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How Becoming a B Corp Is a Way to 'Future-Proof' Your Business

Companies Can Create a Sustainable
Route to Prosperity and an Inclusive
Economy by Institutionalizing
Stakeholder Governance



Stakeholder Governance as the Future of Capitalism

Shareholder primacy is the doctrine guiding most companies: The goal of a company is to maximize profits for shareholders, regardless of the impact the company has on people and the environment. And while this way of thinking is still dominant, there is a groundswell of support for creating an economic system that considers all stakeholders—employees, communities, the environment, *and* shareholders.

The Certified B Corporation (B Corp) movement has been gaining traction around the world because it provides a systematic way for companies to be more stakeholder-oriented. To become a B Corp, companies must change their articles of incorporation to recognize the rights of non-financial stakeholders. In this way, the B Corp model institutionalizes “stakeholder capitalism” through corporate governance, providing legal protection to directors and officers to consider the interests of all stakeholders—not just shareholders—when making business decisions. This legal framework also allows shareholders to hold directors and officers accountable to consider the interests of all stakeholders.



Yvon Chouinard

Instituting stakeholder governance in the legal foundation of the company leads to change that lasts. As Patagonia founder Yvon Chouinard puts it, such provisions “enable mission-driven companies like Patagonia to stay mission-driven through succession, capital raises, and even changes in ownership, by institutionalizing the values, culture, processes, and high standards put in place by founding entrepreneurs.”

The B Corp model offers other benefits that traditional corporate structures often don't. It creates intrinsic goods by setting standards so companies can offer high-quality products through conscious production processes. B Corps also are required to operate transparently and disclose how their operations affect people and the planet, which strengthens the companies' accountability. The comprehensiveness of the B Impact Assessment (BIA), which all B Corps must pass with a minimum verified score of 80 points,

guides B Corps to systemically revitalize and reprioritize their business model. Additionally, the BIA's continuous revisions and increasing complexity keep B Corps vital and fit for the future.

How Becoming a B Corp Can Future-Proof Your Business

B Corp certification is facilitating a new way of doing business that incorporates sustainability in its very nature. Along with the foundation of stakeholder governance, other future proofing mechanisms include aligning investors with the mission and creating a long-lasting employee-centric culture.

This guide lists the most compelling advantages of such “future-proofing” as told to me by the founders, directors, investors and employees of pioneering B Corps during the research for my book [Better Business: How the B Corp Movement Is Remaking Capitalism](#).

Sustainability Through Long-Term Governance

B Corp governance offers a legal framework to protect all stakeholders. To become a B Corp, companies are required to amend their governing documents to expand fiduciary duties to include consideration of the interests of all stakeholders. If a company is a limited liability company (LLC), they can amend their existing operating agreements. For corporations (e.g. C Corps, S Corps), if the law in their country or region allows altering their articles of incorporation to include non-fiduciary objectives, then they must do this.

Alternatively, in some locations where this is not possible, B Corps can fulfill this obligation through becoming a [benefit corporation](#), a new corporate form that recognizes companies' responsibility to create a positive benefit for society and the natural environment, and be publicly transparent and accountable about those impacts.

In addition to providing legal protection, extending fiduciary duties beyond a company's shareholders provides a learning opportunity for the board, investors and rating agencies. The certification also signals to leadership that the mission is to be concretely executed against, with the impact of decisions measured and reviewed based on multiple metrics, not solely profits to shareholders.

But as a new way of doing business, there are challenges, too. First is how to balance multiple priorities in decision-making. For example, when choosing a new vendor, how can a company balance the price point of one against the more positive environmental impact and worker pay at another? While some companies have purchase-decision checklists to ensure suppliers match on social mission, others handle these decisions on a case-by-case basis.

Another important challenge is uncertainty around valuation and whether being a B Corp could potentially lower the amount investors would get if they sold the company. When some of the most notable early B Corps, including Etsy, Warby Parker and The Honest Company, were faced with needing to reincorporate as a benefit corporation to maintain B Corp status after Delaware adopted this new corporate form, they let their certifications lapse. Presumably, the boards of directors and shareholders of these companies worried the new corporate form may lead to a lower valuation. However, as shown by the case study on the higher-education provider Laureate's IPO on Page 7, these investor and public market concerns are changing, and increasingly support legally protected mission statements and stakeholder governance.

