B Corporations, Benefit Corporations and Social Purpose Corporations:
Launching a New Era of Impact-Driven Companies

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Why do we need a new type of corporation?

Business has a demonstrated power to deliver results. However, too often these results are biased toward the benefit of shareholders and at odds with what makes our society a better place. Government agencies may attempt to regulate impacts, and non-profits step in to address problems, but neither has the reach or the power of corporations. What if there were a different type of corporation that brought together business success and social good?

The idea behind the new concept of what can be called an impact-driven company is to fill this gap by formally extending the purpose of a corporation beyond creating shareholder value toward an entity that generates impact or benefits for society as a whole. The old model was to take, make, sell and reap profit, which created material wealth; but it also left a legacy of environmental destruction, poverty and imbalance of resources. The essence of these new “responsible” corporations is that they recognize the imperative to do no harm and create positive impact throughout the value chain.

This paper intends to provide a brief overview of the emerging forms of impact-driven companies, highlighting in particular the B Corp Certification which has been around the longest and is not limited by geographic (or jurisdictional) boundaries. We will also cover (in less detail) what it means to incorporate as a Benefit Corporation or a Social Purpose Corporation.

The concept of Corporate Social Responsibility (CSR) was an earlier and still quite prevalent approach to generating societal benefits through business. CSR arose when companies began to notice that an increasing number of customers cared about more than just price and quality; they cared about a company’s demonstrated commitment to social and environmental issues as well. Companies became more involved in charitable activities and started reporting on their efforts to improve conditions for their employees and other stakeholders. The idea of sustainable business practices broadened this concept with a stronger focus on environmental impact and specific metrics, such as an organization’s carbon footprint. However, the suspicion persisted that there were some companies who treated CSR and sustainability primarily as a marketing tool that was not well integrated with the operations of the company. This often resulted in accusations of “green washing” and impacts on society were questioned. At the same time, executives in many companies struggled to justify investments in CSR and sustainability when the link to increased profits was difficult to establish.

What is a B Corporation?

In response to the negative impacts of traditional corporations, a new type of corporation with a formalized purpose that includes generating positive impact for society in its core was needed. The corresponding legislation, however, takes time to develop and be adopted. Independent of the legislative process, a new business certification system was introduced to recognize impact-driven companies: “B Corporations” (“B Corps”). In 2007, a non-profit organization called B Lab was founded to establish and manage the B Corporation certification system which has helped to build a constituency of businesses that is attracting lawmakers’ attention.

“Through their products, practices, and profits, businesses should aspire to do no harm and benefit all.”

—From B Lab’s “Declaration of Interdependence”

B Lab is a non-profit organization with the mission of using the power of business to address the world’s most pressing challenges. In its goal of using business as a force for good, B Lab focuses on three initiatives:

- Building a community of Certified B Corporations so one can tell the difference between “good companies” and just good marketing
- Accelerating the growth of the impact investing asset class through use of B Lab’s GIIRS Ratings & Analytics by institutional investors
- Promoting legislation creating a new corporate form that meets higher standards of purpose, accountability and transparency.

B Lab certifies companies in a similar way that Fair Trade USA certifies Fair Trade Coffee or the U.S Green Building Council certifies LEED buildings. In this role, B Lab established a standard for responsible and impact-driven business. In addition, B Lab attempts to solve the issue with existing corporate law where shareholder value maximization is the sole fiduciary responsibility of the corporation.

Two independent Standards Advisory Councils oversee B Lab’s certification standards, including the GIIRS rating system for impact investors. B Lab is backed by a diverse set of funders, including the Rockefeller Foundation, USAID, and a variety of corporations, private foundations and individuals. There are currently about 20 employees across four different locations in the US.

B Lab’s website is www.bcorporation.net.
“The new forms of corporations are mobilizing companies toward a sustainable future. Under the banner of ‘profitable sustainability’ these pioneering companies are actually recovering the ‘corporate charter’ as a social invention which was originally conceived to bring together the power of private enterprise with the public good.”

—Karl Ostrom, PhD, Co-Executive Director of NBIS.

