today.**

COS: *Speaking about the current situation, how does the current economic transformation and crisis show up in your personal experience, in Seventh Generation's experience?*

Jeffrey Hollender: Having been involved in corporate responsibility over the last 20 years, I've been hoping that with the combination of the financial crisis and the new administration in Washington we would have the opportunity to make some fundamental changes in our economy.

I had felt very optimistic about that possibility. **I would say my sad realization is that while I'm very happy with a lot of what the Obama administration is doing, my conclusion is that at the end of the day we are fine-tuning and making relatively minor improvements to very fundamental and systemic problems**, and that, while I'm glad that we'll have some limitation on CO₂ emissions, that limitation is unlikely to be aggressive enough to deal with the issue of global warming.

On a more fundamental level, **the underlying economic system that we have**, whether it's the way we measure gross national product or the way we allow business and society to externalize costs, **is so misaligned with what is required for business to run sustainably and the world to survive in the way we would like it to for our children and our grandchildren that we really, really need much more fundamental changes. I'm now sitting with the realization that there is not an adequate roadmap to create those fundamental changes to our economy** and that the hope that business and even government will do the right thing is not a hope that is likely to get us to where we need to go. So, when I go back and I read people like Herman Daly, who I think had a lot of things right from an economic and a policy perspective, I still see this huge disconnect between a philosophical framework for how things should be and a pragmatic roadmap that connects us to the very, very concrete, practical steps we need to take to get us there. To me, that's the most urgent and important thing, because **this crisis, as bad as it is, hasn't been severe enough to bring about the changes that I hoped would happen.**

So from my perspective, it's a question of how painful the process is. **If we don't intentionally make those corrections ourselves, we'll have to deal with the kind of pain and unpleasantness that forces those changes upon us.** I'm hoping that we can mitigate and prevent that.

COS: So, you said business and government won't make these necessary changes by themselves, yet at the same time you are the founder and CEO of one of the most successful pioneering green ventures and business success stories in the U.S. and worldwide. So, can you talk a little bit about that, and also about Seventh Gen's successes, because you are the poster child for what many people see as a new model or a different type of economy. *What are the successes, and what are also the limits of the story at Seventh Generation that you have experienced so far?*

Jeffrey Hollender: A huge issue is the ownership structure. **If you don't have an ownership structure that is committed to a long-term vision of the world, as Seventh Generation does, you have a very, very difficult, uphill challenge.** We are unique in having selected our owners and investors in the same way we would select our employees, by ensuring there is a deep alignment of values and purpose, and if not, not taking money from people.

There are also co-operatives. There are certainly ESOP [employee stock ownership plan] businesses. My conclusion is that ownership structure matters a lot and that **there needs to be a very tight alignment between the ownership structure and the philosophy and mission and vision of the business**, and that is often not the case. CalPERS [the California Public Employees Retirement System], for example, is taking an unusually long-term visionary perspective on some of the things that they do. So, I think it's possible, but ownership structure to me is something that is a real obstacle.

Again, **I think unless you have structural changes, where you have extremely high tax rates for short-term capital gains, it's hard to get people to think long term** because right now we're financially incentivized to think in the short term.

Second, I think that there's a huge challenge in the way people understand the very purpose of a business. There are still hundreds of thousands of businesses who think their purpose is to create value for their shareholders.

COS: Which is what the law says or not?

Jeffrey Hollender: I don't think that's what the law says, actually. I think that many people have chosen to interpret the law in that way. There was a good article just last month in an economic journal that examined the case law around that issue and basically came to the conclusion that, while there are lots of economists who make mention of the law, there's virtually no case law that exists to support that point of view.

This myth came about because you have companies like Johnson & Johnson, who for 40 years have said they're in business first to take care of their employees, second to take care of their customers, and third to take care of their investors and their shareholders. **So, this myth that business is about shareholders' interest I just don't think is true, and it needs to be challenged.** It needs to be debated much more openly and aggressively than it has been because we will have a very unpleasant world and a disastrous future if the purpose of business is to make money for shareholders. The world can't afford that.

I have spent a fair amount of time in dialogue with Wal-Mart. Wal-Mart is at this interesting inflection point because they've made a lot of progress in thinking about issues of sustainability through their supply chain, and yet their purpose is basically to sell the cheapest products they can to their customers.