Overall, the B Corp model:

- Locks in mission for the long term by changing the company's legal foundation;
- Builds alignment between a company's mission and its governance;
- Institutionalizes stakeholder governance;
- Educates private equity interests and a companies' board of directors about stakeholder management.

Below are some representative quotes on the importance of long-term governance from my interviews:



“The branding and the marketing (benefit) is a no-brainer, but that's not why you do it. A big thing is to protect our business, as far as our estate planning, and what if something happens and our employees or our family is forced to sell this business down the road? And that question was really nagging at us because we don't want our business to be scooped up by a corporation that doesn't treat employees well.”

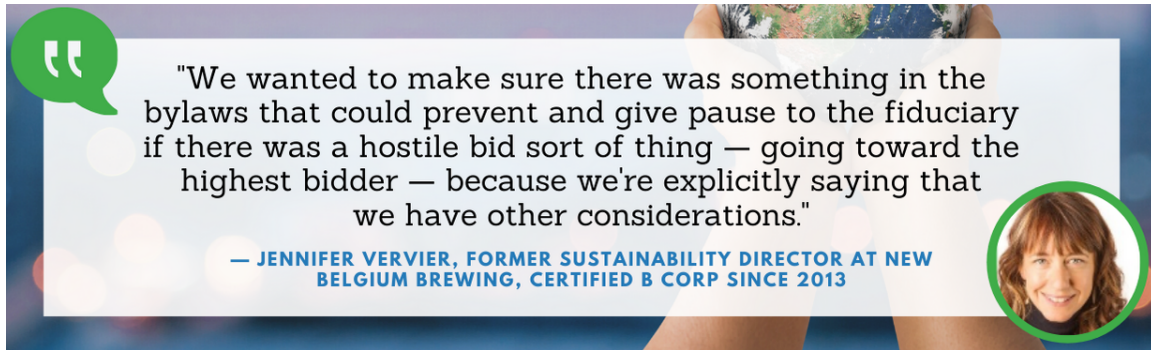
— JEN KIMMICH, CO-FOUNDER AND CEO AT THE ALCHEMIST, CERTIFIED B CORP SINCE 2017



“We now have a framework based on the BIA assessment that guides us and our board of directors on how to take different points of view into account when we make important decisions.”


— DOUGLAS L BECKER, FOUNDER & CHAIRMAN AT LAUREATE EDUCATION, CERTIFIED B CORP SINCE 2015





“We wanted to make sure there was something in the bylaws that could prevent and give pause to the fiduciary if there was a hostile bid sort of thing — going toward the highest bidder — because we’re explicitly saying that we have other considerations.”

— JENNIFER VERVIER, FORMER SUSTAINABILITY DIRECTOR AT NEW BELGIUM BREWING, CERTIFIED B CORP SINCE 2013



“[Becoming a] B Corp was a Board of Directors decision. My understanding is that it was not controversial. It hasn’t been a controversial topic since then either. I think it was seen as a way to protect our ownership structure. King Arthur Flour wanted to maintain employee ownership, not be bought, and so becoming a B Corp and then becoming a benefit corporation were steps along that path.”

— CAREY UNDERWOOD, DIRECTOR OF MISSION-DRIVEN PARTNERSHIPS & PROGRAMS AT KING ARTHUR FLOUR, CERTIFIED B CORP SINCE 2007



Aligning Investors with Social Mission for the Long-Term

As companies with social missions grow and take on outside capital from investors, they run the risk of mission drift, or focusing too much on financial stakeholders and straying from other stakeholder obligations over time. In addition, most venture capital comes with an expectation for a relatively short period for a high percentage investment return. As Bart Houlahan, co-founder of B Lab, the nonprofit that certifies B Corps told me, “It’s really easy to be socially or environmentally responsible when there are seven of you, and it’s a heck of a lot harder when there are 250 of you. And it becomes even more acutely difficult when you take in outside capital.” He should know—before founding B Lab, he experienced this as president of AND1, a basketball footwear and apparel company that was co-founded by another B Lab co-founder Jay Coen Gilbert. AND1 was an early business with a social mission, focused on the local community, employee-centric policies, and fair labor standards. However, after taking on outside investment, the company felt increasing financial pressure and eventually sold the business to a company that dropped most of the mission-oriented aspects of the company.

