

The Power of Purpose

Host: Stephanie McCormick

Guests: Tamara Lundgren and Josh Silverman

- 00:00:02 **Ken Stuzin:** This is Ken Stuzin. I'm a partner at Brown Advisory. Welcome to our NOW 2020 podcast. NOW stands for Navigating Our World. We are simply trying to understand the world better, to navigate some of the most pressing questions that are shaping our lives, our culture and our investment challenges. How will we navigate the future of capitalism, climate change, our geopolitical relationships, and perhaps, most importantly, how will the coronavirus pandemic affect these questions and so many others. NOW 2020 is a place where we'll bring together thoughtful experts, people who are trying to make a difference. As we look to the future, the one thing we know for sure is that none of us can figure this out on our own. At Brown Advisory, we are focused on raising the future, and we hope these NOW conversations will help do just that.
- 00:01:02 **Indra Nooyi Audio Clip:** Let me talk a bit about performance of purpose and why it came about. I grew up in the south of India in a city called Madras, and I grew up in a city where there was no water. At the same time, in the same town, the same city we lived in, I watched large corporations build plants, use a lot of water. Think about this. You can't have a large corporation using excess water in a town where there's no water to eat or drink or live.
- 00:01:30 **Paul Polman Audio Clip:** How do you put a value on economic and social and not only on financial capital? So how do we redefine value? How do we change our economic system to not only reward capital but also reward labor?
- 00:01:44 **Rose Marcario Audio Clip:** Business can be successful, profitable, provide meaningful employment for a long time and also have purpose.
- 00:01:54 **Larry Fink Audio Clip:** And I truly believe the purposeful companies that I write about for the last few years are going to be the companies that are focusing not only on their stakeholders, but they're going to be focusing on the long-term impact, on climate change and how it impacts their company.
- 00:02:11 **Stephanie McCormick:** It's such a fascinating question. What is a business for? Who does it exist to serve? As an investor, I've seen a radical shift in the way companies have thought about that question over the years. When I was starting out in my career, it was probably true to say that the majority of companies took a narrow view. They thought that their job was do right by shareholders. But even when that's what companies were saying, I think a lot of people, including me, believed that there was more to a business than that.
- This place where we spend so much of our lives, which reflects and shapes our values, which obviously matters to the community around it as well as the people who work for it, did it ever really feel right to say that its only role was to serve its shareholders? I'm Stephanie McCormick, a partner at Brown Advisory, and I'm pleased to say that the debate about purpose has moved on a lot. These days, most companies are comfortable with the idea that they have a purpose which goes far beyond their shareholders. One thing we do know is purpose has to mean something in order to be real. At Brown Advisory, our purpose is to raise the future. What do we mean by that? Well, for me, it's about finding ways in my work with clients, my colleagues and our community to make the future better for all three. This is what gets me out of bed, and this is why I think it's so important for us to have this podcast, because there are big questions out there still and a really lively debate going on. That was true before the corona crisis and it will be doubly true afterward.

When we talk about purpose, what exactly do we mean? How do we measure if our commitment is carried through into meaningful action? And is the focus on purpose a cost to business or can it in fact be an advantage?

I want to welcome Josh Silverman and Tamara Lundgren to our podcast on purpose, and we appreciate your time and being here today. Tamara, I think it would be interesting to start with you and start with a little background. Most of the listeners probably know Etsy, know what it is, but I'm going to venture a guess that a lot of them don't know about Schnitzer Steel. And the irony that I've learned is that we probably have all interacted much more with Schnitzer Steel's products than we have with Esty's products. So I'd love to hear more about your company and the work that it does.

00:04:35 **Tamara Lundgren:** Who is Schnitzer Steel? We are one of the country's oldest metal recyclers. And what sets us apart from other businesses is that sustainability has been at the core of what we do and how we operate since our founding in 1906. And it's interesting that you say that people have probably interacted with our products and don't know it, and I think that's right, because I think that metals recycling and steel manufacturing are very misunderstood and often very misunderstood. What many people don't realize is that steel is the most recycled commodity in the world. There's more steel that is recycled than paper, aluminum, glass and plastic combined. And unlike things like paper, which can dissipate over time, steel can be recycled indefinitely.

