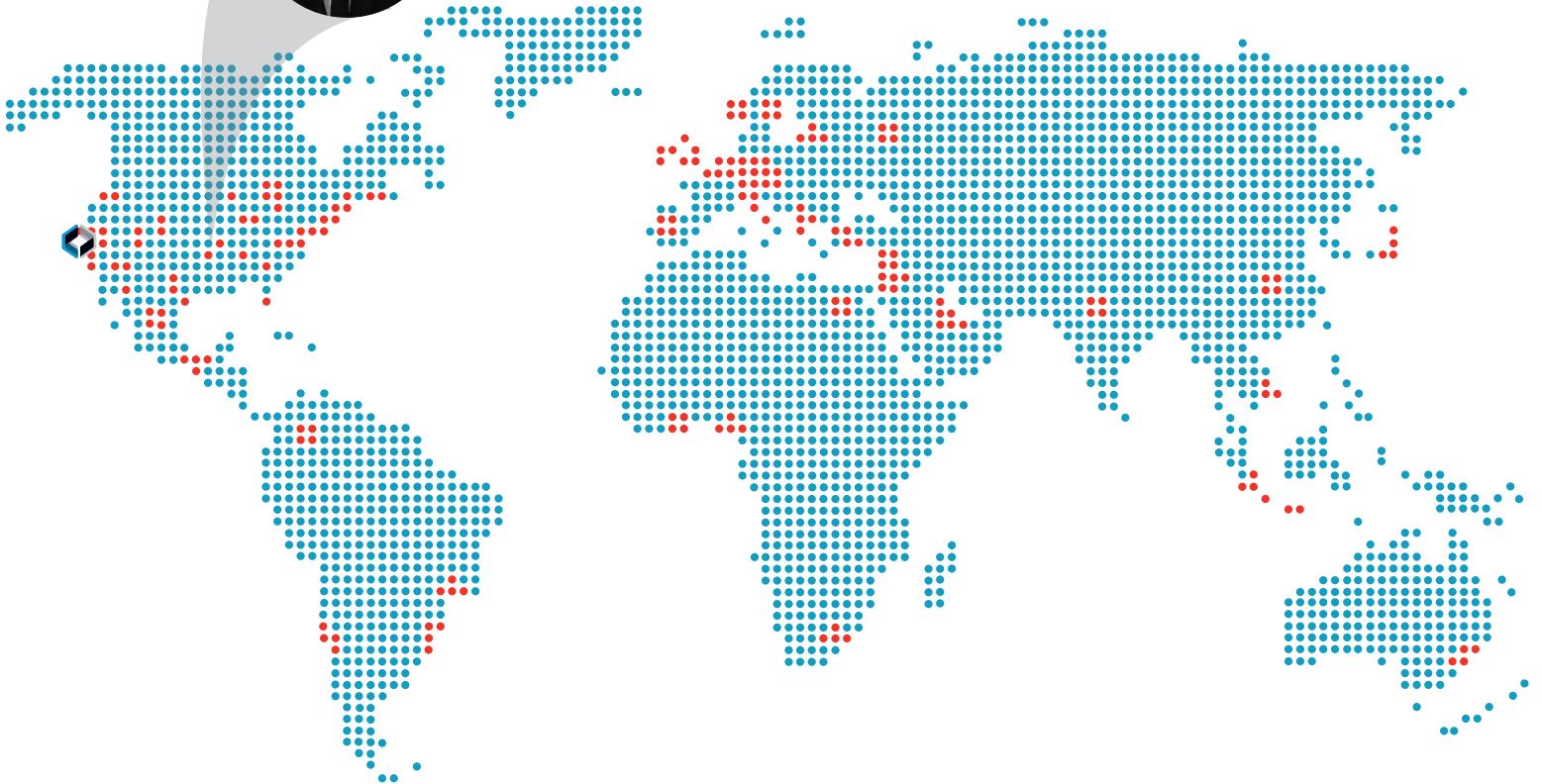




# Kauffman Fellows **REPORT**

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# Amending the First Commandment of the Capitalist World: A Call to Action

Yoel Cheshin

Class 20

The very first assumption of the business world, as we have inherited it, is that the purpose of the corporation is to maximize shareholder profits. I argue that this principle, which is as robust as a biblical commandment and as old as the Industrial Revolution, has been misinterpreted and distorted for many decades, and urgently needs an amendment.<sup>1</sup> In this article, I propose a new vision (a re-visioning) of this first commandment of capitalism, and describe two approaches to pursuing it.

