Value proposition for managing with purpose & B Corp certification

February 2021

MEASURE MEANT

Certified B Corporation

1% FOR THE PLANET MEMBER

VALUE PROPOSITION STUDY - OVERVIEW

Purpose

Businesses and individuals commonly ask how managing with purpose and the B Corp certification can benefit their business. And a common refrain is that sustainability is too expensive and/or antithetical to capitalism. Measure Meant and Heather Paulsen Consulting (HPC), both sustainability consulting firms, created this paper to address these questions questions and perspectives, and to demonstrate why critics are wrong. There is extensive research and analysis supporting the value and importance of managing with purpose, and our objective is to bring that research together and make a cogent argument in its favor.

Methodology

This analysis uses a variety of secondary research to provide the requested insights. Emphasis was placed on finding information from reputable sources, including academic publications, trade publications, and surveys conducted by various consulting groups. All sources have been documented throughout, typically via hyperlinks.

We made a concerted effort to provide a holistic perspective, highlighting the benefits and drawbacks identified through the research. While we have a clear bias about the value of B Corps – we are a consultancy focused on helping businesses obtain B Corp Certification – every effort has been made to eliminate that bias.

Summary

There is strong consumer demand for products produced by companies they deem to be responsible and focused on social and environmental sustainability. In many cases, consumers will pay more for those products. Employees are also highly interested in working for companies that have a clearly-defined purpose.

B Corp Certification is widely viewed as the most complete assessment of sustainable practices currently available, and that it serves as a clear signal to consumers that a company has a clearly-defined set of values. Obtaining and displaying the B Corp logo removes the guess work and simplifies a consumer's evaluation of the impact their purchasing decisions may have.

There is a minority of critics who say that the B Corp assessment does not go far enough, that the lack of point deductions obscures bad practices, and that it is another form of greenwashing. The most compelling argument is that the "mission lock" aspect is not required because current legal trends tend to narrowly interpret the notion of *shareholder primacy* and favor the principle of *business judgement* when determining whether a company can selectively decide which bidder, they will sell their company to. And because of that, critics contend that the Mission Lock or Benefit Corporation structure creates unnecessary burdens.

Despite these criticisms, the overwhelming consensus is that B Corp certification is the best way to communicate a company's values and the credibility of their sustainability efforts. And for those companies who wish to preserve their mission following a sale, the B Corp certification and Benefit Corporation legal structure provide the best path to accomplishing that objective.

Obtaining the certification, and in general managing with purpose, provides companies access to a consumer-segment and markets that continue to expand. This presents significant opportunities to build brand recognition and increase revenue.

Purpose-driven companies typically see increases in employee engagement, productivity gains, and cost reductions. Combined with increasing revenue streams, this focus on sustainability serves to increase overall profitability and improve financial resilience.

Becoming a B Corp does create additional accountabilities and demands on internal resources. While those could be viewed as additional burdens, they also are what drive the expense reductions noted above.

The preponderance of sources included in this research suggests that B Corp certification is an effective path for small-, medium-, and large-size businesses to pursue, and that it provides far more benefits than drawbacks.

CONTEXT AND DEMAND

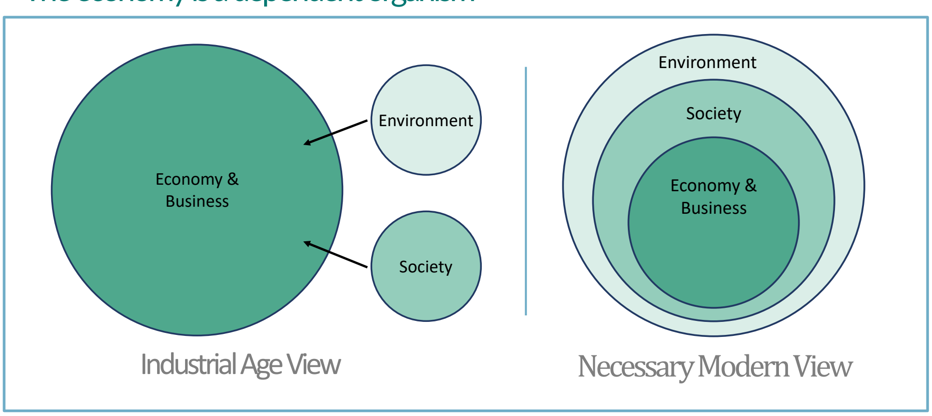
The environment, community, & economy are interdependent

Perspectives about the role of business and the economy are shifting. An expanding and necessary view sees the economy as an integrated aspect of community and environment. Imagining those three areas – environment, community, and economy – as concentric circles of varying size based on their importance, the environment would be the largest. The economy is the smallest (see image) and is embedded in both community and environment. This asserts that a functioning economy is highly dependent on a healthy, flourishing environment and community. No environment, no community. No community, no economy.