So in our very essence, what we do is we turn the old into new. We enable the obsolete to become reusable, and in the process, we ensure a future with less waste, more natural resources and cleaner air.

00:05:53 **Stephanie McCormick:** So, Josh, how does that feel to you? Give us some thoughts on Etsy.

00:05:57 **Josh Silverman:** Etsy's mission is keeping commerce human. So we're a marketplace where makers meet buyers. We have about 2.7 million people who make things or curators who find and sell vintage items, and they sell to over 60 million buyers. And if you've got 20 cents and some creativity, you can start a shop in your living room or garage and run a global business. So we think that we're probably the easiest and cheapest path to entrepreneurship for people, and in fact, 91% of sellers on Etsy are businesses of one. Most of them say that their Etsy shop is how they first started in business, and so, you know, we think we play a really important role in the ecosystem in allowing people to create small businesses.

00:06:45 **Stephanie McCormick:** So, Josh, just sticking with you, purpose; give us a sense of your purpose statement and how it works with Etsy.

00:06:53 **Josh Silverman:** Purpose is built into our business model. It is our day job, and that's something that we think is really important and something that we think is very special. So, you know, the primary metric of success for Etsy is how many sales do we generate on the platform? And that's part and parcel with the first pillar of our social impact, which is economic empowerment. So how much economic empowerment did we provide for our sellers, and that lines up perfectly with our business model.

00:07:23 **Stephanie McCormick:** Tamara, you are a member of the Business Roundtable, which is an association of 180 leading U.S. CEOs. And just recently, in August of last year, the Business Roundtable issued a statement about the purpose of a corporation and how important that is. Tell me, was it easy to get those CEOs to sign up for that statement? How did that process look behind the scenes?

00:07:46 **Tamara Lundgren:** So let me start with some background. Beginning I think it was in 1978, BRT, Business Roundtable, had periodically issued statements around corporate governance but stated that corporations exist principally to serve their shareholders. And that had been renewed periodically since 1978. And recently, it had become clear that this was really not an accurate reflection of what companies and corporations actually do. And the conversation around companies had become very negative and almost solely focused on financial statistics. And the business community had really lost control of the message about the importance of companies and how vital they are, how vital we are, in terms of the part we play in the economy.

And when we talk about the vital role we play in the economy, sometimes I think that when we talk about the economy, it's kind of like what Henry Kissinger said about Europe: "When I want to speak with Europe,

who do I call?" When we talk about the economy, what are we actually talking about? And when we speak about the vital role that businesses play in the economy or companies play in the economy, what are we really talking about? It has a lot of components. It's the vital role we play in creating jobs, like Josh was just saying, creating foundations where entrepreneurs can thrive. It's the vital role we play in helping to establish the dignity of work, which I think is a foundational element of American culture, like freedom and liberty. It's the vital role that businesses play in supporting their employees. In other ways -- not just compensation and benefits, but in training and education. And it's the vital role we play in our communities.

So the statement that basically had been articulated for so many years wasn't really reflective of what we all did. And while each individual company serves its own purpose, I think that we all share a fundamental commitment to all of our stakeholders. So those include our customers for whom we have to deliver value, and this is reflective in the statement. It includes our employees who we have to invest in, our suppliers, our communities and, obviously, of course, our shareholders for whom we must generate long-term value.

And so while a lot of work went into crafting a concise statement, getting the members to sign on was probably the easiest part because it reflected what we do. It wasn't an aspirational goal. These are all people who we have to serve. There is no business if you don't have customers. I'm sure Josh would tell you that as well. There's no business if you don't have employees. There's no business if you don't have a supply chain. It was an interesting process, probably one that should have been taken on many years ago, but it's fundamental to what companies have been about since their generation.

00:11:10 **Stephanie McCormick:** So, Josh, you are not yet in the same league as some of the companies that are in the Business Roundtable, but, you know, what is your reaction when you hear that?