## Dismantling the Myth of Profit-Seeking

The current criterion for success in business is as simple as a soccer game: the more often you score—in other words, the more profit you make—the more successful the team is. Individually, great scorers earn fame and glory. So, Wilt Chamberlain's and Warren Buffett's

<sup>1</sup> I want to thank Naftali Shimrat, my mentor, a modern Socrates who helped me discover that business could be the most fascinating spiritual evolution; and Arale Cohen, 2B Angels Managing Partner, whose ability and passion to evolve are of great inspiration. I want to thank Gil Canaan (Class 17) for encouraging me to write this article; my Kauffman mentor Izhar Shay (Canaan Partners Israel) for proving that the love for investment and the love of writing could be synergetic; Laura, Anna, and Leslie from *Kauffman Fellows Report* for helping me put the article on the ground; and Hana Yang (Class 20) for being the primary reason for the article.

claims to fame are quite similar: both hold world records in scoring (different kinds of scoring, but in a way, quite similar). Our admiration rests on their ability to be more successful than others—and a successful CEO is one who makes the corporation's shareholders richer.

Whether a given CEO damages the environment or employs laborers working in sweatshop conditions, or is in charge of a kind of product that is not healthy for consumers—these are the kinds of uncomfortable inquiries one might try to ignore or suppress. If by some chance we as entrepreneurs, as investors, or even as consumers feel some kind of guilt, we hide behind the first commandment of the capitalist world: Make maximum profits. "It's not my rule," one reassures oneself. "It's Adam Smith's<sup>2</sup> rule, or it's the neo-liberals' rule—they know what they are talking about. I'm just a follower."

Living in a world dominated by corporations whose ultimate purpose is to maximize profit sounds quite depressing. This somber outlook is probably one of the main reasons for the

<sup>2</sup> Adam Smith, *An Inquiry into the Nature and Causes of the Wealth of Nations*, ed. E. Canaan (London: Methuen, 1904; first published 1776), <http://www.econlib.org/library/Smith/smWN.html>.

emergence of new forces such as [the impact investment industry](#)<sup>3</sup>: a new sector led by pioneers and visionary entrepreneurs who sense the danger in a globe ruled by such a narrowly focused materialistic principle. Their aim is to bring to life a new kind of corporation, [in which the objective to make profit for shareholders is accompanied by a second commitment to the promotion of social goals](#). One example of a fund adopting this kind of principle is Palo Alto-based DBL Partners,<sup>4</sup> which maintains (as its name indicates) a double bottom line: social responsibility as well as financial profitability.<sup>5</sup> Looking at the positive changes led by DBL companies—including but not limited to outstanding returns to shareholders—is inspiring by any measure. DBL is a role model and an inspiration for us at 2B Group, described below.

The emergence of both the impact investment world and those forces emphasizing the purpose of maximizing social good alongside profit is of great importance to the evolution of our collective consciousness. Nonetheless, the concept of a dual purpose is still based on the premise that the purpose of the corporation (whether the only purpose, or as a part of a dual or triple purpose) is to maximize profits. And this premise, I argue, is completely false—it's a myth, an outstanding manipulation of the mind. The (very simple) truth is that maximizing profits, just for the sake of making profit is not, and has never been, a purpose at all. We should give Adam Smith more credit.

[Isn't it the ultimate purpose and justification of the corporations of](#)

[the world to maximize the welfare of all](#), whether through generating capital, creating jobs, or manufacturing a product that society needs to be a better iteration of itself? Justification for the profit-maximization rule rests on the belief that under a profit-oriented structure, the corporation is in the best position to maximize the welfare of its entire community—in other words, all the corporation's stakeholders.

Take this example: as VCs, our promise to LPs to make them profits puts us in a position where we are committed to track the best startups, those with strong entrepreneurs who have novel visions and strong execution abilities. If we pick startups skillfully and fund the right ones, then we increase the potential for creating relatively stable new jobs, strengthen the value chain of the corporation and its business ecosystem, and contribute toward manifesting a product or service that solves a particular problem for many people at the most reasonable price. On the day of exit, we give our share to the rest of the community through the tax system and move on to build the next corporation.

This example demonstrates the importance of VCs and investors to the world at economic, cultural, and moral levels. [Our ambition to be great investors and to maximize profit for our LPs holds, at least potentially, a promise for a better world](#). However, this better world can only happen as long as we see the maximization rule as a means to an end, not as an end in and for itself.

