B Corp

Founders

Jay Coen Gilbert and Bart Houlahan created the basketball shoe and apparel company 'AND 1' in 1993. They ran a socially-responsible business before the concept was well known. Their company had excellent employee benefits, widely-shared ownership of the company, and gave 5 percent of its profits (totaling more than $2 million) to local charities promoting high-quality urban education and youth leadership development. AND 1 also worked with its overseas factories to implement a best-in-class supplier code of conduct to ensure worker health and safety, fair wages and professional development.

That was quite progressive for a basketball shoe company, especially because their target consumer was the teenaged basketball player, not a conscious consumer with a large amount of disposable income. AND 1 was also successful financially: From a bootstrapped startup in 1993 to modest revenues of $4 million in 1995, the company grew to more than $250 million in U.S. revenues by 2001. In 8 years, it was the No. 2 basketball shoe brand in the United States (behind Nike).

A combination of external forces and some internal miscues led to the sale of the company in 2005. It was heartbreaking for the founders to see all of the company's preexisting commitments to its employees, overseas workers and local community stripped away within a few months of the sale.

Gilbert and Houlahan, along with Andrew Kassoy, former Wall Street private equity investor, ventured into creating a whole new legal structure for firms that wanted to balance purpose and profit. After speaking with hundreds of entrepreneurs, investors and thought leaders, they understood that there was a need for two basic pieces of infrastructure to accelerate the growth of socially- and environmentally-responsible business sector. They needed a legal framework and credible standards to help them distinguish their businesses in a crowded marketplace, where everyone seemed to be making claims that they were a "good" company.

The founders identified that the conditions for Systems Change[1] are

- Recognition of system failure – Many were aware of the harm caused by self-centric business decisions; many companies were socially responsible, but they acted in small isolated pockets.
- Existence of viable alternatives – This was the missing piece that the founders of B Lab set forth to accomplish.

B Lab

In 2006, Gilbert, Houlahan, and Kassoy cofounded B Lab, a nonprofit organization dedicated to harnessing the power of business to solve social and environmental problems. Previous efforts on Corporate Social Responsibility (like Organic and Fair trade certifications) focused on good products. B

[1] https://www.slideshare.net/CaitlynBolton/kim-coupounas-b-corp-impact-unleashed-2017

Lab wanted to certify that a business' full range of practises would benefit the general public. They worked with many leading businesses, investors, and attorneys to create a comprehensive set of performance and legal requirements and started certifying the first B Corporations in 2007.[2]

B Impact Rating System measures the impact of the companies' practices - their decisions on their workers, customers, suppliers, community, and the environment. **B Analytics** is a flexible data platform that automatically aggregates and analyzes this data. This tool tracks companies' performance across time, toward goals, and against similar businesses.

The second issue that B Lab addressed was the constraint placed on corporate managers to maximize share price at the expense of all other considerations. Company directors can be sued by shareholders for taking socially conscious actions. Traditional corporate law requires that directors place profit above all else. During the time of sale or a liquidity scenario, a new shareholder, investor or owner could force a business to abandon its mission. Constituency statutes do not commit corporations to sustainability and the Business Judgement Rule does not provide an exception to the rule of shareholder primacy.[3] B Lab created the alternative legislation.

William Clark, an attorney, drafted the **Model Benefit Corporation Legislation** (MBCL). Working with a small alliance of chief executives who bought into their vision, B Lab began lobbying legislators on Capitol Hill and elsewhere. In 2010, the state of Maryland approved a new-look company form that allowed corporate directors to balance profits with other considerations.

The real breakthrough came in 2013, when the state of Delaware, known as the home of US corporate law, agreed to introduce similar legislation. Today, 35 US states, plus Washington DC, have introduced statutes allowing for so-called "**benefit corporations**". [4]

Washington State passed the law for **social purpose corporations** (SPC) in 2012. The main difference between B corp & SPC is that B corporations must pursue a "general public benefit", which applies to all of the company's activities, while SPCs may pursue a public benefit in limited areas.

Response

Benefit Corporation Governance

In a time of political gridlock, the Benefit Corporation has generated bipartisan support across the globe. The benefit corporation legal structure and the B Corp certification are pro-business, pro-environment, pro-market, and pro-community. It offers an unusual combination of free market opportunity and positive social impact.

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[2] www.bcorporation.net

[3] https://benefitcorp.net/attorneys

[4] http://www.ethicalcorp.com/disruptors-how-b-corps-founders-took-purposeful-business-next-level

Academia

When the first edition of **The B Corp Handbook** was published, in 2014, few schools started teaching B Corporations. In 2019, B Corps was taught in five hundred colleges and universities—including the Federal University of Technology–Paraná, Harvard, the London School of Economics, MIT, North Carolina State University, Stanford, the University of Alberta, Yale, and other top academic institutions across the globe.

