

Built for a Better World



How **Seventh
Generation**
Pioneered a
Movement
that Changed
the **Purpose
of Business**

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with GEOFF DAVIS

Chapter One

A Rude Awakening!

On a cold night in late October, I was sobbing hysterically in the Seventh Generation subterranean parking garage in Burlington, Vermont.

The tears alone were surprising. Crying has never been a go-to emotional response for me. And I'd certainly never shed a single tear over anything work-related. But this was not an ordinary night.

Minutes before, the Seventh Generation board of directors had adjourned. To say the meeting had not gone well would be a monstrous understatement. It had been a hot-button session of heated debate, and I was overwhelmed by the fear that the company I had fought so hard for was about to get seriously burned.

The trouble had been brewing for almost a year, and it all started when I made a deal with a benign devil.

After nearly twenty years of environmental trials and corporate tribulations, I was burned out. The daily grind of keeping a challenging business afloat had finally taken a toll I couldn't ignore. I needed to step back from my all-consuming, over-active role as Seventh Generation's Co-CEO lest my last surviving nerve fray beyond repair.

I had told the Board, "I want to take a break and step back from my day-to-day responsibilities; I'd like to focus on writing and speaking. I can still be CEO and the public face of the company, but somebody else should actually run the show."

On the surface, nothing had to change. We'd just rejigger the chain of command behind the scenes and bring in a new set of hands to steer us into 2010 and the next chapter in the Seventh Generation story. Then I could catch my breath and promote our company's ideals without having to actually engineer them into an ever-complicated reality.

The board agreed and we hired the somewhat ironically-named Heidrick & Struggles, a fancy executive search firm to find our next company president.

After a long national hunt through more corporate corridors than I cared to count, we landed on one of the nicest people I've ever met, a guitar-playing runner named Chuck Maniscalco. Chuck had been the CEO of Pepsico's Quaker-Tropicana-Gatorade division. We believed his consumer products brand expertise was just what we needed to get Seventh Generation to our ultimate goal—a billion dollars in sales.

Just one small problem: Chuck didn't want to be president. He wanted to be the CEO. This proposition would take me much further out of the management loop than I wanted to go, both figuratively and literally. Such a change not only meant relinquishing influence, it would move me out of my longtime office, stuffed into an attic library sitting in a forgotten corner of the building. Too exhausted to argue, I agreed.

A fatal mistake.

My always-wiser wife, Sheila, tried to warn me. She thought it was a terrible idea and fought adamantly against the entire arrangement. She'd interviewed Chuck as part of the hiring process and was convinced he was not the best fit for Seventh Generation. Moreover, she urged me not to relinquish authority, to maintain ultimate control of the company to which we'd both dedicated our lives. But I wasn't looking for authority. I was dead set on finding a pressure relief valve. Chuck was it. That was that.

Chuck joined the Seventh Generation community shortly thereafter and plunged into the work of shepherding the company into the new decade. His hands were full from day one.

For one thing, over the previous year, the company had grown 50 percent and annual sales now stood at a benchmark record of \$150 million. It was hands down our best year ever, but after years as a small, struggling, niche company, this explosive success had everybody juggling myriad challenges. The whole company—from human resources to product development—was working overtime.

Despite the upheaval and corresponding pressures, I was elated. At last, our long-term survival seemed assured. But we needed a new investment for the final lap, and Chuck's pedigree was part of our plan to secure the \$30 million in funding we required. With his résumé on our team, we would create the investor confidence necessary to transform Seventh Generation from risky into a surefire bet.

It was a wild time of bursting at the seams, burning cash, growing pains, and corporate soul-searching. Two visionary women, Carol Sanford and Cheryl Heller, were instrumental in developing, "global imperatives," a set of eight ideals. More than ideals, these were commitments to creating a just and equitable world by promoting its health and well-being, and leading the world toward a higher consciousness.

After about six months into Chuck's tenure, the mistake became clear. Though he said all the right things, he wasn't internalizing Seventh Generation's global imperatives or nurturing the company culture. He understood how to sell pallets of dish liquid to grocery shoppers, but he couldn't get comfortable with the let's-go-fight-climate-change-and-allget-arrested side of the business at its very core. As talented as he was, it turned out he just didn't have social responsibility woven into his managerial DNA, and at Seventh Generation, that was the most crucial leadership qualification.