In fact, I maintain that [a corporation does not have a double bottom line. There is only one bottom line: maximizing welfare for all the corporation's stakeholders](#). So, a more accurate amendment to the first commandment is not a dual commandment, as impact investors suggest, but rather a holistic commandment—one that puts the profit-maximization rule into the right proportion as being one important rule among others. When

<sup>3</sup> See also Brian Trelstad (Class 12), "Patient Capital in an Impatient World," *Kauffman Fellows Report 1* (2010), [http://www.kauffmanfellows.org/journal\\_posts/patient-capital-in-an-impatient-world/](http://www.kauffmanfellows.org/journal_posts/patient-capital-in-an-impatient-world/); and Jocelyn Brown (Class 13), "Confessions of a Reluctant Impact Investor," *Kauffman Fellows Report 2* (2011), [http://www.kauffmanfellows.org/journal\\_posts/confessions-of-a-reluctant-impact-investor/](http://www.kauffmanfellows.org/journal_posts/confessions-of-a-reluctant-impact-investor/).

<sup>4</sup> <http://www.dblpartners.vc/>.

<sup>5</sup> Sarah Max, "Venture Capital Firm Invests in Start-Ups with a Social Mission," *New York Times*, 24 October 2014, [http://dealbook.nytimes.com/2014/10/27/a-track-record-for-making-money-and-making-a-difference/?\\_r=0](http://dealbook.nytimes.com/2014/10/27/a-track-record-for-making-money-and-making-a-difference/?_r=0). See also *Reuters*, "'Investing for Good' Gains Appeal Amid Rocky Tech Startup Market," *Fortune*, 25 June 2016, <http://fortune.com/2016/06/25/altruistic-tech-startup-investment/>.

the components of the complex entity called “corporation” are in place and aligned, the synergy among them creates a far greater benefit for all stakeholders.

This is, of course, not just a theoretical problem but also one of the most practical problems we face as investors in this era. When we allow ourselves to be deceived—when we believe that the capstone of the corporation is to maximize profit for profit’s sake—we contribute to a culture where it’s socially acceptable to poison consumers or to lead them to some kind of addiction, to ruin the environment, to exploit employees, to abuse animals, and so forth (or we deceive ourselves by being willfully ignorant of their existence).

When we fail to identify the true first commandment of capitalism, we may instead end up worshipping the materialistic golden calf, which, as in the biblical myth, leads to punishment. In our case, the punishment is so severe that the entire planet is at stake.

### Overturning Profit-Only Capitalism

From this perspective, [the challenge for our generation of investors and entrepreneurs is to](#) amend the myth we inherited and instead [build corporations that promote prosperity for all their stakeholders](#). Corporations whose product or service solves a true pain or problem. Corporations whose leaders are characterized by impeccable integrity, high ethical standards, and global awareness. As the profiles below indicate, this holistic commandment can be pursued at the organizational level and at the personal level.

#### Firm Profile: 2B Group

I’ve dedicated myself to pursuing the holistic commandment at 2B Group, a private investment platform I founded in 2010. At 2B [we call organizations that work toward amending the first commandment](#) “community corporations” or, more simply, [“friendly corporations.”](#) 2B Group currently consists of four main vehicles: 2B Angels, a high-tech venture fund; 2B Community,

an impact investment fund based on a model I developed a few years ago as an assistant teacher in corporate law; 2B Markets, an entity developing knowledge in capital markets; and 2B Friendly, an NGO with a mission to inspire and promote social consumerism in order to strengthen friendly corporations, leading to a change in the way we (whether as investors or entrepreneurs) understand business. Although the direction of the group is quite clear to me, the exact architectural structure of the vehicles and the connections between them is eternally evolving, as they should be.

My Kauffman Fellows Thought Leadership Project is for 2B Angels (our high-tech fund) to define the criteria for a friendly startup, an organization that will then evolve to become a friendly corporation. A friendly startup will generate outstanding returns, proving the effectiveness of friendliness. Don’t get me wrong: friendliness does not mean that the startup is necessarily developing cures for cancer, or giving away the store. A profitable ad tech company is just as capable of being a friendly corporation as any other outfit. Friendliness, in this context, depends on the ways in which the corporation fulfills its holistic vision and manifests greatness in pursuing the vision. The criteria for friendliness will not be narrow, but they will have clear boundaries and be strictly adhered to.

My vision is that [in the future, doing business will not be seen as distinct from or independent of doing good, but as a manifestation of doing good](#). In pursuing this vision, I believe I exhibit the zeitgeist, while doing my part to shape it.

#### Individual Profile: Hana Yang

Pursuing this holistic commandment at the organizational level is not the only way to effect change. One of my Kauffman Fellows classmates, Hana Yang, follows similar beliefs at a more personal level, supporting the greater involvement of women as investors and entrepreneurs in particular.

Hana and I met in June 2015 at the orientation module for Kauffman Fellows Class 20, and quickly discovered that we shared the not-so-hidden agenda of updating the first commandment of capitalism. Hana's story was recently profiled in *Impact With Wings* (Green Fire Press, 2015), along with those of five other prominent and successful women in venture capital. When reading Hana's chapter, I saw from the very first page that she not only sees the true purpose of the corporation, as Smith himself envisioned it, but also that she has internalized these principles.