The notion of sustainability is at odds with a business that wants to externalize as many costs as possible to provide lower prices to its customers. So, at another level, you have to think about your purpose and whether that purpose is aligned with the kind of world we want to create and the kind of values that we have. To me, until Wal-Mart confronts that purpose, it will not fulfill the promise that it would like from a sustainability perspective.

Business says that human beings are the greatest asset and resource that they have, and yet they treat human beings like disposable commodities. As soon as large companies get into financial trouble, the first thing they do is let people go. We have some fundamental notions in business that won't allow us to create the kind of world we need to create. **We need to start treating human beings as sources of huge and endless potential rather than as commodities.**

This is a long subject. It's actually the focus of a book that I'm just finishing that specifically looks at the failed promise of corporate responsibility, why corporations didn't become these responsible entities that we hoped they would, and what systemic things have to change in order for that promise to be fulfilled.

COS: Which is at the core of what we are interested in with our initiative. *What do you see as the root causes of the current situation and the current crisis?* I heard you say it's the ownership structure, the purpose of the business, whether it's in synch or not in synch with the well-being of the whole.

Jeffrey Hollender: In some respects, the comprehensive issue is really the way the economy is designed from a regulatory perspective, from a tax perspective, from a measurement perspective. The system is designed to do the very things that we do. It is designed for us to buy products that are less expensive because we have allowed those products to externalize their negative costs. So we have a whole system where we do what one would expect people to do, but all of that emanates from the way the system has been designed.

So, if you were a farmer growing strawberries **and you had to pay the cost of polluting a stream and then cleaning that stream up, or you had to pay the excess health insurance cost of exposing your workers to pesticides, traditionally grown strawberries would be too expensive for people to afford.** But because an organic strawberry is competing against a non-organic strawberry whose grower is allowed to externalize all those negative costs artificially, the organic strawberry is more expensive when it really should be half the price. Why then do people buy non-organic produce? Because it's cheaper, and **that is a challenge (a) from an economic perspective because we allow the grower to avoid paying the external costs and (b) because we have this scientific mentality that small exposures to highly toxic chemicals are safe.**

There is nobody who looks at the cumulative effect of all those small exposures, so we label this society that is filled with toxins to be filled with safe products because there is no one who adds up the cumulative impact.

COS: So, the regulatory system creates all these externalities that are not accounted for and that we are now beginning to pay the price for, and as you said earlier, we treat human beings as a commodity. Those are challenges we need to overcome, right?

Jeffrey Hollender: Yes.

COS: So what is the blind spot in the current economic thinking that has us creating systems like that that are obviously not in synch with our larger interests and with the well-being of the whole? *What is the blind spot of economic thought that's causing these kinds of regulatory systems?*

Jeffrey Hollender: Well, I think there are a couple of challenges. **There is a fundamental challenge that has to do with where wealth lies and the influence that wealth has on politics and policy.** We have created wealth in ways that are not sustainable, but that wealth, nevertheless, rests in the hands of large oil companies. It rests in the hands of companies like Exxon.

So, you have this incredible concentration of wealth and power that was acquired in totally unsustainable ways, but those entities still have huge influence over policy, the economy, and politics. As long as we allow the political system to be a system where you effectively can buy a congressman or senator...

Exxon, for example, is the most profitable company in the world making last year almost a billion dollars a week. How is it that the government gives them a billion dollars of subsidies a month? To me, that epitomizes what's wrong with the system. **It shows you that the wealthiest, most powerful entity is able to extract the greatest financial benefit from the system.** That has nothing to do with what's good for anybody other than the business that is able to extract that excess value from the system.

Until you make fundamental changes like taking money entirely out of politics, this will continue. **We need to have a system where all elections are publicly financed and every politician is on the same financial footing as every other politician.** So, that is one problem.

Another problem is that, as wonderful as President Obama is, there's a limit to how much he wants to upset the apple cart. He's got a party he's got to lead. He's got Democrats that are up for election almost a year from now. I think he would probably agree that we want to incentivize people to make long-term investments. So, we're going to place a huge tax on short-term capital gains. I don't think philosophically he would agree with it, but politically it would be untenable to reject it because it would put in jeopardy all of the other improvements and policies he wants to pass.