In recent decades, an increasing proportion of investors are paying attention to not just a firm’s financials, but also its social and environmental performance. Most famously, Larry Fink, CEO of BlackRock, the world’s largest investment firm, has issued a number of annual letters recommending CEOs pay more attention to environmental performance to properly prepare for associated long-term risk. The BIA provides a framework for businesses—and investors—to assess these potential risks across the stakeholder profile. By reviewing the assessment for recertification every two years, company leadership is required to review and set goals for improvement — transparently — which guides continuous improvement.

On the private-equity side, the field of “impact investing,” where companies are proactively focused on social and environmental goals as well as investment returns, has taken off since the Rockefeller Foundation coined this term in 2007. The B Corp movement has served as a rallying point for impact investing, with many leading impact investors investing in B Corps and using the BIA as a foundation for social impact assessment.

Also changing are investor demographics. In the next decades, it is estimated that tens of trillions of dollars will pass from baby boomers to millennials, a demographic that has significant interest in sustainable and

responsible business. The millennial generation is changing the investor landscape to value purpose in the mission and strategy of a business. When investors choose to invest in social and environmental solutions while also pursuing economic returns, these investors will increasingly look to B Corps.

Overall, the B Corp model:

- Educates and aligns existing investors about the company's mission;
- Attracts investors who value environmental, social and governance (ESG) performance dimensions;
- Provides a playbook for long-term risk management and continuous improvement;
- Appeals to a new set of investors who are rising in importance and have been shown to care more about these issues.

Below are some representative quotes from my interviews on the importance of aligning investors with mission:



"Companies are waking up to the fact that a growing number of their investors want to align their investments with their values. This is particularly true as millennials and women are becoming larger asset owners. This realization helps companies to look more closely at their environmental, social, and governance performance."

— SUSAN BAKER, VICE PRESIDENT AT TRILLIUM ASSET MANAGEMENT, CERTIFIED B CORP SINCE 2008



"I think the most common reaction we got from our limited partner (LP) investors, frankly, was, 'This doesn't surprise me at all, sounds like you guys.' I think that is a great compliment, because values are important and we believe that being clear about our values attracts the right kind of entrepreneurs for us in our business. ... And that helps us be more aligned with the companies that we ultimately invest in, and also helps us attract more companies."

— SETH LEVINE, FOUNDER OF FOUNDRY GROUP, CERTIFIED B CORP SINCE 2016



"T. Rowe Price and Fidelity that we took money from has already [invested in B Corps]. I've never really had any difficult questions at all about this. Not only is it not a tension, it feels like it's kind of wind in our sails from an investment perspective."

— JOSEPH ZWILLINGER, CO-FOUNDER AND CO-CEO AT ALLBIRDS, CERTIFIED B CORP SINCE 2016





Build a Lasting Employee Culture

Building and maintaining a positive organizational culture is one of the biggest challenges that business leaders face. A strong theme in my research for *Better Business* is that through its focus on positive employee practices and mission, the B Corp model helps companies build a positive and reinforcing organizational culture that provides a lasting competitive advantage for firms.

The employee-focused workplace of B Corps is commonly cited as leading to high employee attraction and retention rates. For example, Toronto-based IT and engineering contracting firm Ian Martin Group has reduced its turnover rate to 10%—way below the level of its competitors. They credit this to their employee-friendly practices. Similarly, many of the B Corps I talked to mentioned a strong, loyal employee base to help address future growth and challenges.

In addition, B Corps are measured in how well they are creating an inclusive and equitable workplace, as the BIA has increasingly focused on these topics. Numerous studies have shown that companies with more diverse perspectives to contribute to ideas, projects and company decisions are more resilient and, as a result, successful over the long term. Such practices will become even more important over time with demographic changes.