Peter Senge, senior lecturer at the MIT Sloan School of Business (amongst other roles), and others make this point in their book The Necessary Revolution. They note the Industrial Age view was very different, with business owners viewing community and the environment as resources to exploit. For hundreds of years that viewpoint led to significant waste, pollution, and resource depletion.

That model prioritized economic (e.g., GDP) growth with little regard to other impacts. While an underlying belief that economic growth is an engine for human well-being, our current situation – with high levels of poverty and homelessness, significant social and economic inequality, and environmental degradation – suggest otherwise.

The economy is a dependent organism



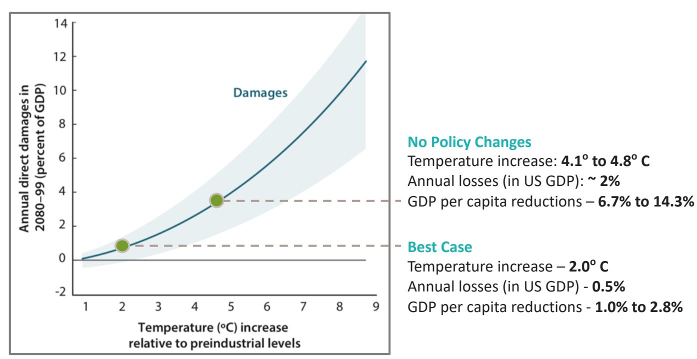
Source: *The Necessary Revolution*, Peter Senge, Professor at MIT

Climate change is materially impacting the economy

Viewing the economy as dependent on community and the environment does not mean that economic growth is unimportant. The point is that economic growth should consider broader implications to all stakeholders, and growth for the sake of growth has limited or no value. Surviving and thriving requires creating an inclusive and regenerative economy. To do that means adjusting the basis of the economy and taking meaningful action to prevent negative impacts for unexpected events (e.g., pandemics, severe weather).

Climate change will have impacts on our national and global economy. Research conducted by The Hamilton Project, a joint effort by the Brookings Institution and the Stanford Institute for Economic Policy Research (SIEPR), estimates the economic impacts of various warming scenarios in terms of GDP. In the best-case scenario – a temperature increase of 2 degrees Celsius by 2080-2099 – the US economy would experience annual GDP losses of 0.5 percent and GDP per capita reductions of 1.0 to 2.8 percent. The worst-case scenario – an increase of 4 to nearly 5 degrees Celsius – equates to annual GDP losses of approximately 2% and per capita reductions of around 7 percent to just over 14 percent. “For context, in 2019 a 5 percent U.S. GDP loss would be roughly $1 trillion.”

U.S. Economic Damages from Climate Change



Source: The Hamilton Project

The Covid-19 pandemic may serve as a bellwether of sorts for the potential impact from climate change. In a May analysis, the CBO estimated a 5.6 percent drop in GDP while the Conference Board suggested a 5.7 to 6.1 percent decline. While the pandemic represents a short-term shock and the economy is expected to recover, pandemics, severe weather events, crop failures, and other potentially significant impacts to the economy are expected to become a norm as climate change progresses. The Hamilton Project estimates seem reasonable based on our current experience during the pandemic and could prove to be underestimated.

This is real and consumers have high expectations

The scientific consensus is that climate change is real, with NASA indicating that “97 percent or more of actively publishing climate scientists agree: Climate-warming trends over the past century are extremely likely due to human activities”. Most people understand this. In a 2014 Global Consumer Confidence survey conducted by the Conference Board and Nielsen, 70 percent of respondents acknowledged climate change as serious, making it the top threat facing the planet.

In the same survey, 81 percent of respondents believe that companies have a responsibility to combat climate change. Expectations in Europe and the United

CONTEXT AND DEMAND

States were below 70 percent, with Asia-Pacific, Africa and the Middle East in the mid 80s, and Latin America at 94 percent. Emerging economies with expanding middle classes will have increasing buying power and will likely increase spending on consumer goods that in the past they didn't have access to.

There is no shortage of surveys that support the 2014 Global Consumer Confidence survey and draw similar conclusions. However, many of those surveys were conducted during time-periods of relative stability where consumers weren't constantly distracted by a dizzying array of social issues. Since the beginning of 2020, Covid-19, Black Lives Matter and other protests, and the presidential election had the potential to be major distractions for climate change because they are immediate issues, whereas climate change is relatively slow moving and a more distant threat.

Genomatica, a company that makes bio-based materials to replace petroleum-based equivalents, conducted a survey in response to environmental changes their employees were noticing through the lockdowns. Their survey from mid-2020 showed that Covid-19 is not distracting Americans from thinking about climate change – 85 percent of respondents are thinking about climate change as much or more than they did before the Covid pandemic. Respondents also noticed positive changes in the environment, including reduced traffic and cleaner air.