00:11:18 **Josh Silverman:** Yeah. You know, look, Etsy has cared from the beginning very passionately about being a good business and being a good citizen. And I guess I'd start by saying that there are actually three pillars to social impact at Etsy. It's economic empowerment. It's diversity and inclusion and environmental impact. And around each of those -- I've been at the company now just about three years. And so when I arrived, I asked us to focus and then measure and hold ourselves accountable. And previously, I think we had all good intentions, but if it was something that an employee at Etsy felt was a good idea, they could kind of go pursue it. So we had 1,000 employees going in 1,000 directions. And I think that the cumulative effect of that on the world was maybe not as great as it could be.

So by agreeing together that there [are] three areas that we think we are uniquely positioned, it's economic empowerment for entrepreneurs. We think that we will be better at doing that with a strong focus on diversity and inclusion, and we think we can do that with zero carbon footprint. And so for each of those three goals, we then set a very specific metric. We brought in an outside firm to assure, and we publish an integrated report that allows the public to hold us accountable. If I can spend a second on diversity and inclusion, we're very proud of the fact that gender representation in Etsy is far outside of what you'd see in any other tech company of our size. Where I think we had done at the industry average but not better than the industry average was on other forms of diversity. So, for example, people from underrepresented minorities. And so we set some very specific goals to make progress there. And last year, we doubled the percentage of new hires that came from underrepresented minorities.

So what you measure, you will improve, and particularly if you're going to publish it and let other people inspect it. And the third area is environmental impact. You know, we became the first e-commerce company of any scale last year to be entirely carbon neutral. We had been powering our offices, and then, more recently, all of our servers with renewable energy. The part that we were struggling with was shipping, which is really outside of our control because a seller ships a package to a buyer without ever going through, you know, an Etsy facility. But nonetheless, we rolled up our sleeves and said, "How can we be innovative about this," and we do carbon offsets now for every single package. It's a combination of protecting forests, subsidizing the development of wind and solar power plants, and then doing some things in the auto parts industry that collectively offset all of the carbon impact from shipping on Etsy. And the best part about it is when we told our buyers that their purchase would not have a negative carbon footprint, sales went up. In fact, they went up enough to pay for the whole program. So it's a great example of how this doesn't have to be one zero-sum game competition between citizenship and profits.

00:14:22 **Stephanie McCormick:** Tamara, the one word that really stuck out when Josh was speaking was the idea of measuring. And I know in your industry, you are constantly measuring and calling yourselves accountable for things. Could you talk a little bit about how that works and how you are measuring your impact?

00:14:39 **Tamara Lundgren:** Our three core values are sustainability, safety and integrity. And safety and integrity, I think people understand what that means. But within sustainability, we actually have three components to that, and that is people, planet and profit. And for us, for people, part of it is obviously making sure we've got a safe working environment. But [another aspect] of our commitment to people is a commitment to volunteerism. And so we've got metrics around how many hours of paid volunteer time that we are providing to our employees. We're very focused, as Josh was saying, with respect to Esty, on diversity, inclusion and cultural awareness, and have made some significant strides there, particularly in our industry, where it historically would not be viewed as particularly diverse, but we're a company that was built on a culture and a workforce that's always been broad based. But maintaining that focus and making it a priority and measuring against it and utilizing tools like the Rooney Rule when we are looking to hire managers is very important and to define that -- that's really saying that when we have an opportunity for a manager position, we make sure that we are interviewing at least one diverse candidate for every one of those positions. That starts at our lowest management level and goes all the way up through our board candidates as well.

On the planet, we have air emissions and carbon-free electricity usage goals that are multiyear. Then on profit, we have profitability goals that are multiyear. And by disclosing those, measuring those and making them transparent to our employees as well as to our customers, our suppliers and our investors, we've also seen more commitment and performance behind it.

00:16:59 **Stephanie McCormick:** Josh, when you consider your 2.7 million sellers, how does that work with having them trust you all?

00:17:06 **Josh Silverman:** Yeah. I mean, it's pretty high stakes, right? There [are] 2.7 million people, and they are investing time and energy in their Etsy shop, and they really want that to succeed. And so we really need to earn their trust, and trust is earned. It's not an entitlement. And, you know, the other thing about running a marketplace is that we run a platform, and it's our job to look out for the good of the commons. That sometimes means making decisions that are unpopular in the moment, at least with some. There's hardly a decision I make that doesn't have some number of thousands of people be mad at me. Out of 2.7 million, there's going to be some that are mad over almost anything you decide.

