Markets to Watch: B Corporations

Executive Summary

Over the past two decades, some segments of consumers, employees, and investors have shown increased interest in "responsible business" or "business for good," and have sought ways to identify companies that embody these traits. The B Corporation (or B Corp, for short) movement, started in 2006 as a way to credibly recognize and certify companies that prioritize long-term value creation for all stakeholders—including not just shareholders but also employees, the community, the environment, and customers. B Lab, a nonprofit organization that manages the B Corp certification process, offers a pathway for for-profit companies to certify as B Corps and maintain their certifications through a 3-year renewal process.

As of April 2023, there were approximately 6,500 Certified B Corps spanning 89 countries and 160 industries. Though B Corps still make up a small percentage of companies in the economy, there are some highly visible examples: Ben and Jerry's, Aveda, Danone North America, Revolution Foods, and Athleta. B Corp certification can be a motivating signal to consumers, employees, and investors who are looking for environmentally and socially conscious businesses.

The Market

B Lab was founded in 2006 by Jay Coen Gilbert, Bart Houlahan, and Andrew Kassoy. Inspired by companies like Patagonia that pursued a "triple bottom line" (people, planet, profit), the founders sought to establish a credible vetting process and legal framework that could hold for-profit companies accountable to a broader set of stakeholders than simply financial shareholders—a concept called "stakeholder capitalism." B Lab, established as a nonprofit organization, defined a set of requirements which became the B Corporation Certification standards, and certified the first 82 companies by the end of 2007.

B Corp certification differs from other certifications (for instance, Fair Trade, FSC, or Rainforest Alliance certification) in that it requires a comprehensive assessment of all business practices and operations, not just a specific product. B Corp certification typically takes from 6 to 8 months, depending on the size and complexity of the business.

To become a Certified B Corp, firms must meet three criteria:

- Demonstrate high social and environmental performance. This is measured through the B Impact Assessment score and risk review, which evaluates the firm in five areas: corporate governance, employees, community, environment, and customers. Scores are generated on a scale of 0 to 200. A minimum score of 80 points is required to complete the first step toward certification, although a company can reach this threshold without demonstrating strength in all five areas (they may accumulate enough points in two or three areas).

- Make a legal commitment to changing the company's corporate governance structure to be accountable to all stakeholders—and achieve benefit corporation status if available. Certified B Corps are required to transition to a stakeholder governance model where the firm considers the interests of all stakeholders—customers, workers, suppliers, communities, investors, the environment, and financial shareholders—in decision-making. The legal requirements for certification differ, depending on the type of business (corporation,
LLC, partnership, co-operative etc.), country, and state (for example, see California requirements). Typically, the requirements entail changing the company’s Articles of Incorporation or governing document.

- **Exhibit transparency by allowing information about performance (measured against B Lab’s standards) to be publicly available.** The final step of certification requires firms to publish a public profile in the B Corp Directory, including their company’s most recent B Impact Assessment score.

Following certification, each firm is required to pay an annual fee commensurate with their revenue, and complete a verification process every 3 years to retain their status. B Lab provides certification pathways for firms of all sizes, ranging from startups to large enterprises with over $5 billion in revenue. Nonprofits and governmental agencies are not eligible to become B Corps.

Firms that interface with environmentally and socially controversial activities (i.e., deforestation, cannabis, casinos, for-profit education, fossil-fuels, etc.) are placed under additional scrutiny by B Lab. Typically, these firms are required to provide additional proof that they have adequately managed potential negative impacts of their operating activities. In some cases, these firms may be banned from certification altogether. These restrictions are outlined in publicly-facing “statements on controversial issues”, managed by the B Lab Standards Advisory Council.

**Certification pros & cons**

Executives of certified B Corps have publicly expressed benefits ranging from increasing brand visibility and differentiation to building community/networking with other “like-minded” firms, attracting and retaining talent, and attracting investors. B Lab works to increase the value of these benefits through tools like B Work (a job board for openings specifically at B Corps) and B Hive (a repository of tools, best practices, and support available to B Corps members). (There are no U.S. federal tax benefits to certifying as a B Corp.)

On the other hand, some firms may hesitate to certify due to the time-intensive nature of the certification process, which requires firms to conduct an initial audit of all practices and operations for the B Impact Assessment, monitor ongoing performance against targets, and renew certification every three years. There are also fees for certification (ranging from $2,000 to $50,000 or more, depending on the size of the company). More fundamentally, some companies may face pushback from shareholders reluctant to prioritize long-term social, environmental, and financial health over near-term profit.

**B Corps vs. Benefit corporations**

Similar to B Corps, incorporation as a “benefit corporation” is available to for-profit firms that seek to create long-term stakeholder impact. In the U.S., benefit corporation rules vary by state; in Delaware, for instance, a company wishing to incorporate as a public benefit corporation must write (or amend) its charter to adopt a specific public benefit purpose and report biennially on its public benefit. Legal incorporation as a benefit corporation is currently available in about 40 U.S. states and a few countries, but not all. Under the terms of B Corp certification, if the company’s prevailing jurisdiction does not permit stakeholder governance, certified B Corps commit to amending their Articles of Incorporation and adopting a new legal form if/when one becomes available.