B Corporation certification is the corresponding label that allows a company to verify and demonstrate its beneficial impacts on society and environment through a third-party assessment that investors and customers can trust. Internally, B Corp Certification provides a formal framework that can help management make decisions that address environmental and social concerns in a systematic way. Since its inception, B Corporation certification has been quickly adopted with growing support from key stakeholders—companies, customers, and investors. According to B Lab, there were over 600 certified companies as of September 2012. B Corporations span across all major regions of the US and are also rapidly gaining international traction, as illustrated by first chart.

As shown in the second chart, the cumulative revenue of all certified B Corporations is growing fast, reaching $3.4 billion in just five years with a compound annual growth rate (CAGR) of over 30%.

The third chart shows that the average revenue of newly certified corporations is trending upwards, reflecting the growing interest of midsized companies.

“I’m continually impressed by the industry leaders I have the privilege to work with. They recognize a broader definition of value beyond the bottom line. It’s no surprise to me that many of their companies have grown during the nation’s worst economic downturn.”

—Stephanie Ryan, Community Development, B Lab
What does it mean to incorporate as a Benefit Corporation or Social Purpose Corporation?

Beyond the B Corporation certification system, B Lab and other advocates have made significant progress in establishing a designated legal structure (the equivalent of an LLC, C Corp, or S Corp etc.) that enables companies to incorporate as corporations with a foundational acknowledgement that they have a responsibility to more than just shareholder profit. In April 2010, Maryland was the first state to pass a Benefit Corporation bill. As of September 2012, similar bills have been enacted in eleven US states (see table below), sparking a wider movement toward legal recognition of impact-driven companies.

Incorporating as a Benefit Corporation is often confused with being certified as a B Corporation, but there are significant differences. Unlike B Corporation certification, a Benefit Corporation is a legal structure similar to other forms of corporations, but with greater purpose, transparency and accountability. The status is a fundamental structure that enables (and requires) the company to consider all stakeholders (not just shareholders) when making decisions. It empowers management and employees of Benefit Corporations to focus on integrated value and clarifies the intent and expectations for the company, its board and investors. This offers legal protection for considering the non-financial interests of the workforce, community, and environment when making decisions. B Lab is working as an advocacy group for this legislation.

After much discussion, and with the approval and recommendation of the Washington State Bar Association², Washington legislators approved a new form of incorporation called the Social Purpose Corporation (SPC)¹. This was done instead of adopting a Benefit Corporation bill similar to other states³. The Social Purpose Corporation enables companies to pursue social and environmental goals alongside their efforts to provide financial returns. However, Washington’s SPC bill imposes a lighter set of verification and reporting requirements on companies than is required in a typical Benefit Corporation bill. There is no externally verified reporting standard—instead an SPC is required to publish and file an annual report on how the organization is meeting its social purpose. Also unlike Benefit Corporations, SPCs “may” consider the social purpose in decision-making. On the other hand, all directors and officers of Benefit Corporations “must” consider the social purpose in decision-making. Moreover, in terms of the independent right of action, Benefit Corporations can be sued for failure to pursue their social purpose, for violation of any duty or standard of conduct, or failure to post an annual report on the internet. Social Purpose Corporations cannot be sued for failure to pursue their social purposes. The SPC bill focuses on getting the fundamentals right by formalizing the social purpose mission and unleashing the management from the risk of liability. It sets a lower bar in terms of verification requirements, thus providing more flexibility and reducing the reporting burden for companies.

The table below provides a comparison between the three types of corporations discussed in this whitepaper. The following pages will primarily focus on further explaining the concept of B Corporations.

It is important to note that being certified as a B Corporation is not at all mutually exclusive with being incorporated as a Benefit Corporation or an SPC. B Corp certification can be used by any company as a means to verify its alignment with an accepted set of management standards. This may be used internally to inform strategy and day-to-day decision-making or externally to credibly demonstrate sustainability accomplishments toward customers and other stakeholders.