A survey from Genomatica shows "sustainability has moved from a fringe preference into a core imperative across American life"

85%
spend as much time or more thinking about sustainability as they do Covid-19

45%
noticed a reduction in the amount of traffic

24%
noticed the air was now cleaner

56%
sustainability should always be a priority for business and government despite other issues

There is a clear and obvious correlation between reduced traffic and cleaner air. Fewer cars on the road leads to fewer vehicle emissions, which in turn results in cleaner air. In April 2020, Los Angeles had some of the cleanest air in the country. And Delhi, which consistently has some of the most-polluted air in the world, recorded their best air quality in decades. Covid-19 has been a case study for how humans directly contribute to climate change, and how changing human behavior is a major part of the solution.

CONTEXT AND DEMAND

One other important aspect of the Genomatica survey is that 56 percent of respondents expect businesses and government to continue addressing climate change despite other issues that arise. In other words, consumers believe there are no excuses for inaction and ineffective leadership. This expectation is supported by an Edelman Consumer Trust Survey conducted in early 2020 that found 62 percent of respondents believe brands have a key role in helping the country survive the pandemic. Those same respondents – 65 percent of them – note that their perceptions of a company will be heavily-informed by how companies react to the Covid pandemic.

Given the similar results across the survey, it is reasonable to assume that consumer perceptions increasingly will be shaped by how companies address climate change.

REVENUE GENERATION

Opportunities for profit abound

Most consumers expect companies to play a role in addressing climate change and sitting on the sidelines may not be a wise business strategy. In other words, doing nothing could have a direct and negative impact on a company's bottom line and at best limits growth.

Creating a culture of sustainability and messaging that culture to consumers has a positive financial benefit. In a 2015 sustainability study, Nielsen noted that "sales of consumer goods from brands with a demonstrated commitment to sustainability have grown more than 4% globally, while those without grew less than 1%" during the prior year."

Unilever, a multi-national firm with over 400 brands, validates the growth noted in the Nielsen study. Their portfolio includes 28 *Sustainable Living Brands* , of which 4 are Certified B Corps. In 2019, according to their November 2019 press release, their *Sustainable Living Brands* grew 69 percent faster than their other brands and represented 75 percent of total company growth. Just 7 percent of their brands accounted for 75 percent of growth. The force behind the results is so self-evident, Unilever is pushing all brands to have a defined purpose.

"We believe the evidence is clear and compelling that brands with purpose grow. Purpose creates relevance for a brand, it drives talkability, builds penetration and reduces price elasticity. In fact, we believe this so strongly that we are prepared to commit that in the future, every Unilever brand will be a brand with purpose."

- Alan Jope, CEO of Unilever

Patagonia, perhaps one of the best- known Certified B Corporations, has taken an aggressive approach to their environmental commitments. Their mission statement notes they "are in business to save the planet". Recent marketing campaigns have encouraged consumers to not buy their products. Some contend that this is disingenuous because the very notion of advertising is for outreach to customers to promote your brand and sell more product.

However, to back up their recommendation to not buy their products and their commitment to the environment, Patagonia has two programs to extend the useable life of their products. First, customers can send in their gear to be patched and repaired, a service that is generally free (except for shipping). Second, Worn Wear is an online store that allows consumers to buy and sell used Patagonia clothing.

Patagonia has been rewarded for those efforts. While Patagonia keeps their financial performance close to the vest, as of 2019 Time magazine noted that "sales quadrupled over the past decade and recently surpassed $1 billion". Having a purpose pays.

REVENUE GENERATION

The Virtuous Cycle

Revenue is directly related to consumer spending. As consumers reduce, increase, or otherwise alter their spending behaviors, revenue is impacted correspondingly. Further, consumer spending behavior is directly correlated to the amount of disposable income available to an individual or household.

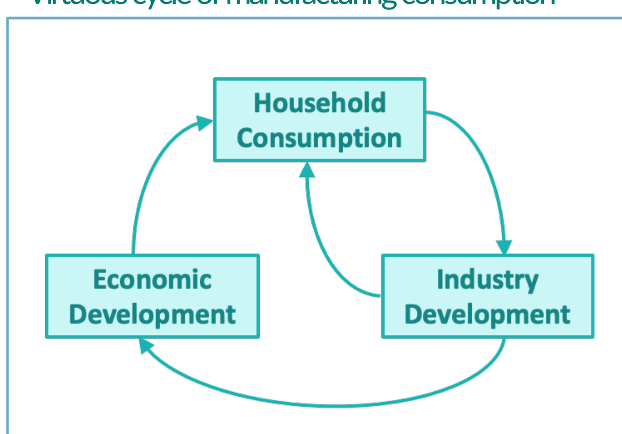
A person could easily make a case that governments and the business world do not effectively understand those correlations. Consider current public policy decisions by federal and state governments favoring reductions on taxes and social programs that directly address poverty, corporate proclivity for lay-offs and emphasis on profit maximization, and the ever-expanding wealth gap – all of these have direct, material impacts on household finance and disposable income, which in turn have direct, material impacts on corporate revenue.

A longer-term view that prioritizes steady economic growth contributes positively to corporate longevity because it creates long-tailed revenue streams. Creating financially resilient and regenerative communities, lifting people from poverty into the middle class, expanding the middle class and enabling people to reduce consumer debt all generate more disposable income that can be spent on consumer goods. Which again has a beneficial impact on revenue.

