



ETSY

B Corporations

Plan B

By Sarah Holloway

The B Corp movement, gaining ground in North and South America, faces a new challenge as it arrives in the UK

James Perry is a man on a mission. The chairman of Cook, a manufacturer of quality ready meals, is determined to use his business as a force for good – but has struggled for many years to find the right way to express his commitment.

“We always had a view of the business that was broader than just making money,” says Perry. “But the idea of using the business as a force for good was confusing for people. Even our management team couldn’t get behind the idea – they thought there was no substance behind it.”

All that changed in 2010, when Perry met Jay Coen Gilbert at a social business conference in San Francisco. Gilbert and his business partner Bart Houlahan discovered the limits of the traditional corporation in 2005, when they tried to sell their sports clothing business to a buyer who shared their values – and discovered that their legal obligation to maximise shareholder returns meant that they were forced to sell to the highest bidder.

Arguing that current corporate forms are too narrowly focused on maximising shareholder returns to be a real force for social good, they developed the benefit corporation, or B Corp – a new type of company that explicitly disavows shareholder primacy in favour of equal treatment of all stakeholders – and founded B Lab, the non-profit group that drives their movement for sustainable business.

The legal obligation to maximise shareholder returns means US companies are forced to sell to the highest bidder

Prospective B Corps must pass two tests to prove they're serious about their values. First is the 'performance test', a rigorous assessment covering environment, workers, customers, community and governance in which they must score at least 80 out of a possible 200 points. Companies are asked to self-evaluate against the certification criteria, and B Lab's specialist team audits two in 10 B Corps each year to verify the assessments.

Second is the 'legal test', which in the US means incorporating as a benefit corporation. Because of differences in corporate law, prospective B Corps in the UK are asked to change their constitution (usually the company's memorandum and articles of association) to state explicitly that the business will be operated not just for the benefit of shareholders, but also for employees, the community and the environment.

The Cook story

In 2013, Cook became one of the first UK companies to become a certified B Corp. Perry describes the effect on his business as "remarkable". Once the directors embraced their commitment to all the company's stakeholders, board-level conversations changed dramatically. "We used to look at a page of numbers and consider that the final word on the health of the business," Perry says. "But now we look at a range of issues including how our business relates to our employees, local communities and the environment."

Equally significant was the change in the attitude of Cook's employees. The newly introduced profit share model began to change their relationship with the business, and employees took it upon themselves to find ways for the company to be a force for good. One kitchen worker saw the leftover ingredients being thrown away each day and connected Cook with a local charity that provided a day centre for homeless people. The company now feeds 52 vulnerable people every day through this scheme.

A growing movement in the UK

Unsurprisingly, given its roots, it's in the US and South America that B Corps are most popular. Converts include Patagonia, Kickstarter, Warby Parker and



JOE RAEDLE

Ben & Jerry's supports environmental campaigns

B Corps are most popular in the US and South America



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Patagonia is climbing the sustainability mountain

the e-commerce website Etsy, whose shares floated on the stock market in April and promptly doubled in value. (It is worth noting that in its Form S-1, the registration filed with the US government in order for the company to go public, Etsy identifies the loss of its B Corp status, or a decline in its assessment score, as a core risk to company reputation.)

B Lab attracted its first publicly listed company in December 2014, São Paulo-based Natura, with revenues of \$2.6bn. Natura's shareholders voted overwhelmingly in support of their certification – including a large number of institutional investors from all over the world. Other public companies wishing to become B Corps would have to do the same, persuading shareholders that certification was in their – and society's – best interests.

Paul Polman, chief executive to consumer good giant Unilever (whose subsidiary Ben & Jerry's has been certified since 2012, and who has spoken publicly of wanting to nurture a strong base of long-term investors), has been musing in public about what it would take for Unilever to join the B Corp community.

In the UK, B Corps are relatively new, and the scheme's official launch won't take place until September 2015. What's clear is that the movement faces distinct challenges in this market, because the ecosystem for social business is already well developed. UK corporate law does not stress shareholder primacy as strongly as its US equivalent; existing company structures (social

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enterprises, co-operatives and Community Interest Companies) are designed to encourage social business; and there is already a crowded market for ethical and sustainability accreditation.

“I think of it as a misty-looking mountain that represents a new way of doing business,” says Charmian Love, co-founder and director of Volans, a think tank and advisory firm (and, of course, a B Corp). “There are a lot of us trying to climb that mountain. It’s a steep journey, and there are many different paths to reach the top – and the B Corp represents one of these paths.”

Benefits of the benefit corporation

The UK’s B Corp community may be fledgling, but it’s already making an impact. B Lab UK is quietly lining up more than 50 companies to complete the certification process before September.

Early adopters are clear on its value. “We felt that B Corp certification was for companies that were serious about their sustainability commitments,” says Fran van Dijk of sustainability consultancy One Stone, a certified B Corp. “Companies must score at least 80 points out of 200 to be included – and those points aren’t easy to achieve. All B Corporation scores are available online, so any of our clients can check to see that we’re making progress.” Because One Stone has a presence in the UK, US, Europe and Australia, the international recognition of B Corp certification was also a factor in the company’s decision.

Charity Bank, a social purpose bank that uses savings to make loans to charities and social enterprises, highlights the community aspect of the movement. “Being part of the B Corp community provides networking opportunities to meet like-minded organisations and businesses focused on being a force for good,” says Mark Howland, head of communications at the bank. Charity Bank’s involvement shows just how easily B Corp status can work alongside existing schemes – as well as being the first bank in Europe to become a B Corporation, the bank is also an accredited social enterprise.

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Natura’s shareholders voted for B Corp certification

It's clear that the robustness of the B Corp standard is part of the appeal. James Perry of Cook describes it as “virtually greenwash-proof – there are hundreds of areas where you are scrutinised by the standards committee, which is independent of B Lab. You cannot fake it.”

But the real difference, say supporters, is that B Corp isn't simply another sustainability accreditation. At its heart, it is an alternative vision for the role of business in society: one that prioritises the ability of capitalism to promote social and environmental value as well as to make a healthy profit. And the proof is the legal requirement for companies to lock in their values-led mission.

Building momentum for sustainable business

For those working in sustainable business, the key question to ask of B Corp certification must be this: is a traditional corporate structure really that great a barrier to businesses doing good in the world? After all, companies such as Unilever already have industry-leading sustainability programmes that are making an ever-greater impact on core business strategy. Would changing the company's legal structure really make a difference?

That depends, says James Perry. “The question is, are sustainability conversations really taken seriously by leadership as core business strategy? If they are, then becoming a B Corporation may not be such a big step. But if leadership don't take this agenda seriously – or if the conversations could be deeper – then B Corp certification changes everything.”

There's no doubt that changing the legal structure of your company is a radical step for any business leader. But the unique appeal of B Corp certification is that it speaks both to the heart (it's a movement for change) and to the head (it's robust and credible). For those who see the need for a new kind of capitalism – one that takes seriously its responsibility towards employees, communities and the environment – joining the global B Corp community could signal the shift in momentum you've been waiting for. ■



Unilever's CEO, Paul Polman, has pondered B Corp certification

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