<table>
<thead>
<tr>
<th>Identity</th>
<th>B Corporation</th>
<th>Benefit Corporation</th>
<th>Social Purpose Corporation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Certification issued by third party (B Lab)</td>
<td>State legal entity</td>
<td>State legal entity</td>
<td>Washington State</td>
</tr>
<tr>
<td>Geographic Reach</td>
<td>Global</td>
<td>US states as of August 2012: California, Hawaii, Illinois, Louisiana, Maryland, Massachusetts, New Jersey, New York, South Carolina, Vermont, Virginia</td>
<td></td>
</tr>
</tbody>
</table>
| Requirements              | • Minimum score of 80 on the online B Impact Assessment  
• Assessment review call & documentation  
• Change in articles of incorporation  
• Re-certification assessment every two years, maintaining minimum score of 80 points  
• Random selection of 10% of B Corps for annual onsite review  
• Annual certification fee to B Lab (tiered pricing based on revenue)  | • Incorporate as a Benefit Corporation in corresponding state  
• Annual benefit report using a third-party standard  | • Incorporate as an SPC in Washington State  
• Annual benefit report |

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¹ Adopting a Social Purpose Corporation (SPC) bill
² Washington State Bar Association
³ Washington legislators approved a new form of incorporation called the Social Purpose Corporation (SPC)
“Folks always ask me how long it takes [to get certified]. While the company’s size matters, the most relevant variable is how much a company has already been paying attention to its impacts and measuring them. A company can take 10 days, or take 10 months or longer.”

—Stephanie Ryan, Community Development, B Lab

How does a company become a B Corporation?

The B Corp certification system was created to enable “a new type of corporation that meets rigorous and independent standards of social and environmental performance, accountability, and transparency.”

There are five major steps to becoming a certified B Corporation, as shown in the figure below. First, applicants complete B Lab’s online B Impact Assessment which covers:

- Governance – accountability, transparency
- Workers – compensation, benefits, ownership, work environment
- Community – suppliers, local impact, diversity, job creation, charity
- Environment – facilities, inputs, outputs, supply chain

The assessment score must be at least 80 points out of 200 for the company to qualify. The second step is an assessment review call with a B Lab staff member. This enables B Lab to make sure questions were answered in the correct manner and calculations performed correctly, considering the unique circumstances and practices of a company. After this phone call, the company is required to submit supportive documentation which verifies 8-10 randomly selected responses regarding the environmental and social impacts of the company.

After completing these three steps, the company needs to amend its articles of incorporation to reflect the commitment to the vision and requirements as a B Corp to the extent possible in its state. As a final step, the company is requested to sign a simple 2-page term sheet that lays out the expectations for Certified B Corporations. It commits a company to certification fees, the legal framework and to the “Declaration of Interdependence,” in essence the mission of B Lab’s work to build a new sector of the economy which harnesses the power of private enterprise to create public benefit. This concludes the process and if the company has met the criteria, it can officially receive B Corporation certification. Upon certification a company creates a profile for publication on www.bcorporation.net which is shown alongside a summary of the B Impact Assessment results.
Making the B Impact Assessment is free, however, to attain and maintain certification status, B Corps are required to pay an annual fee representing a small percentage of revenue (see table below). The annual fee covers B Lab’s efforts to establish and maintain certifications. For example, B Lab conducts random on-site visits for 10% of B Corps to ensure credibility and accountability of the certification. If the post-on-site review score is lower than 80 points, the company will be given 90 days to recover its points. If the onsite reviewer discovers that a company was intentionally misrepresenting itself on the assessment, the certification can be revoked. Every two years, every B Corp must undertake the re-certification process.

<table>
<thead>
<tr>
<th>Annual Revenue</th>
<th>Annual Fee</th>
<th>As a Percentage of Revenue</th>
</tr>
</thead>
<tbody>
<tr>
<td>Less than $2 M</td>
<td>$500</td>
<td>0.025% or more</td>
</tr>
<tr>
<td>$2 M - $5 M</td>
<td>$1,000</td>
<td>0.02 - 0.5%</td>
</tr>
<tr>
<td>$5 M - $10 M</td>
<td>$2,500</td>
<td>0.025 - 0.05%</td>
</tr>
<tr>
<td>$10 M - $20 M</td>
<td>$5,000</td>
<td>0.025 - 0.05%</td>
</tr>
<tr>
<td>$20 M - $100 M</td>
<td>$10,000</td>
<td>0.01 - 0.05%</td>
</tr>
<tr>
<td>Over $100 M</td>
<td>$25,000</td>
<td>0.025% or less</td>
</tr>
</tbody>
</table>

Attract customers and differentiate your brand

There is increasing awareness among business leaders of the considerable downside risks when neglecting the issue of sustainability. At the same time, there are growing customer segments that value companies acting as responsible stewards of society and the environment, and they are often willing to pay a premium for the products of “a good company.” B Corporation certification provides a credible way to demonstrate a company’s commitment to “doing good” as part of doing business.