A 2018 working paper from the United Nations Industrial Development Organization describes the financial impacts of the virtuous cycle of manufacturing consumption. The economy, household consumption, and industrial development are inextricably intertwined. As one grows the other grows, thereby creating a virtuous cycle. But this only happens when the benefits of that economic development are sufficiently distributed to support broader wealth creation – and thereby increased consumer spending power – amongst all people.

This is not a political argument; it is a very plain and obvious economic fact. Purpose-driven companies – for instance, the shoe company TOMS – understand that empowering local communities has broader economic benefits that ultimately have positive impacts on their bottom line. Perhaps if there is any single reason to integrate purpose into a company's values and decision-making processes, this would be it.

Virtuous cycle of manufacturing consumption



REPUTATION ENHANCEMENT

The benefits of brand to customer loyalty

Companies take great strides to maintain their brand image because that brand image has a significant role in consumer spending decisions. Brand recognition is key and there are myriad examples of how that impacts sales.

Increasingly, basic brand recognition is not enough. Consumers have higher expectations for the role that companies play. For instance, 95 percent of US consumers want large corporations to promote an economy that serves all people. (Further support for the points made on the prior page.) However, just 45 percent of Americans believe corporations are following through, that they *are* walking the talk in promoting this type of regenerative economy.

Unilever's 2017 study shows that demonstrating your commitments creates opportunities

Messaging makes a difference

21 percent of respondents would choose brands if sustainability credentials were clearer on packaging and in marketing

Credentials create opportunity

$1 trillion opportunity (of $2.5 trillion market for sustainable goods) if sustainability credentials are clear

These numbers represent a challenge to all companies – leading with purpose is becoming table stakes and companies that don't adjust may be left behind. For many companies, rising to this challenge will require significant cultural change and expense. But for those companies already managing with purpose or at least starting to head down that path, this poses a clear market opportunity to differentiate their brand and appeal to a broad swath of US and global consumers who view sustainability as important.

The effort is worth the time and investment because it translates directly into real benefits. First, a study by Impact ROI, a sustainability consulting group, suggests that 7 to 11 percent of a company's value comes from its corporate responsibility brand and reputation. No doubt this is a sizeable amount. Further, the Yale Center for Business and the Environment indicates that consumers are 2.5 times more loyal to companies that integrate their values into their operations and supply chains. Given the cost and effort required to attract new customers, a higher degree of customer retention is no small thing.

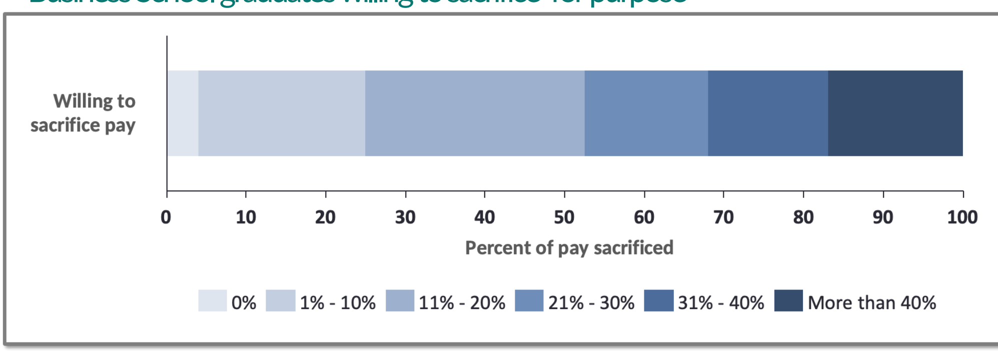
COST REDUCTION AND AVOIDANCE

Compensation expenses

Depending on the company, employees are often one of the largest (if not *the* largest) line-item expense. These expenses can be controlled by improving productivity, increasing employee engagement, and reducing employee turnover.

Having a clear focus on social and environmental sustainability that is well understood by prospective employees can have a direct impact on compensation expense. According to a 2018 study by PRME (Principles for Responsible Management Education, a UN support initiative) and Macquarie University Graduate School of Management, suggests that employees are willing to sacrifice pay to work for companies that care about the environment, workers, and ethics. In fact, just over 27 percent (the largest cohort) of students surveyed indicated they would give up 11 to 20 percent of their pay. Nearly 17 percent were willing to work for lower pay exceeding 40 percent. Imagine a highly skilled, highly motivated workforce willing to work for less pay, reducing compensation expenses by 20 to 30 percent.

Business School graduates willing to sacrifice for purpose



Productivity

Employee engagement is a key factor in organizational productivity. It is common sense that more-engaged employees will have higher output than those who are disengaged. A company's focus on sustainability has an impact on engagement, with 88 percent of millennials indicating their jobs are more satisfying when they have opportunities to positively impact social and environmental issues.

