In September 2022, the then-owners of Patagonia — Yvon Chouinard; his wife, Malinda Chouinard; and their two adult children — delivered a shock to the business community, announcing that rather than taking the business public or selling the company, they had decided to transfer ownership of the company, valued at approximately $3 billion, to a nonprofit organization and a specially designed trust. The move will ensure that all of the company’s profits, which accumulate at around $100 million per year, will be used to fight the effects of climate change and protect natural places on a global basis.

At the heart of the company’s decision-making is Charles Conn, chair of the Patagonia board. In this interview, which can be accessed in full at www.directorsandboards.com, he discusses the roots of Patagonia’s work toward environmental protection, why he thinks Milton Friedman’s beliefs about shareholder capitalism were well-reasoned but wrong, and why Patagonia ultimately decided to put its money where its mouth was in the fight to save the home planet.

Directors & Boards: Can you tell us about Patagonia’s decision to become a benefit corporation? What led to that decision and what impact has it had on how the company is managed?

Charles Conn: We were the first benefit corporation in California, and that was really important to the founders, Yvon and Malinda Chouinard. The thing that appealed to them about the benefit corporation certification and the annual process that goes along with it is that being a benefit corporation allows you to enshrine in your charter goals other than profit maximization. Regular companies incorporated in Delaware only have profit maximization as their potential objective. So, for all the conversation about stakeholder capitalism, non-benefit corporations actually are required to do profit maximization. The Chouinards really wanted to enshrine in Patagonia’s charter both their environmental aims and aims around their employees and the communities in which they operate.

DB: Could you take us behind Patagonia’s decision to make the Earth its only shareholder? What was the decision process like, and why did Patagonia ultimately make that decision?

CC: It was a long process. I think Malinda would tell you they’ve been thinking about this for 30 years. The founders knew they would get older. And they care very deeply about how the company is run. Both of their now-adult kids work in the company, but they also wanted to have a really permanent
solution to Patagonia’s long-term stewardship. So we were solving for two things. One is, how do we provide long-term or permanent stewardship for a values-based company? Second, how could we release more value to fight the environmental crisis, which is incredibly important to the founders? We evaluated a number of different options, which included going public, using a direct listing, selling a minority interest to a private equity investor and a number of other options related to those so that we could release more value. But, ultimately, the family wasn’t comfortable that those wouldn’t compromise the purpose of the company and the long-term values to which they ascribe. That’s why we ended up with this unusual structure, which is: We’re owned by a purpose trust, which has the voting shares of the company, and a kind of foundation, a “C-4”, which owns the economics of the company.

**DB:** This speaks to the heart of some of the conversations that have been going on in governance circles since the United Nations’ meetings in early 2000 — and, of course, over the last couple of years. A lot of that is a conflict between Milton Friedman’s argument for shareholder capitalism above all else and others saying that corporations need to take into account their stakeholders. You’ve mentioned that you think Milt Friedman’s essay on stakeholder capitalism was well-reasoned, but ultimately wrong. What was well-reasoned about it, and why do you think it’s wrong?

**CC:** I think he’s a Nobel Prize winner for a reason. He was a very clever person. What’s well-reasoned is he creates a set of assumptions that most of neoclassical economics operated under, which includes perfect information, perfect competition and perfect regulation. And, within that, he solves the problem. So, for him, the owners of companies would receive the distributions from those companies, and they could choose what they wanted their philanthropic aims to be. That is a well-reasoned argument. But it’s also wrong. It’s wrong because we don’t have perfect competition. We don’t have perfect information. And we don’t have perfect regulation. In fact, in most corporate segments today, we have quite a lot of concentration. We have companies that are global and big enough to operate around regulations with ease. And they often operate with very imperfect information for their shareholders and stakeholders more broadly. You could add one further thing, which is in that perfect competition world, there are no positive or negative externalities. In the real world, companies have both positive and negative externalities. And regulators, of course, are partly in place to try and guard against those having a negative impact. I think once you realize that the elegance of Milton Friedman’s solution is inside that box, you realize it’s not really relevant to the world that we live in.

**DB:** It raises some questions about relevance even to the world of the past. I’m reminded of the famous story of Henry Ford paying his workers enough to be able to afford his product, which seems to be a fairly smart decision in retrospect.

**CC:** I would argue that Friedman is almost an outlier, although that became a very popular way of thinking. In fact, it was embodied by Jack Welch, who ran General Electric for a number of years. But before that, when companies first started being formed, and well into the 20th century, many companies felt like they had an obligation to their communities and to their staff. Not just Ford, but Lever Brothers, the turn-of-the-century soap company that we know today as Unilever. And many other companies felt and acted as if they had obligations that were broader than just to their shareholders.