Additionally, B Corps currently benefit from increased media attention, which provides extra exposure of their brand and products to the public. Since 2009, over 1,000 articles have been written, featuring over 160 individual B Corps. B Lab also provides visibility through company profiles on its website and a directory published in the annual report.

Gain access to capital from impact investors

Socially Responsible Investment (SRI) is an investment strategy that seeks to consider both financial returns and social benefits. A growing community of investors and philanthropists are interested in generating environmental and social benefits through investment in for-profit entities that incorporate these values in their mission.

NRG Insurance is a Seattle-based, independent insurance brokerage with a long history of innovative policies that empower employees, create a nurturing work environment, and advance customer care. Michelle Rupp, the President of NRG Insurance, aspires not only to excellence in her own company, but also to raise the bar for the entire insurance industry.

NRG Insurance became a B Corporation in February 2010 and according to Michelle Rupp the actual certification process was a very manageable effort, primarily since NRG Insurance already had all the necessary data at hand and a company culture that aligned well with the B Corporation requirements. That said, getting all employees on board took some effort and working with a coach helped overcome barriers. Michelle Rupp sees business as the main player in effecting change toward a more sustainable society and cares deeply about being part of the solution. Her company moves the dial from within in the mainstream insurance industry which is generally known for a conservative mindset and has yet to recognize that B Certification can be an indicator of lower risk.

For more see: www.nrgseattle.com.
For decades, investors have had sophisticated methods at their disposal to model economic benefits when evaluating companies for investment. But when it comes to assessing social and environmental benefits, there is a reliable framework providing objective measures had yet to be established and broadly adopted. The Global Impact Investing Rating System (GIIRS) was created to address this gap. The GIIRS assessment is a rating system for impact investing; the same company assessment powers the B Impact Assessment used for B Corporation certification and the assessment used for GIIRS Ratings. Investment institutions use it to evaluate individual companies or investment funds in terms of their social and environmental impact. GIIRS plays a catalytic role in attracting a growing community of impact investors and socially oriented companies around a common framework that fosters transparency and a focus on data. Presently there are over 20 institutional investors who are using GIIRS as a main tool to evaluate corporations internationally, and there are over 60 funds and about 300 companies who have been rated by GIIRS. B Corps can receive a free GIIRS rating to help attract investment capital.9

**For private companies, B Corp or SPC election is a clear sign—not only of an expanded view of things, but of an intention to create shared outcomes that benefit stakeholders, community, and the world at large.”**

— Bruce Herbert, Chief Executive
Newground Social Investment

Save money while doing business with like-minded companies.

To foster a stronger cohesion among the nascent community of B Corporations while supporting the build-up of an ecosystem of services for these companies, B Lab created the community of B Service Partners. It enables B Corps to access quality services from each other and from partners that provide specialized and/or discounted services to B Corps. B Service Partners are divided into 7 categories: Financial, Sales & Marketing, Systems & Implementation, HR & Office Management, Educational, Consulting & Professional Services, and Products & Individual Opportunities.

B Corps offer each other generous discounts for products and services as diverse as carbon accounting software or legal consultation.

**Obtain legal protection for social and environmental decision-making**

Mainstream companies that are willing to do something beneficial for society and the environment can find themselves at odds with a management or shareholder mindset that narrowly focuses on earning money on a quarterly basis. Within current corporate legal structures, such decisions can lead to conflicts with shareholders that could end in a legal dispute. Benefit Corporations (and Social Purpose Corporations) address this issue at a fundamental level by incorporating the company as an entity whose purpose includes social and environmental benefits. While B Corporation certification does not provide legal protection at the same level, by requiring the formal step of amending the articles of incorporation, B Lab ensures that companies make their commitment to stakeholders explicit vis-à-vis shareholders. As a result, management is officially empowered to make decisions in the interest of society and the environment while also generating financial returns.

**Attract and retain quality employees**

These days, pursuing sustainable business practices that include the treatment of employees and engagement with the community can be a powerful asset for recruiting and keeping great employees. One survey found that over 80% of employees from 15 developed nations preferred to work for a company that "has a good reputation for environmental responsibility."10 Also, in a recent survey by Net Impact, 70% of college students and 50% of workers expressed that they want a job that allows them to make a social impact.11 To further support its certified companies, B Lab’s website provides a job listing resource for B Corps to attract potential employees, providing a recruiting hub for certified B Corps and employees who want to work for a company that makes a positive difference for society and the environment.