Disengaged employees silently increase expenses through lost productivity. A March 2019 Forbes article cites a survey that indicates only 21 percent of American employees are highly engaged. That disengagement can be translated into financial impact: "disengaged employees have 37% higher absenteeism, 18% lower productivity and 15% lower profitability. When that translates into dollars, you're looking at the cost of 34% of a disengaged employee's annual salary, or $34,000 for every $10,000 they make." To make that more tangible, a company with a $100 million payroll will lose $34 million in productivity every year – not a small problem.

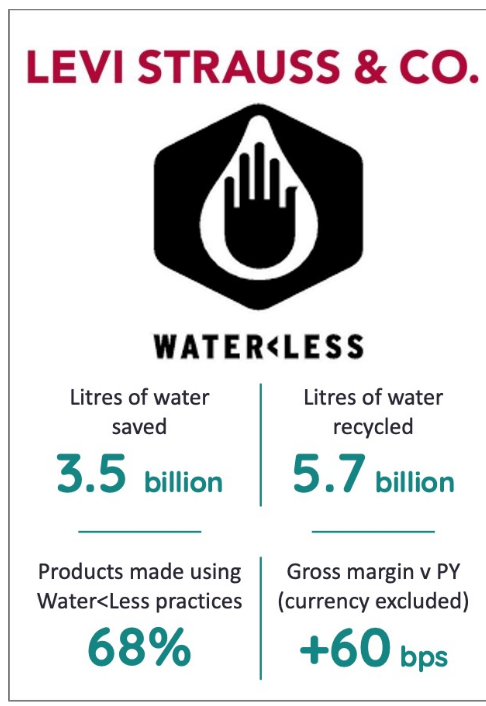
COST REDUCTION AND AVOIDANCE

Juxtapose the positive impacts of engaged employees with the negative impacts of disengaged employees. Project ROI suggests that a strong emphasis on sustainability can reduce turnover by 25-50 percent. With the high costs of sourcing talented employees, training them, and the loss of institutional knowledge, a significant reduction in turnover can have a correspondingly significant financial impact. And increasing employee engagement by 7.5 percent can lead to productivity increases of 13 percent.

Operational expenses

There are many ways to reduce operating expenses. Simply looking at processes, removing waste, increasing productivity, or enabling technology can drive expense reduction. Becoming a B Corp or Benefit Corporation isn't necessary to achieve those goals.

However, the benefit of the B Corp model and using the B Impact Assessment – in general, managing with purpose – is that it provides a different lens for thinking about operations. Rather than looking just at basic processes, it creates a focus on aspects that a company may not consider otherwise.



Levi Strauss is not a B Corp. However, they have taken a purpose-driven approach to their business and this approach aligns with the B Corp model and the underlying values.

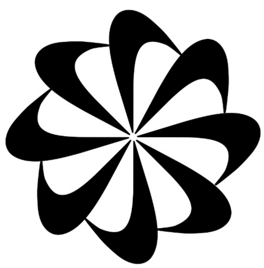
Levi's uses a "profit-through-purpose" approach to their business and this led them to conduct a lifecycle analysis of their jeans, with the analysis focusing on water use. The initial intent was to understand overall water use and the associated environmental impact. Through the analysis, they gained an understanding of how much water is used in each step of their process, from growing the cotton, to making their jeans, and consumer water use through the end-of-life of a pair of jeans.

As a result of this lifecycle analysis, Levi's began investigating, and continues to pursue, how they can change their processes to reduce their own water consumption. They have seen a corresponding improvement in profitability and are widely recognized within the garment industry as a leader in sustainable practices.

COST REDUCTION AND AVOIDANCE

There are other material benefits associated with managing with purpose. A 2018 Gallup poll demonstrates that increased employee engagement, which Certified B Corporations consistently experience, leads to changes in business operations that all lead to expense reduction:

- Reduced absenteeism – 41%
- Lower turnover – 24%
- Decreased safety incidents – 70%
- Reduced inventory loss – 28%
- Fewer quality defects – 40%



Less waste compared to traditional upper footwear

60%

Pounds of waste diverted since 2012

10m

Nike provides a final example of how applying a sustainable lens to manufacturing can reduce expense. In 2012, Nike started producing a line of shoes that used what they refer to as “flyknit” technology. This produced a lighter shoe, but more importantly, significantly reduced the amount of material used in manufacturing the shoe.

According to their website, flyknit reduces waste by 60 percent compared to their traditional methods for making the upper part of the shoe. While they had some upfront investment to scale this process, a 60 percent reduction in material should yield long-term benefits and expense reductions. And they get to be recognized as being stewards of the environment by reducing waste that might otherwise end up in a landfill.

Like Levi’s, Nike is not a B Corp. Yet they do provide a view into how the B Corp mindset, principles, and requirements benefit those companies that adhere to them. The B Impact Assessment provides a clear focus on environmental impacts, and achieving the desired impacts and gaining points in this area requires that companies understand their footprints. Additional points are gained by reducing waste, increasing recycling, and otherwise diverting waste from landfills. Companies that are serious about the assessment and the certification look at manufacturing processes differently, creating opportunities to reduce expenses that may have been overlooked without the added level of accountability that the certification provides.