Millennials are especially attracted to B Corps as they have been shown to have a greater concern for humanity, the natural environment, climate change and many other issues related to this planet. They make up approximately half of the workforce already and are fundamentally the labor force of future business world. B Corps are positioning themselves to win the talent battle of the current and future working generations.

Overall, the B Corp model:

- Helps corporate leaders build a lasting organizational culture;
- Leads to higher levels of employee retention;
- Is attractive to millennial job seekers;
- Builds a more inclusive and equitable workplace.

Below are some representative quotes from my interviews on the importance of B Corp certification to creating a lasting employee-centric culture:





Mini Case Study: First IPO with the Benefit Corporation Structure

Laureate Education, established in 1999, is the world's largest for-profit higher education provider that operates educational institutions in more than 20 countries. It has been a Certified B Corp since 2015 and a registered benefit corporation since 2016. Laureate went public on the Nasdaq exchange in 2017.

When Laureate certified as a B Corp, the company was struggling because of the negative press that for-profit higher education providers in the United States were receiving. Instead of focusing on education, many of those schools focused on sales, pressuring students to take on significant debt based on false promises of employment opportunities. Laureate sought B Corp certification as a way "to differentiate ourselves from bad actors, based on objective evidence and strong outcomes and to demonstrate credibility, to show that we've gone through a rigorous process of external examination," explained founder and then CEO Douglas Becker.

Laureate's leaders spent a lot of time on due diligence on the legal and profit-based ramifications of becoming a B Corp. An important step was explaining the movement to Laureate's board members, many of whom represented the company's large private-equity investors. An important consideration in these discussions was how this would impact valuation. Becker recalls that "when we talked to the leading investment bankers and did studies of different scenarios, nobody could answer the question of whether this would be good or bad for our stock valuation, but we reached a conclusion that it should be fine; that it was probably going to be neutral or positive." Though some concern remained that future investors would demand a focus on maximizing shareholder returns, it was clear to the company that they had to do their best to show the world "that we weren't like the rotten apples in our industry" Becker says, and that without the benefit corporation legal framework and B Corp certification, "our efforts would look like window dressing." In the end, Laureate didn't encounter too much push-back on its benefit corporation structure from IPO investors, who were already aware of the company's commitment to a strong social mission and core values.

In 2017, Laureate was the first company in history to IPO with a legal form that made itself accountable to creating value for society. Becker reflected that, "The people who bought our stock did so because they did believe that we are a high-quality provider who delivered great outcomes and results that were measured across a variety of ways and that the B Corp status was just one more of those measurable ways to ensure that this was a good company that would stand up to the kind of societal and regulatory questions that were being asked."

Better Business

How the B Corp Movement Is Remaking Capitalism

Businesses have a big role to play in a capitalist society. They can tip the scales toward the benefit of the few, with toxic side effects for all; or they can guide us toward better, more equitable long-term solutions. *Better Business* tells the story of the rise of a new corporate form—the B Corporation. B Corps undergo a rigorous certification process, overseen by the non-profit B Lab, and commit to putting social benefits, the rights of workers, community impact, and environmental stewardship on equal footing with financial shareholders. Informed by over a decade of research and animated by interviews with the movement’s founders and leading figures, *Better Business* explores the rapid growth of companies choosing to certify as B Corps, both in the United States and internationally; and explains why the future of B Corporations is vital for us all.



Christopher Marquis is the Samuel C. Johnson Professor in Sustainable Global Enterprise at Cornell University and is a leading expert on how businesses can achieve the elusive triple bottom line of environmental, social and financial performance. Prior to Cornell, he taught at Harvard Business School for 10 years, where he developed an award-winning course on Social Entrepreneurship. Chris has authored over 20 peer reviewed articles and over 50 Harvard business cases, most related to sustainable business. This research has earned scholarly achievement awards from the Academy of Management and the American Sociological Association. Chris received a PhD in sociology and business administration from the University of Michigan and BA in history from Notre Dame.