**DB:** You talked a bit about the pendulum shifting toward responsibility and purpose in your *Fortune* article, “Patagonia Chair: ‘We are turning capitalism on its head by making the Earth our only shareholder.’” There’s a concern that the pendulum has shifted so far to one side, and then it’ll do what a pendulum does and come back to the other side. Is it the case that we are in this kind of pendulum swing politically, or have we made a move forward?
CC: Well, we’re talking like we are. But I think when you look at most companies’ behavior, a lot of the discussions about stakeholder capitalism are just discussions, as I mentioned right at the outset. Companies that are incorporated under Delaware law are not benefit corporations; they’re required to maximize profits. And a lot of the discussion about responsibilities to other players are just theoretical. We are in a political moment where people have made this a front-and-center-issue. But I think the truth is that we really are largely where we have been. I think maybe there is a recognition that the Milton Friedman version — all profits only to shareholders, the only obligation is to shareholders — is being questioned. It has not always been true that those were the only guidelines. It’s been true in the past that people care about other things, and companies on the left and on the right actually demonstrate purpose. I think if we were to talk about Chick-fil-A or My Pillow or companies that tend to be aligned with a particular political viewpoint, people aren’t against those having their viewpoints. In fact, they want to protect their free speech. I think we just have to sweep away a bit of the current politicization and recognize that investors are starting to demand that companies pay attention to longer-term concerns. That includes things like climate change. Over time, I expect the pendulum will swing. In reality, the pendulum hasn’t swung very much today. Mostly it’s just debate.

DB: You’ve mentioned long term and short term during this interview, and that strikes me as one of the cruxes upon which some of these arguments fall, because you could argue that Milton Friedman was looking at that perfect world, but also a fairly short-term world, where the immediate result wasn’t really calculated against what might be the result a decade from now. How can you balance short and long term, especially in a world, at least in the United States, where quarterly results drive a lot of behaviors?

CC: Well, I think you tell the truth. You don’t pretend that businesses increment by 7.9% each quarter and do that every quarter. I think in some ways you could argue that Jack Welch built his own whip for his back by doing that. The truth is real business results go up and down. You do your best to indicate to your shareholders and the broader community what’s going to be going on with your results. The best companies don’t try to guide the analyst or investors to very near-term results. They try to guide them toward their longer-term value creation. That makes a ton of sense to me. Of course, if you miss a quarter because you’ve guided folks in a way that gives a very narrow range, then that’s on you. There will be implications for that. Remember: I serve on a board of a company that has been private for 49 years. We’re not looking to fool the market. We owned the shares, and now a foundation owns the shares. We’re looking to create long-term value and, in our case, to fight the environmental crisis. So, long-term is definitely the right way to think about a business like ours. I would argue these large, complex, publicly traded businesses that are the backbone of the economy should be aiming for long-term value, too.

DB: When you look at it, though, yes, the Chouinard family owned Patagonia and is transferring that ownership in a public company environment. From the board member’s perspective, what kind of advice do you have for those board members who are trying to find a balance between purpose and profit, as if such things were diametrically opposed?

CC: I don’t feel those things are opposed. I think having clarity of purpose is aligned with long-term value creation. And I think we’ve seen it under Paul Polman at Unilever, which is a giant company. It was run both very successfully, economically, and with purpose. I think we see in a number of large companies that people aren’t making compromises in order to get short-term returns while doing damage to the environment, to staff or to other stakeholders. I think when you look, in fact, at what happened with General Electric over time, many people would argue that the focus on short-termism is one of the reasons why the company doesn’t exist as we knew it in the 1980s, or in the 1880s. I think
that’s a sad story. It’s important that companies are clear about what their aims are and what their purpose is. Each one of them should have boards that understand that and stand for that. Then when you’re looking to trade off a short-term quarter’s numbers against necessary investments to create long-term value, you speak clearly to the market about what you’re doing.

**DB:** What are the downsides of capitalism from your view, and what could the future look like in a Patagonia sort of vision, but also a Charles Conn vision?

**CC:** I think the negatives of capitalism are by now well known. There’s a pretty substantial difference between haves and have-nots in the system. The system has been wonderful at creativity and innovation. It hasn’t always been great at distributing growth in ways that some people view as fair. I don’t know exactly what fair distribution is, but I know many people think that kind of distribution hasn’t been fair. We also know that many companies haven’t been mindful of the communities that they operate in, and in many cases haven’t been on the right side of long-term environmental sustainability. So from a Patagonia perspective, and particularly from a Charles Conn perspective, I hope we move toward a world where we pay better attention to distribution of the benefits of capitalism, we pay much more attention to the potential environmental harms that come from capitalism, and, frankly, that we look at growth as an overriding objective and question it. At Patagonia, we’ve often chosen a lower growth path in order to feel like we’re doing the right thing. In retailing, you can jam channels full of product. We choose not to do that. You can have as many wholesale relationships as you can manage. We choose not to do that because we want what we are as a company to be really clear. I think we don’t need to throw capitalism out in order to make positive change. But I do think we need to question what we stand for as companies. The truth is workers, communities and those who protect the environment — and that includes regulators — are going to hold us to account. With increasing information now, everyone knows everything, all the time. It’ll be easier to hold us to account. Don’t you think it’s a better thing that we get our own houses in order, rather than wait for activist shareholders, activist employees, activist communities and activist environmentalists? That comes because we’re not doing the right thing.

*Check out the full interview [here](#)*

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