The certification itself will not reduce expenses. Companies still need to make the effort and constantly evaluate their practices. In other words, certification is not a silver bullet. But it does provide a direction and supports a culture that increases a company’s ability to achieve their targets.

TALENT ATTRACTION AND RETENTION

Purpose helps attract talent…

The past decade or more has been an employee's market. With low unemployment, talented and productive individuals have more options and can be more selective in choosing where they want to work. One response from business has been steadily increasing compensation packages and the addition of non-compensation related benefits. At a certain point, there is a convergence, and it becomes more difficult for companies to differentiate themselves in this way.

Another development is that the workforce is increasingly more attracted to working for businesses that are purpose-driven (as noted in prior sections). A 2016 study by Cone Communications indicates 64 percent of millennials will not work for a company that doesn't have strong commitments to community and environment. This trend is also true for other generations, though it is higher among millennials.

In a prior section, we noted evidence that business school graduates are willing to take a lower salary to work for a company with a demonstrated commitment to sustainability. Purpose-driven employees are also 30 percent more likely to be high-performers. Increases in productivity and reductions in compensation have positive bottom-line impacts.

Becoming a Certified B Corporation is an easy way for a company to signal their values and commitments and attract purpose-driven employees.

….and keep that talent at your company

Employee retention has a direct impact on company success. Departing employees take with them knowledge of intellectual property. New employees require time to train, to become productive, and to integrate into the company culture. All of this can be a distraction.

A 2019 survey by Glassdoor illustrates how company mission (and focus on sustainability) impacts a company's ability to attract and retain employees. The survey included respondents from the US, UK, France, and Germany. A strong mission impacts job selection, employee engagement, and retention.

Glassdoor's 2019 Mission and Culture survey

Importance of mission	All countries
It is important for an employer to have a clear mission and purpose	89%
I would consider a company's mission and purpose before applying for a job there	79%
People where I work are more motivated and engaged because of our strong company mission (Base: Employed)	66%
My company's mission is one of the main reasons I stay in my job (Base: Employed)	64%

TALENT ATTRACTION AND RETENTION

As noted previously, the Cone Communications survey indicates that 88 percent of millennials find their jobs more satisfying when they they have opportunities to positively impact social and environmental issues. Higher satisfaction equates to higher employee engagement. The higher engagement leads to increased productivity – the 2018 Gallup poll indicates that engaged employees are 17 percent more productive. And as noted earlier, disengaged employees are a financial drain and highly engaged employees have higher productivity and contribute more to top- and bottom-line growth.

This all translates into a material impact on employee retention. Purpose-driven employees are 80 percent more likely to be promoters on the eNPS scale. And they are 54 percent more likely to stay with a company for 5 or more years. A satisfied and stable workforce reduces the churn associated with turnover and contributes to steadier and more reliable output.

INVESTOR AND SHAREHOLDER RISKS

Perceptions are overwhelmingly positive

The body of research on investor perceptions of Certified B Corporations and Benefit Corporations is overwhelmingly positive. There are negative perceptions, and most focus on the challenges that the legal structure can create and whether the structures are necessary in the first place. However, despite extensive research, there seem to be few arguments about the merits of these negative perceptions or any economic downsides.

The case of Alcoa

In the *Power of Habit: Why we do what we do in business*, Charles Duhigg shares the story of Alcoa when Paul O'Neill, former Secretary of the Treasury, became CEO. While this story has little to do with Certified B Corps and Benefit Corporations, it has everything to do with a focus on purpose and workers, and investor perceptions.

Within one-year Alcoa achieved record profits and by 2000 annual net income **increased by 5 times**

In 1987, Paul O'Neill was introduced as CEO at a shareholder meeting that included a large group of people with large investments in Alcoa. According to Duhigg, the shareholders were expecting O'Neill to talk about financial objectives and sales growth. They were expecting a traditional shareholder's meeting that focused on how much money they should expect to make.

Instead, Paul O'Neill focused the entirety of his remarks on worker safety. He noted that on the job injuries had been increasing steadily and that the trend needed to be reversed. He never talked about financial results, he just hammered away on the importance of workplace safety, which is particularly important when employees are working with large machines and molten aluminum. At the end of his remarks, many investors rushed for the doors and sold their shares as quickly as possible. They all expected Alcoa to fail under O'Neill's leadership.

Those investors would have done well to exercise patience. Throughout his tenure at Alcoa, Paul O'Neill significantly reduced workplace injuries with a relentless focus on safety. He remade the culture to the extent that when employees saw safety issues at worksites that had no connection with Alcoa, they would stop to educate workers on the importance of worksite safety. O'Neill created accountability up and down the organization and didn't hesitate to fire top managers if they were unable to keep employees safe.