So, he's never going to get a touchdown, but he's going to move the ball forward a little bit at a time. In some ways he's afraid to go for the touchdown because it puts at risk that endless incremental progress. Again, that's just the wrong paradigm. **We're at a place in history where incremental progress won't yield the kind of positive results that we need. Yet we've got a political system that is stacked against someone willing to make big, innovative changes.**

What the solution to that is I'm not really sure, but that is a collision waiting to happen. We see it with global warming. I'm afraid that we'll see it with health care reform; and it is epitomized in not letting Chrysler or General Motors go out of business. On the one hand, I understand that if you give billions and billions of dollars to the financial industry, how can you not give money to the auto industry? **But the notion that these companies are too big to fail I think is a fallacy. The reason they're about to fail is because they've outlived their usefulness in our economy.** We need to let them fail so that something else can be created; and we need to preserve businesses that are no longer functioning in a healthy way but that can survive on their own. We keep putting our finger in a dike instead of letting the dike collapse and letting the flood happen because the new solutions will arise only if we let the old structures that need to die, die.

COS: Does the same apply also to Wall Street? How would you have handled the Wall Street situation?

Jeffrey Hollender: I think we should have let banks go bankrupt. All this money that the government gave AIG, billions of dollars of it, got passed out of AIG's hands into other people's hands. I don't buy the notion that AIG couldn't go out of business.

We've had a history in this country of letting large banks go into bankruptcy and emerging from bankruptcy. What happens – and this is really unfair – is that **by keeping these companies in business we're really protecting the interests of a very, very small group of people and not acting in the public's best interest. If we took all the stimulus money and distributed it so that we created greater economic equity amongst all Americans, we'd probably be in much better shape than we are by funneling hundreds of billions of dollars into the hands of a very small group of companies.**

COS: You mentioned the current inflection point in history. Taking everything you mentioned and all your knowledge about the current situation and the forces of change we are dealing with, *what are the scenarios that you see playing out over the next three to five years?*

Jeffrey Hollender: Tough question. I wish I had a better answer to that question. It makes me think I need to be much more of a revolutionary than I am. **We need people to challenge the status quo**, and yet, in many respects, to tell someone who just lost their job or is worried about losing their home that they should join this revolution, I'm just not sure that's going to happen. It's funny, because my huge optimism when Obama got elected swung to a very, very deep concern when it became clear to me that the course correction that he was going to make wasn't going to be substantial enough to address these challenges.

So, individually I am stepping down as the CEO of Seventh Generation so I can devote my full-time energy to this problem because it feels urgent, and I am worried by the lack of people putting forth pragmatic solutions. So, I wish I could answer that question. I see a scenario where there could be very severe disruption.

People talk about the world getting back to normal and employment beginning to come down and consumer spending going up, and to me, that's just a disaster. No one's talking about what happens to our economy if global warming goes unchecked. Those kinds of disruptions will be so much worse than the unemployment rate going up by 1 percent, **yet there's this total disconnect between what we're willing to do about those long-term problems and the adverse effects that they might have.** We put all of our energy into these relatively short-term fixes that will minimize the short-term pain rather than dealing with the long-term challenges.

Honestly, I am stumped at how and from where we will get the will and the wherewithal to shift people's thinking. I guess it might be possible if you could raise consciousness to the point at which people were able to think differently about the world they live in and the choices they make. **The question is, do we have enough time for a massive consciousness raising so there is an awakening in America and around the world that leads people to make different choices?**

I had hoped that this financial crisis would lead to people thinking differently about themselves as consumers and making different choices, but I just don't see fundamental signs of that. People buying the same quantity of stuff but just cheaper stuff is not going to help us get to where we need to go. Do you have an answer?

COS: No. I don't think there's one answer to that. Probably I would think about trajectories of possibilities. One pathway is to go back to normal, more or less. The next disruptive change would then be just around the corner, and it won't take five years before that happens. Then the long-term would be even worse.

Another possible scenario is that even this normal development, more of the same, could be disrupted earlier. The mood could become more reactive and almost fascistic, where the common ground on which the community is built breaks apart, is ripped apart. I think that's another real possibility. Wherever you go these days, the ground on which the community is built is very fragile and can almost blow up—not in an instant, but in a relatively short time.

Maybe there is also a real possibility for a shift in consciousness. . I mean, there are a significant number of people who believe something has to change. You're leaving your current job and devoting yourself to new challenges because you fear something; well, I fear the same. That's why I'm doing what I am doing, and there are many like us. I think there's also a scenario where some of that could start to click together more coherently. I don't know. What do you think?