And so one of the learnings I've had over the years is it's not a popularity contest. It's not the decision that's most popular. It's the decision that's most effective to help them achieve their goals. So step one is do we have a clear point of view on how to measure that. If it's just an opinion, it becomes very arbitrary, and who wants to tie their fate to someone else's arbitrary views, right? So we measure things based on what we call gross merchandise sales, which is the total sales on the platform. And we make decisions that grow gross merchandise sales. Overall, net-net, our sellers then will benefit. They will be better off, and I'll give you a couple of examples of things that were unpopular in the moment but that we believe, we have conviction, are good for our sellers.

We launched our own payments platform. And what we saw was that when buyers could see that they could pay through Etsy payments, they were more likely to purchase. And it makes sense. Etsy can have their back. We can trace the transactional all the way from front to back. We can intervene if something went wrong. It just provides a lot more safety and security on the platform. And so at some point, we mandated that sellers need to adopt Etsy payments. And for three or four weeks, there was quite a lot of uproar. Sellers had already adopted some other solution that they liked and was working well enough, and this was a change for them. It created friction in already very busy lives. And within four to six weeks, they saw that their sales were actually going up, that it was worth it, and they moved on. You don't hear much from our sellers anymore about payments. It's part of life.

We made another very difficult decision last year about free shipping. You know, when we look around the world, hardly any place in e-commerce charges separately for shipping. And so Etsy stood out, and not in a good way, as being the only place left where you could pay a lot for shipping, and that wasn't serving our sellers. So we really communicated very clearly to them that in order to be prioritized in search, they need

to have either free shipping for items over \$35 or at least keep the shipping costs reasonable for items under \$35. And we're not asking them to lower their profit, just change the way they price. No one has free shipping. There's no such thing as free shipping. There's no magical transportation box, you know, device that transports a box from here to there with no cost. It's simply been a cost of goods sold now that is incorporated into the price of the item.

And so educating sellers about those kinds of things is a very important part of our job. And it doesn't always make us popular in the moment. But if they are successful, they will stick with us, and so that's what we hang our hat on is let's make sure that on the whole, they are successful and more successful every year than they were the last.

00:20:23 **Stephanie McCormick:** There was a recent Edelman Trust Barometer report that talked about how businesses are the most respected institutions when they compare with government, media and NGOs. However, only 58% of respondents trusted businesses to do the right thing. So how do we reconcile that? I mean, Tamara, when you think about your role as CEO, how do you personally try and close that gap and have that trust?

00:20:58 **Tamara Lundgren:** It's probably the most important thing that a CEO can do from a leadership perspective, and that's trust with your employees. It's trust with all of your stakeholders, trust in your communities, trust with your suppliers, trust with your customers. So I think it's very important. And I think the same principle is consistent across that whole group, and that is transparency, as you say, and it's communication. That communication has to be two ways. You have to share your vision, your strategy, your way forward, and you have to listen probably two times for the amount of time that you're communicating outward. I think that sharing goals and providing confidence that there are paths forward to achieve those goals is very important. And investing in people, investing in your employees so that they can grow with you and not be left behind is critical. You can't just be backing them, win or tie. You have to stick with them through both the ups and the downs. And I think that that is a barometer that you can measure against and assess whether or not you've achieved the level of trust that really takes you to being one of the best operating companies in your sector or in your industry.

00:22:27 **Stephanie McCormick:** So if I think about what you just said, it's this idea of the balance to me of creating value for all your different stakeholders, whether it be the public market, which you both are a part of, or whether it be your customers or your employees. And, you know, you've mentioned, Josh, in past interviews about this idea of caring about people. If we think about the situation we're in today, everybody's working from home. You could have a 2-year-old and a 4-year-old running around or, you know, six dogs, or whatever it might be. Just tell me a little bit about how you're supporting your employees through that.