His focus on safety paid off in the form of financial results. Within one year Alcoa achieved record profits and by 2000 annual net income increased by 5 times. Investors who believed in Paul O'Neill's strategy were rewarded handsomely by the end of his tenure.

Institutional investors understand the benefits

During the early 2000s, there were a few companies (e.g., WorldCom, Enron) who showed high financial returns and ended up as large-scale failures that cost investors significant sums of money. Investors were attracted to these companies because of high returns. And as everyone knows, what was happening underneath the hood of these companies was far different from what the balance sheets reflected.

This experience and other changes in cultural and economic thought has changed how many investors evaluate companies. According to Ernst and Young, 97 percent of institutional investors evaluate nonfinancial disclosures when making future investment decisions, which includes evaluating commitments to social and environmental sustainability. The same report indicates that 89 percent "believe environmental, social and governance (ESG) will become more valuable in the event of a market downturn or correction".

"The B Corp movement is, to me, a product of a general improvement in our understanding of economic behavior. Through greater appreciation of the real motives that drive and excite people, B Corporations provide a significant new opportunity for investors.
I think they could make more profits than any other types of companies…"
- Robert Shiller, Sterling Professor of Economics, Yale University, & Nobel Laureate

Investors have good reason for their belief. A study by Arabesque Partners, an asset management firm, included a review of over 200 sources. Their analysis showed that 90 percent of the sources indicated that sound sustainability standards lowered the cost of capital, 88 percent showed that solid sustainability practices resulted in better operational performance, and 80 percent demonstrated that stock prices are positively influenced by good sustainability practices. Certified B Corporations emphasis on sustainability puts them squarely amid these numbers.

To support these numbers, in 2018 Danone showed the power of their sustainability commitments when they renegotiated the margin on their syndicated credit facility. They directly tied their environmental and social performance to the cost of credit – if they achieve their goals credit rates remain low if they miss their goals credit rates increase per the agreed upon terms.

INVESTOR AND SHAREHOLDER RISKS

The B Corp model is regarded as the most-effective way to evaluate purpose-driven commitments. Few (if any) other assessments provide the breadth, and as Matthew Weatherley-White mentions, the B Impact Assessment and B Corp certification makes it easy for investors and professionals, who have limited knowledge about social and environmental sustainability, to evaluate a company's practices. That investors look at a company's score is testament that investors and shareholders have a positive view and, in many cases, don't need to be fully-educated on the merits of the approach.

"B Lab quietly offers investors … the first window into the DNA of a sustainable business for analysts and diligence professionals who know nothing about sustainable business."

- Matthew Weatherley-White, Managing Director and Owner of The Caprock Group

There are detractors

The main theme of negative perceptions focuses on Benefit Corporations and the Mission Lock component of B Corp certification, specifically that considering all stakeholders creates challenges for Boards of Directors and that the legal structure is not required to maintain a company's mission. Each of these arguments have merit and should be considered.

The first argument is that codifying social purpose into Articles of Incorporation create undesirable burdens. Shareholders with just a 2 percent stake can challenge whether a company is making progress on their mission. This challenge could be to ensure that the company is succeeding with the purpose-driven strategy. In other cases, the shareholder may challenge the validity of the mission and claim it is impeding growth. This puts pressure on Boards to justify prioritization of all stakeholders.

Codifying social purpose in articles of incorporation create some undesirable burdens

Exposure to activism – shareholders with just 2% stake can challenge progress on your mission
Source: FastCompany - Should your company become a Benefit Corporation, B Corp, or what? 2017

Potentially need to justify slower growth in support of your mission
Source: FastCompany - Should your company become a Benefit Corporation, B Corp, or what? 2017

Creates additional reporting and requirements that may be burdensome
Source: Emory Law - A Skeptic's View of Benefit Corporations

INVESTOR AND SHAREHOLDER RISKS

Benefit Corporations have increased reporting requirements to demonstrate how their business supports all stakeholders. Traditional corporate structures require basic financial reporting. The focus on multiple stakeholders requires additional tracking and reporting. Simply signing B Lab's contract acknowledging the company's commitment to all stakeholders doesn't necessarily create the same burden - impact reporting is an optional, though beneficial, practice. The article linked above, an article from Emory Law School, outlines six other reasons to be skeptical of the Benefit Corporation structure, including that they provide minimal value, that case law is undecided as to whether Benefit Corporations provide the promised protection, and that the legal structure potentially creates an incentive for bad actors – companies that retain a traditional legal structure and use their pure profit motive as a signal to shareholders who are focused exclusively on financial gain.

The second argument may be the most interesting and compelling. Kennan Al Khatib, a law professor at American University Washington College of Law, posits in a 2015 law review article that existing legal structures do not inhibit a focus on the bottom line. She says that the common belief that existing law requires corporations to prioritize profit over all else – shareholder primacy – is often misinterpreted. The legal case *Dodge v Ford Motor Company* in 1919 is regarded as the start of shareholder primacy.