A true entrepreneur, Hana forged an outrageously brave path forward: at the age of fifteen she left her Latin American hometown, alone, to try her luck in the United States. Thanks to her perseverance and passion, she became a first-tier investor in Silicon Valley, where she meets professional goals while fulfilling her inner call to broaden opportunities for others, in particular women and Latino/a Americans who may be navigating the challenges she herself faced.

Hana believes that crowdfunding is one of the more useful tools at her disposal to pursue her vision, which includes expanding the pool of stakeholders and making investing accessible to a larger population:

I have become passionate about fund-raising, and in particular, crowdfunding, not only because it plays such a huge role in the ability of an organization to carry out its mission—through storytelling and the wide reach of the fundraisers' networks—but also because it encourages the marginalized to realize their dreams while democratizing funding and giving everyone an opportunity to tell their story. The playing field becomes truly leveled when anyone, regardless of age, race, gender, socioeconomic status, or religion, can provide as well as receive support.<sup>6</sup>

Her very astute analysis of the sector in *Impact with Wings* leads the reader step-by-step to understanding the revolutionary potential of crowdfunding, and I am impressed by her intuitive understanding that **crowdfunding**

**is a means of subverting the first commandment of capitalism.**

Crowdfunding could become a paradigmatic example of putting the holistic commandment of capitalism into practice, which in turn could lead to a revolutionary shift in the investment world, from a VC-led aristocracy to a democracy. Crowdfunding makes the investment world accessible to millions who currently have minimal access, and the potential for profit can energize economic growth and the creation (it is to be hoped) of more friendly corporations.

### **Redefining Success: Your Role in the Revolution**

If someone becomes really rich from implementing this new holistic commandment of capitalism, then that's great—it will prove that friendly corporations can be efficient. But as I indicated above, there are more benefits to be had. Building corporations so that the holistic commandment is part of their DNA puts them, I believe, in the best position to make LPs happy—happier, in fact, than they would be in any other position.

In other words, **treating the corporation as a unified holistic body** (as the etymological origin of the word indicates) **is not a moral decision, but a rational one—the right decision to be made by a professional CEO.**

An argument of this kind deserves a different article, but one thing is for certain: in order for that magic to happen, the world needs a critical mass of friendly corporations. Only then can investors and business leaders open a space where morality and rationality merge together in the same practice.

In order to revise our foundational understanding of corporate success, **we must educate professional investors to grow healthy, conscious corporations** that bring value to all their stakeholders, solve world problems and inequalities, bring about prosperity, and narrow the gaps between philanthropy and doing

<sup>6</sup> Hana Yang, "Leveling the Playing Field: Crowdfunding as a Stepping Stone to Angel Investing," in *Impact with Wings: Stories to Inspire and Mobilize Women Angel Investors and Entrepreneurs*, Kindle ed., by Suzanne Andrews et al., (Housatonic, MA: Green Fire Press, 2016), "How I Arrived Here," para. 11.



business. This is our most important task as Fellows, Hana and I believe. But we cannot do it alone, and that's where you come in.

To help speed along this work, I invite Fellows and Mentors from all classes to send me a description of your own work replacing the first commandment of capitalism with a holistic commandment that aims to increase both profits and the welfare of the community at large. Kauffman Fellows Press has offered to include an update in each volume of this journal, so we can share our efforts across the Society and with the broader investment community.

I look forward to hearing your stories.



**Yoel Cheshin**

Yoel is Founder and Chairman of 2B Group, a family office investment fund that consists of 2B Angels (a high-tech

fund) and 2B Community (an impact investment fund), among others. He is also an LP in the Explore. Dream.Discover incubator, sponsored by Israel's Office of the Chief Scientist. Explore invests in seed-stage startups, matching government grants with private venture funding. Recently, he became an LP in Takwin Labs Incubator, focused on seed-stage startups led by Arab entrepreneurs targeting MENA markets. Yoel is an active member in the Israeli venture capital and entrepreneur community, and a frequent guest speaker at conferences and meet-ups.

Yoel served in a Special Forces unit in the Israel Defense Forces. He holds an LLB, *summa cum laude*, from The Hebrew University in Jerusalem, and was a research associate and lecturer at Tel Aviv University and The Hebrew University. He lives in Tel Aviv with his wife, daughter, and son. Kauffman Fellow Class 20. [yoel@2b-angels.com](mailto:yoel@2b-angels.com)

*"All of the money in the world  
cannot solve problems unless we work together.  
And, if we work together, there is no problem  
in the world that can stop us."  
-Ewing Marion Kauffman*

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