Bruce Herbert, Chief Executive of Newground Social Investment, is a nationally recognized advocate for business practices that integrate social concerns and environmental justice with business profitability. As an investment advisor, his firm uses capital resources and investors' voices to help shape for public benefit the actions of major corporations.

"Companies that operate sustainably are profitable over the long-haul" is a central tenet of Herbert's investment approach, and this also applies to how he runs his own business. Becoming Washington State's (and the nation's) first Social Purpose Corporation (SPC) was a very straightforward choice for Newground. It differentiates the company by creating a formalized status that marries mission with action.

As a further endorsement of this new corporate structure, Herbert recently registered a second company as an SPC. Investor Voice is “a new home for the familiar and successful shareholder advocacy work that Newground has done since the 1990’s. It provides shareholder engagement as a stand-alone service, unbundled from managing money for a client.”

Herbert is a strong supporter of both SPC and B Corp certification, and considers GIIRS a tool which has the potential to become a useful rating standard for social investments, perhaps analogous to services like Morningstar®.

For more see: www.newground.net.
Key takeaways, opportunities & challenges

As evidenced by the rapid growth of their community, B Corporations have become part of a movement toward a new form of business. The certification provides a legal basis and an agreed upon standard for impact-driven companies.

In summary, we can call out the following key takeaways:

- B Corp certification provides an accessible way of formalizing social and environmental objectives for a company of any type, size or location.
- The B Impact Assessment and GIIRS rating system provide an objective measure for companies' social and environmental performance and can help identify gaps and inform a sustainability strategy.
- Impact investors are a new breed of investors that seek a social or environmental return in addition to a financial return.
- B Corp certification is relatively new and growing fast. Most consumers and employees have yet to learn about it, but the strong initial traction is encouraging.
- The legislative environment for impact-driven companies is still emerging but has shown major progress with Benefit Corporation bills being adopted in eleven states as of September 2012.

With the initial wave of early-adopters among companies, investors, employees and legislators having endorsed the idea of impact-driven Corporations, the next 2-5 years will be critical in establishing a true foundation as part of the mainstream economy. After decades of focus on shareholder value, the paradigm shift of incorporating social and environmental values into decision-making will require managers to optimize for multiple (and often conflicting) outcomes between different stakeholders. Most customers have yet to learn what B Certification stands for and why they should prefer B Corporations, Benefit Corporations and SPCs over conventional companies. Amidst the enthusiasm around the new types of companies, we need to remind ourselves that the economic fundamentals continue to apply:

- Customers need to be compelled to buy products and services for a price that justifies the perceived value of the product.
- Investors expect to see return on their financial commitments in the form of financial gains and/or social & environmental impacts.
- Companies will need to generate profits or raise funds to fuel their growth and expand their impact.
- Employees need to be attracted and retained with a value proposition that meets their financial needs and career expectations.

If impact-driven companies can succeed along these dimensions and use their differentiation as an advantage over conventional companies, the new model is poised for success in the mainstream economy. Otherwise, they are likely going to remain a niche phenomenon that caters to a distinct, but limited audience. This fate can be overcome if companies are able to form a strong mutually supportive community and organizations like B Lab expand their reach toward larger established corporations.

The latest round of economic and environmental crises has made it clear that we need systemic solutions to the systemic problem of placing the interests of shareholders over the interests of workers, community and the environment. The concepts of B Corporations, Benefit Corporations and SPCs provide a practical way for companies to become part of the solution and join a business-driven movement to change society.

References

1. Aside from Benefit Corporations and Washington State’s Social Purpose Corporation, other forms such as California’s Flexible Purpose Corporation have been introduced.
5. Source: www.bcorporation.net/become-a-b-corp/why-become-a-b-corp
6. Full text of the “Declaration of Interdependence” can be found at www.bcorporation.net/become-a-b-corp/how-to-become-a-b-corp/120.
7. For example, when Apple announced in July 2012 that the company was relinquishing EPEAT environmental standards for its laptops, the move was followed by purchasing policy changes of major institutional customers. Their reaction threatened Apple’s business and led the company to reverse course within days.
9. The regular cost of obtaining a GIIRS rating is currently $2,500.