There were other troubles simmering as well, such as the stock options. At the time, employees held about 20 percent of our stock, after having been distributed 1 percent of the company ownership each year for the past twenty years. I was pushing to get that number up to 30 percent to become an ESOP, an employee-owned company. For whatever reason, the board of directors hadn't been paying enough attention to my efforts with this and suddenly it became an issue. Out of nowhere, one board member freaked out that we were giving so much stock to employees. Not only did he want us to stop, he wanted them to give half of it back.

I did not have one problem with that . . . I had a whole lot of problems with it. First off, why on Earth would any employee agree to such a give-back? After all, it was their blood, sweat, and tears over many long years that had created all this tremendous value for our shareholders.

The argument was that we'd go out of business if employees didn't acquiesce. Not even Chuck's stellar resume would be enough to overcome investor hesitation about such a large ESOP program, and their reluctance would prevent us from raising the money we needed to survive.

I disagreed. Vehemently. It was not only absurdly unfair, it was disingenuous. I wondered if their sudden concern was more about the dilution of the board members' own shares. Never mind that those shares had risen in value from about \$1.75 to over \$22.50 in ten years, a return of over 1000 percent, meaning the board had already made a huge amount of money. The reason they had all profited so handsomely was thanks to the hard work of a Seventh Generation community motivated in no small part by their legitimate sense of ownership in the company. The idea that we would screw over the very people responsible for our collective wealth—retroactively, no less—was utterly revolting.

Then there was Terrible Tim (not his real name). He ran a venture capital fund and had been brought on board for some additional cash and to help with the new round of fundraising. Or so they said. In the summer of 2010, he'd planted an underling in the office to analyze our operation. Now suddenly there was all this talk about the total worth of the company—but why? A new valuation was completely irrelevant to anything we were doing. It was as useless as it was baffling.

Unless, of course, some of the board was secretly readying Seventh Generation to be sold. Such a move would put the company's values and vision at the risk of destruction. A move I had vocally sworn I would never let happen.

Which brings us back to that Friday night in Burlington, at a board meeting held after hours in our offices, where I laid all these collective concerns on the table.

I said, “Asking the employees to give back their hard-earned stock is the exact opposite of our company values. It is as grotesque as it is unfair. It is absolutely not a reflection of the company we have worked so hard to become.”

What kind of company did we want to be? A marketable one? What's the real reason Terrible Ted and his minions are haunting our halls? What are you guys not telling me about your ultimate intentions? “What exactly is going on here?” I asked.

All this was before we even got around to the subject of our newish CEO. “Look,” I said, “Chuck just doesn't get the company or its mission. It's not his fault. No hard feelings. I love the guy personally, but in the final analysis, he's not the right fit.”

I laid out how hiring Chuck was regrettable and ultimately my mistake, but he had to go if for no other reason than the fact that fundraising on the basis of his résumé was completely unethical. “We can't take the money when we know he's the wrong person for the job. I don't care what we have to do,” I said. “I don't want the cash if it has to come on his credentials.”

The board wasn't having it. “If we let Chuck go, it will hurt our valuation,” they argued. “It will look like we don't have our shit together, which will make it impossible to raise the funds we need.”

“So what?” I replied. “That's not a reason to stay the course. It's wrong, and it's fraudulent, too. In fact, despite all the talk about how proud everybody here is of the company's values, it's starting to look like the money matters a whole lot more.”

Poor Chuck. Even he knew he was in the wrong place, and he tendered his resignation to the board on the spot. If I didn't think he was the right person for the job, he didn't want it.

The board not only refused his offer, they collectively pushed back against me. Hard. No one supported even one of my positions. Other than my wife, nobody had my back.

So much tension filled the room, you would have needed a chainsaw to cut through it. And even then, it might have killed the chainsaw. No votes were taken. No decisions were made. I left the meeting in shock.

Suddenly, it was clear to me that despite being a company founder for the last two decades, despite all I had given to Seventh Generation in its quest for both principles and profits, I had nothing. No power. No board allies. No influence to persuade my adversaries. After years of giving seats to our big investors and giving up control with majority ownership, the money was all in, and Sheila and I were inexplicably on the outs—a minority of two fighting a united majority that, alarmingly, seemed to no longer understand the company they were charged with guiding.