Jeffrey Hollender: Well, I think that's the possibility. The challenge we face is that many, many people who have the passion and the aspiration to make that positive contribution focus their attention on a specific issue, whether that's hunger or a medical crisis in Africa or global warming. **The challenge is to find the idea that unifies all of those concerns so that we don't end up compartmentalizing our efforts in a way that don't add up to anything significant.** That is the history of the environmental movement. Even within the environmental movement people choose their issues, and then they go work and fight and fund those issues without ever

saying, "Well, wait a second. If we don't all work together on this overarching systemic challenge, we will never succeed in our compartmentalized endeavor."

So, another question is, what will unify this intent and possibility into a coherent movement where the collective possibility is harnessed across all of these traditionally compartmentalized issues and initiatives?

One of the things that we've been involved in is the sustainable palm oil roundtable. You see an unusual situation where government, labor, business, farmers, the whole value-adding chain, the whole supply chain, recognizes that they are facing a problem that none of them can fix individually. Unless collectively they restructure the whole industry, they'll all lose.

That's happened in the cocoa industry. The question is, how do we do that on a more global scale and bring those stakeholders, who normally are at odds with each other, together so they can see the commonality of their interests?

COS: They would then realize that (a) we need each other to take action on that and (b) more of the same is not a viable option because we don't like the outcomes. That applies to so many fields, as you just described. It's applicable really to most major systems today. *So, if you were to advise Barack Obama and could name three actions that he could take that would shift the current system toward the regenerative economy that we talked about, what three actions would you suggest that he take?*

Jeffrey Hollender: Number one is full cost accounting. **I believe that if we had full cost accounting it would so radically change the game it might very well be the single most powerful thing that we could do.**

COS: Full cost accounting meaning internalizing all externalities?

Jeffrey Hollender: Correct. But you look at the challenges. You look at how hard it is to deal with carbon. People don't want to have to pay for carbon emissions, so in the present legislation we're giving huge exemptions to people who won't have to account for carbon in the near term. The problem is, if you can't get people to pay for carbon, how are you going to get people to pay for all of the other externalities, whether it's exploiting labor or whether it's emitting toxins? I mean, it's a tough challenge.

Now, in some ways I think you probably have to have a vision of the future that enables people to see that, without making this shift, the scenario for the future is bad for everybody. That requires creating a scenario that people will agree on. But what happens is those entities that believe they will lose in the short term try to dismantle the credibility of that scenario and cause people not to believe in it. **Again, global warming is a great paradigm, but so is the cigarette**

industry. I mean, the cigarette industry fought for decades against the fact that it was bad for your health, just like the oil industry and the gas industry fight against the fact that the oil industry is unsustainable.

I can't reconcile that, but what I know and believe is that if we internalized all costs we would make much more sustainable decisions than we make today. We haven't even recognized as a society the fundamental reality that there's a huge disconnect between the rate at which we use up natural resources and what happens when they run out. They're not infinite. There is a vision of the economy that growth comes in a quantitative way rather than a qualitative way. **We have to reframe growth around quality rather than quantity.** That's a tough notion.

When I tell people who are running grocery stores that the idea that they're going to sell more and more and more stuff is just not sustainable, that's not what they want to hear. You have to explain to them that there are other business models that change the dynamics. You point out that what people are selling at a farmer's market is community and dialogue, and that there are ten times more conversations at a farmer's market than in a grocery store, and that if all the grocery store thinks about doing is selling as much stuff as possible, it's unsustainable.

Those are hard transitions for businesses to go through, but again, you have to be able to present a solution, a vision for a better future and a vision of how to get there. You can't just tell people that what they're doing is wrong and unsustainable.

COS: So, the first thing that you would tell him is to internalize all the externalities, right?

Jeffrey Hollender: Yes, absolutely. That to me is the single most important thing that I would tell him.

COS: What's the second?

Jeffrey Hollender: The second thing I would tell him is, unless you get money out of politics, whoever embraces this vision that you share won't be around long enough to bring it to fruition. **We need to pass a very, very aggressive policy that ensures that all elections are publicly financed. Even if you accept the current funding level for political elections, it would only cost \$6.00 per person per year to fund all elections publicly at the same level at which money is being spent now.** So, it's not impossible to do, but those that embrace this vision will be gone from view very quickly if we don't change the way we fund elections.

COS: That's right. So, that's the second one?