00:23:07 **Josh Silverman:** Yeah. I mean, this is such an important moment, and in so many ways, it's a moment when the mission of Etsy really shines through, you know. In a world where the economy is getting really hard hit, you know, our sellers need us now more than ever. In a world of social distancing, you're going to buy online, and wouldn't you like to buy from another real human being? And our marketplace is extremely adaptable. So, you know, there was suddenly -- the Centers for Disease Control [and Prevention] changed its guidelines and said people should wear fabric facemasks. And suddenly, we were getting nine searches per second on Etsy, millions of searches a day for fabric facemasks, which is a product which didn't exist 24 hours before. And within two weeks, we [had] 20,000 sellers making and selling fabric facemasks, and we sell hundreds of thousands a day. So, you know, it's a great example of the sort of purpose of the Etsy marketplace, but there's a real human cost to that.

So we were early in asking all of our employees to work from home and shutting down our office. And candidly, we're very fortunate to have the kind of workforce that can do that, you know. If we were running a factory or a warehouse, we'd have a much harder time, or a retail establishment. So we're very lucky.

00:24:19 **Stephanie McCormick:** Josh, I know you do fireside chats. Is this something you've always done, or is it something that you just started during this crisis?

00:24:26 **Josh Silverman:** You know, we always try to be open and communicate regularly with the team. But I think

in times like this, keeping lines of communication open is even more important and staying transparent is even more important. And so I have been doing fireside chats with my team where we try to create a really open and candid space to talk together. I also think there are other stakeholders that are very important. And so similarly, we want to make sure that shareholders understand what's happening with the company. And so while we normally wouldn't do an earnings release until the end of April, it felt like an awfully long time to expect shareholders to wait. And so as soon as we closed the first quarter, in the first couple of days of April, I actually did a fireside chat just to talk about the trends that we were seeing in the business and how COVID had affected our business to date and how we thought it might affect it in the future just to be as open and transparent as we could be. And we got really great feedback from shareholders.

00:25:26 **Stephanie McCormick:** Tamara, from your perspective, how are things at your company and, furthermore, in your industry in this crisis?

00:25:34 **Tamara Lundgren:** I think that a crisis like the one that we are all living through right now, how you react to it, how your company reacts to it reflects everything that you've put into it to date. You know, there's that phrase, "Adversity doesn't build character. It reveals it." And to me, adversity doesn't build culture. It reveals it. And I think that all of our cultures and where we're strong and where we need to do more is coming out very clearly during these times.

So for us, most of our employees are not working at home. Most of them are at our facilities, keeping them open, servicing our customers, keeping the supply chain moving, providing support to our suppliers and providing the materials that are needed for manufacturing to continue. So it's been very, very interesting to see the innovative ways that we're addressing the challenges and still maintaining a safe and healthy environment.

And then I think the other thing that's really important to focus on are all the different ways in which all of our companies have contributed supplies or support to those who are less fortunate. And it could be -- in our case, we donated thousands of masks to local hospitals, and then we used our global network to source masks outside the U.S. and bring them in. And that's another way of feeling as though you can influence an outcome and take back some control. So they're all examples of courage in a crisis and the culture that we've spent years and years building.

00:27:25 **Stephanie McCormick:** Well, I just want to take the time to thank both of you, Josh and Tamara.

00:27:30 **Josh Silverman:** Hey, Tamara, it was great to meet you. I really enjoyed hearing your thoughts, and hopefully we get to meet in person sometime.

00:27:36 **Tamara Lundgren:** I would hope that we'd be able to. So maybe next year, Brown will have a reunion of sorts, and we can do it in person if it doesn't happen before then. But I also very much enjoyed hearing all of your perspectives, and Stephanie, thank you very much for all of the questions. I think at the end of the day, we all, you know, have to keep focused on making sure that our future is better than our past.

00:28:01 **Josh Silverman:** You know, you asked about trust earlier, and I think that our community needs to believe that we care about them as people and that we are looking out for their whole interest. They've got a lot riding on us, and it makes sense that we should be fully committed to their fulsome success.

00:28:23 **Ken Stuzin:** Hello. This is Ken Stuzin. Thank you for joining us as we seek insights that help us navigate our rapidly evolving world. If you missed our first episode, a candid conversation with Jon Meacham, the Pulitzer Prize-winning historian, please visit the Brown Advisory website and click on the podcast link on our homepage. And don't forget to subscribe to the podcast. We will be back with another episode next week. Until then, please stay safe.