It was a horrifying moment, one made all the more painful by the betrayal of an investment banker who was also a very close longtime friend, someone I'd known since the fifth grade. He had always assured me that our friendship was more important than business. He told me he'd always have my back. Now his promise felt like a Vermont-sized load of complete bullshit.

Alone. Abandoned. Tormented. The tears were bitter, and they flowed freely, salty acknowledgement that the dream I'd built was in danger of becoming a nightmare.

A good night's sleep helped. In the frost-clarified light of a bright Vermont autumn morning, with the last of the season's brilliant foliage rustling in the Lake Champlain breeze, the heavy emotional weight of the previous evening partially lifted, aided by Sheila's gentle assurances that everything would be alright.

Still, I knew I was in the middle of a real corporate shit show. Getting out of it wasn't going to be easy, but I believed eventually I'd find a reasonable path

forward. Things would work out. As my crazy entrepreneurial career had taught me, compromise was usually the name of the game. You have to give a little to get something better. I could bend without breaking, and the board could, too. Together, we'd figure this out.

I mulled over these thoughts, watching Saturday's morning light glitter across Lake Champlain and the Adirondacks beyond, when the phone rang.

It was the company's attorney and mine, too. We'd worked together for years—his father had been on the board of one of my early companies—and I considered him a friend. It was a little weird that he'd call on a Saturday morning, but the previous night had been so heavy, it wasn't a complete surprise.

He asked me if Sheila was there and could I get her on the phone, too? I called her into the room and put him on speaker.

He was talking, but it wasn't really the friend I had trusted for so many years. He was all lawyer, speaking in legalese, and it was obvious he was reading from some kind of prepared script. The words fell out of the phone and tumbled into an ugly heap on the table.

Following our meeting last night, the board of directors had reconvened. A vote had been called. The company I'd taken from backwater niche business to national brand “no longer required my services.” I would not be allowed to return to the office. Effective immediately, my role at the company was terminated.

I was terminated.

What happened next is a long, strange story. How I reached that brilliant Saturday morning in October is one that's longer and even stranger still. In between both stories dwells a major chapter in the history of corporate social responsibility and a world of lessons learned the hard way about starting and running businesses that want to evolve.

For over forty years, I've hammered away at a single idea in which I deeply believe: Business has the potential to become a force uniquely suited to making the world a better place. This idea is the one tool that contains the power and reach needed to get that job done with the urgency the world needs. We just have to rearrange how it works.

To get there, I've been obsessed with creating a different type of bottom line that puts people and the planet before profits. This bottom line marks its successes not just with plus signs but minus signs as well. And I've spent most of my adult life building a company that would put these essential ideals into actual viable practice and show the world the way. I know—it doesn't sound easy, and it's not as easy as it sounds. History will tell future generations whether or not I succeeded.

There is a whole lot to learn from this episode alone, much of which took years to figure out. Three lessons seem critical:

First, carefully select the people you place on your board. A big check is no reason to offer a board seat. Great care and due diligence are required, much the same work that would go into the due diligence required to hire a new leader to your senior management team. Ask for references. Get the names of three CEOs with whom the prospective board member has worked. Find out how they responded when a serious disagreement arose.

Did they stand up for the purpose of the business? Or where the short-term stock price would benefit?

Second, pay great attention to governance. Important values and principles (like donating 1 percent of sales to not-for-profit organizations) don't belong on a poster—they belong in the company's charter. These ideals must be legally embedded in the way the company does business and not subject to change.

Third, make sure your board is on the same page as you are concerning the vision for the company. Reviewing the business results and strategy in board meetings is not enough. You must ensure board members are deeply aligned

with your values and purpose. I clearly failed to communicate how critical employee ownership was to the company's brand and the financial results of the company. Or the fact that our purpose would be put into jeopardy if the business was sold to a large company who liked the brand but not all the crazy things we did to build it into the iconic organization that elicited warm and fuzzy feelings in our customers' hearts.

Seventh Generation was a leader in the corporate responsibility movement. That leadership required taking risks that many business owners would never be willing to undertake. Those risks, such as our partnership with Greenpeace, formed the personality of our brand in a manner that was as essential as it was delicate. And that's the story I want to invite you to now be a part of. Are you ready?