Jeffrey Hollender: Let's see what the third one would be. I think about what we need to do from a long-term perspective, and I'm not sure this is Number 3, but I know that it's essential. If we taught all young children how to think systemically and how to look at the world from a perspective that understands the endless interconnection of everything they see and everything they do, I think that we would create that shift in consciousness that is so hard to generate today. **A shift has to happen in the way kids learn to think, in the way they learn to see the world, in the way they understand their role and relationship in the world, everything else.**

If we don't bring that consciousness to children in the future generations, the consciousness that we have today is equipped to continually replicate the problem over and over and over again. Somehow we have to deeply embed a different way of thinking in our children.

COS: What would that look like?

Jeffrey Hollender: My children have all gone to the Waldorf School or the Rudolph Steiner School. They come closer to this perspective than anything else I've encountered. I've ended up with children that have a different sensibility and perspective than other children are likely to have. I think that you can see the effect that that consciousness and that different point of view has on kids. But we have an educational system that is not designed to do that. I know that Obama is passionate about education, as his wife is, and I think that it's possible to help him see it's not just about access to education. **It's not just about ensuring that everyone gets to participate, but it is the quality of that experience and the effect that we want that educational experience to have on people's sensibilities.**

COS: Looking at your career, on the one hand, you're an entrepreneur; on the other hand, you're really a movement guy. You're part of a larger movement. The venture that you created, with others, is as much like a business entity as it is an entity for changing consciousness and being part of a larger movement in the world.

I meet many young people here at MIT and other places who aspire to have that type of career, but their real options are very limited. So, what would you advise the generation now in high school or college about having a type of career like yours, one that combines both of those things?

Jeffrey Hollender: Well, in some respects, they're coming into the business world at the best possible time. I think there will be more opportunities for sustainable businesses, businesses that are truly activist, businesses that are designed around greater purpose and possibility than ever before. The financial track record of those businesses is increasingly better than that of traditional businesses, so more financing is available than ever before. **Those businesses with real purpose and possibility attract the best talent;** you can hire the best and brightest people because that's where they want to work. I think increasingly that consumers are beginning to value the relationships they have with those businesses in very different ways than they value the relationships they have with traditional businesses. So, you can end up with a passionate community of customers and consumers to ensure the long-term success and growth of your business.

So, I am very, very optimistic about the possibilities for young people to create businesses today. There are shifts happening in our economy to create business possibilities, whether it's weatherizing homes or building windmills. We have a venture we're involved with out in San Francisco that helps very low-income Hispanic women start co-operatives to clean people's homes with nontoxic cleaning products; these co-operatives are just incredibly successful, and these women are making three times what they were making before.

So, this is a great time. **This is a very hopeful time I think for people that want to be involved in business. One of the things that Seventh Generation is passionately trying to prove is that this other way of doing business does lead to success and that you can give away ownership in the business to your employees without creating an adverse effect on your shareholders.** You can create greater equity amongst your ownership than is traditionally believed possible. Part of what is critical for Seventh Generation is to be a model and an example so that people can't say, "That's a fantasy. That's something that won't work." We need more and more and more examples of this different way of doing business to build credibility and to start casting doubt on the way that traditional companies are operating.

COS: To study the emerging, regenerative economy, where would you recommend that we go to see the new in the making?

Jeffrey Hollender: I don't think there's any one single place. I mean, BALLE, the Business Alliance for Local Living Economies, is a vibrant and exciting community of small and emerging businesses that share this kind of values orientation. So, to me that's an exciting place.

I think the B Corporation community is another exciting place, where people are structurally questioning the purpose of business and aligning around a very different sense of purpose. That's another interesting community. One challenge is that corporate responsibility in some respects has become so mainstream, with organizations like Businesses for Social Responsibility that are largely Fortune 500 companies, that there hasn't emerged a new leading edge. I'm interested in trying to organize that new leading edge of business thinkers who are creating these models that other people can learn from. The guy that runs Just Desserts, from San Francisco, has another organization that is doing some interesting work.

I think the community of business leaders who share this perspective are still looking for a new home. Social Venture Network for many years was that leading edge. I'm not sure they really embody that leading edge anymore.

COS: Thank you so much, Jeffrey. This was greatly helpful and inspiring, and we look forward to continuing this conversation at some future point here in Cambridge when you join one of the roundtables. Thank you.

Jeffrey Hollender: That would be my pleasure. I look forward to it.