There are two formal networks of academics: the Global B Corp Academic Community and Academia B. The goal of these networks is to advance the state of academic study into business as a force for good.

Growth

The number of B Corp companies has been increasing over the years –

2014 - B Labs has certified over 1,000 companies in 35 countries and over 60 industries

2015 - 1,358 companies in 41 countries and 121 industries. Italy became the first country outside the USA to allow companies to register as Benefit Corporations, followed by Columbia and UK.

2019 - 3,000 companies in 70 countries and 150 industries.

Nearly every major Silicon Valley venture capital firm has invested in a Certified B Corporation and/or a benefit corporation.

B Corp partnered with organizations for global impact. Its global partners include B Lab U.S., B Lab Canada, Sistema B (Latin America), B Lab Australia and New Zealand, B Lab United Kingdom, B Lab Europe, B Lab Taiwan, B Lab East Africa, B Market Builders in Hong Kong and Korea, and the B Corp China team.[5]

The main goal of B Lab is not to increase the certified companies or widen partnership, but to bring social change. B Lab regularly reaches out to other organisations that share their disruptive vision, such as Conscious Capitalism and the Richard Branson-backed B Team to keep the B Corp Movement alive, by running campaigns, like the 'Best for NYC' challenge - In 2016, B Lab worked for NYC Economic Development Corporation inviting NYC businesses to take the B Impact Assessment & B Analytics. Such platforms built with municipal governments give recognition for companies and also provides the tools to become aware of untapped assets and opportunities for growth.

Campaigns for companies (to be the best for the world rather than just the best in the world) and for consumers (to vote every day with the choices you make—what you buy, where you work and who you do business with) are conducted.

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[5] https://www.lifteconomy.com/blog/2019/4/24/key-developments-in-the-b-corp-movement-since-the-first-edition

Impact

G8 Recommendations

The G8 Social Investment Task Force Report of 2014 confirmed the central role of impact measurement and need for tools like B Analytics, GIIRS Ratings, and B Corp certification in scaling the impact investing industry. The report also included best practices for impact investing, many of which can be met with B Analytics.[6]

ERISA Reform

In 2015 the US Department of Labor issued new ERISA (Employee Retirement Income Security Act) guidance to private pension funds on investing in companies with expanded mission and fiduciary duties like Certified B Corps and benefit corporations. The reform increases employee ownership in companies and gives security to the retirement plans of the employee.[7]

Business Roundtable

In August 2019, Business Roundtable announced that 181 CEOs of America's largest companies were committed "to lead for the benefit of all stakeholders." More than 30 CEOs from B Corps like Amalgamated Bank, Lemonade and Patagonia took out an ad in the August 25, 2019, Sunday edition of The New York Times to express their eagerness to help the Business Roundtable CEOs turn their bold words into concrete actions.

In their response to the Business Roundtable announcement, the Council of Institutional Investors worried that stakeholder governance creates a situation in which "accountability to everyone means accountability to no one," creating "hiding places for poor management." But the demonstrated success of B Corps stands as evidence against such concerns. B Corps can become the leaders in making the shift from shareholder primacy to stakeholder capitalism.

UN SDGs

B Lab is working with UN to launch a new tool in 2020 to help companies chart their next decade of progress on the SDGs.

Through this publicly available online platform, businesses will be able to assess, compare, and improve their performance against the SDGs, delivering tangible progress on them by 2030. Companies will also be able to access online resources through the platform to improve their impact and benchmark against key indicators and peers. The online tool will feature select questions from the B Impact Assessment

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[6] https://b-analytics.net/content/our-history

[7] https://www.bsllp.com/b-corp-esops-combine-employee-ownership-and-social-purpose

that have been mapped to the SDGs, supplemented by new performance measures based on the expertise of anchor partner 'the UN Global Compact' and other advisors. In addition to driving business action with the online SDG platform, this initiative will help academics study how businesses can change their behavior to work toward the SDGs.

Related Notes

- Henry Ford was a pioneer of "welfare capitalism".[8] He almost doubled the wages, by giving 'five-dollar wage' and was the first industrialists to introduce 'five-day workweek'. In 1919, Michigan Supreme Court ruled that Ford had to operate the Ford Motor Company in the interests of its shareholders, rather than in a charitable manner for the benefit of his employees or customers.
- Paul Polman was the CEO of Unilever from 2009 to 2019. Under his leadership Unilever set out an ambitious vision to decouple its growth from overall environmental footprint and increase its positive social impact. In 2016, Paul was asked by the UN Secretary-General to be a member of the SDG Advocacy Group, tasked with promoting action on the 2030 Agenda.[9]

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[8] https://en.wikipedia.org/wiki/Henry_Ford#Labor_philosophy
[9] https://newclimateeconomy.net/about/global-commission/paul-polman