“My biggest surprise was the social capital B Corp community membership gave me with Millennials... I no longer search for high-potential staff; they now come to me.”

- Tiffany Jana, CEO, TMI Consulting

"Source: https://www.huffpost.com/entry/why-b-corps-have-great-em_b_7488564"
Trends & Uncertainties

As of April 2023, there were approximately 6,500 Certified B Corps in 89 countries and 160 industries, including recognizable names such as Patagonia Works, Ben & Jerry’s, Athleta, TOMS, and Warby Parker. The number of certified B Corps and certification applications has risen in recent years, likely as a response to cultural shifts toward ethical and sustainable business.

Although B Corps span a variety of industries, food, management consulting, and tech currently comprise the top three industries represented by certified B Corps. Historically, B Corps have been mostly small and medium-sized businesses, with larger firms (1,000+ employees) making up less than 1%. However, in response to demand from larger enterprises, B Lab has begun investing in pathways to assist multinational companies in certification. Danone, one of the world’s largest food and beverage companies, has joined forces with other large firms as a B Movement Builder, and is working toward becoming the first publicly traded, multinational corporation to be fully B-Corp certified by 2025.

B Corp backlash

Despite market appetite for socially conscious business practices, B Lab’s efforts to certify larger firms has left many skeptical. The certification of brands such as Nespresso (2022) (which has been under scrutiny for documented cases of child labor and wage theft), have generated concern from B Corp members about relaxed standards, which they worry could lead to the dilution of the value of B Corp certification.

Eco-label proliferation

As the B Corp movement has grown, other eco-labels have also proliferated (such as Greenguard, Cradle to Cradle, Watersense, and more). Without regulation, the proliferation of eco-labels has left many consumers unsure which certifications can be trusted (including B Corp) and which are simply “greenwashing.”

New standards on the horizon

The B Corp standards are currently going through a revision, with V7 scheduled to be released in 2024. B Lab has indicated that this new version will include new standards on issues such as fair wages, climate action, justice, equity, diversity and inclusion (JEDI), and circularity. B Lab has also worked with other reporting organizations to align the B Impact Assessment with, for instance, the UN Sustainable Development Goals (SDGs) and the Global Reporting Initiative (GRI) standards.
**Business Opportunities**

**Appealing to environmentally and socially conscious consumers**

Recent studies have shown that consumers are shifting their spending toward purpose-driven products and services. A 2023 study conducted by McKinsey & Co. revealed that products making environmental, social and governance (ESG) claims (such as those implied by a B Corp certification) had a 1.7% higher growth rate over the past five years compared to those without these claims.\(^\text{17}\) These consumer spending trends are not only limited to high income or urban households (which have traditionally led conscious consumption trends). This may indicate a widespread demand for purpose-driven business that encompasses many demographic segments.

**Attracting talent**

Consumers aren’t the only ones shifting their preferences; some employees are also seeking out socially and environmentally responsible employers. Out of 16,000 employees surveyed in a 2021 IBM survey, 68% were more willing to apply for a role within an “environmentally sustainable” organization, and 72% were more willing to apply for a role within a socially responsible organization.\(^\text{18}\)

Millennials and Gen-Z employees are particularly attracted to these types of employers, with two in five saying they have rejected a job or assignment because it did not align with their values\(^\text{19}\).

**Consulting services**

Sustainability and social impact consulting firms—such as Anthesis Group and Everoot Consulting—see opportunities in offering services for companies to evaluate their certification readiness, complete the B Impact Assessment, and manage reporting and certification renewals.\(^\text{20}\)

**Impact investing**

Many impact investors, seeking to yield both financial and social returns, have added B Corps to their portfolios over the past 10 years. In EY’s 2022 Global Private Equity Survey, 39% of respondents report investing in ESG product offerings.\(^\text{21}\) As of 2023, nearly every major Silicon Valley VC firm had invested in a B Corp.\(^\text{22}\) B Corps can point to their B Impact score as a dependable representation of their ESG credentials and priorities, allowing investors to delineate between firms that are simply “greenwashing” and those that have meaningfully invested in these practices.\(^\text{23}\)

**Takeaways for MBAs**

1. Consumers and employees are increasingly seeking employers, products, and services that align with their values. B Corp certification is one way for companies to credibly demonstrate their commitment to environmental and social responsibility.
2. While most B Corps are small companies, there is growing interest in and progress toward certification among large multinationals.
3. As the proliferation of eco-labels increases, skeptics have expressed concern about the dilution of the value of B Corp certification.

**Further Reading**

- B Corporation website and B Corporation directory
- Sustainability at a Turning Point, IBM Institute for Business Value, 2021.
- Consumers care about sustainability – and back it up with their wallets, McKinsey and Nielsen IQ, 2023.
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22. https://bthechange.com/how-investors-really-feel-about-b-corps-7dcf7988a6e3