> "While seemingly innocuous, the benefit corporation fosters a harmful dichotomy with traditional for-profits that encourages consumers to evaluate companies based on legal status instead of business practices."
> *- Keena Al Khatib, Professor of Law, American University Washington College of Law*

The legal case *Dodge v Ford Motor Company* in 1919 is regarded as the start of shareholder primacy. Keenan notes the "doctrine simply states that a company that elects to incorporate as a traditional for-profit serves primarily to maximize profits for its stockholders" and the company can decide how to achieve that objective. She also indicates that "the court narrowly held that a corporate policy that intentionally seeks to reduce profits is invalid as a matter of law". In other words, for-profit companies exist to make money and not lose money, but the ruling does not prohibit a company from considering the well-being of other stakeholders. The article cites additional case law that supports the notion that existing corporate legal structures provide the necessary leeway to prioritize multiple stakeholders.

A key reason for this perspective is *business judgement*, the notion that Boards of Directors and company executives have the purview to make decisions about how a company should bemanaged to achieve and maintain profitability. If a purpose-driven model is the chosen business strategy, shareholders and other groups will have limited legal basis to challenge the approach. This also applies when a company elects to pursue a sale. A company that chooses a lower bid to preserve their mission may face legal challenges from higher bidders. However, Kennan Al Khatib argues that prior case law provides little basis for any lawsuit. In some cases, the selling company may have to litigate the challenge, but they will most likely win the case.

There is a small cohort, including Al Khatib, that suggest the B Corp movement and Benefit Corporations are simply another form of greenwashing. A key complaint about the B Impact Assessment is that it only awards positive points with no points subtracted for policies and practices that are contrary or antithetical to the model. For instance, it is possible to score high on Workers and Community, while maintaining practices that might be questionable from an environmental perspective.

The table below summarizes data that Keenan Al Khatib uses to demonstrate that Benefit Corporations may be a legal form of greenwashing. In 2015, only two B Corps were incorporated in Delaware, and the remaining 820 were incorporated in other states. Yet, Delaware had 39 Benefit Corporations that same year. While this comparison does not prove that any of those 39 companies were using the legal structure disingenuously, it does raise the question of why none of those Benefit Corporations had pursued the B Corp certification.

In 2013, Delaware passed legislation recognizing benefit corporations as a corporate form and as of July 2020:	**1,273** Certified B Corporations in the United States	**1** of the 1,273 were incorporated in Delaware
	43 benefit corporations registered in Delaware	**0** of the 43 were Certified B Corporations

Source: B Lab - Find a Benefit Corporation

Consequences for IPOs and Mergers & Acquisitions

As noted previously, institutional investors are considering company commitments to environmental and social sustainability when making investment decisions and believe ESG programs are increasingly more valuable as hedges against economic downturns. And Matthew Weatherley-White of The Caprock Group believes the B Impact Assessment is an important tool in evaluating business practices and their overall value. Both points suggest that being a Benefit Corporation or Certified B Corp may have limited downsides in the context of IPOs and M&A activity, and they may have many upsides.

To support this notion, there are a few examples of Certified B Corps and/or Benefit Corporations that have gone public or been acquired. Laureate, a network of for-profit universities was the first Benefit Corporation to complete an IPO, followed by Lemonade, an insurance company. Both are also B Corps. Laureate raised

$490 million in its IPO, which was underwritten by Credit Suisse, Morgan Stanley, and Barclays with private equity from multiple firms including Kohlberg Kravis Roberts & Co. L.P.

Vital Farms, another B Corp and Benefit Corporation, completed their IPO in mid-2020 and raised $200 million. Before the IPO, the Board of Directors was comprised mostly of impact investors. In a 2020 interview with Forbes, Vital Farms' CEO Russell Diez-Canseco was asked how investors responded during their IPO roadshow. Diez-Canseco responded "I think the market embraced what we're doing, because they did it with their eyes wide open. They wanted to invest in a company that behaved the way we were telling them we behaved and believed what we told them we believed." Being a public Benefit Corporation and B Corp may have been a benefit for their IPO by providing transparency and validating Vital Farms' descriptions of their business practices.

In relation to acquisitions, New Belgium Brewery, an employee-owned B Corp that brews beer,, sold to Kirin Holdings in 2019. The press release noted that Kirin was "committed to protecting and nurturing New Belgium's unique identity, culture and brand". According to Kim Jordan, New Belgium's founder, Kirin is "supportive of both New Belgium's efforts to reduce its carbon footprint and remain a Certified B Corp." Their status as an ESOP or B Corp did not have an impact on the sale, and more importantly Kirin has signaled they are committed to maintaining the business philosophy that Jordan created.

"Certainly, we get the question, well, how are you going to keep doing the right thing when you're subject to the pressures of being a public company, and short-termness? The reality is, we're a B Corp and a public benefit corporation. So everybody who invested in us at the IPO and since knows that our board has a fiduciary responsibility to ensure that we are delivering on our commitments to all stakeholders, not just stockholders, and we may make choices on behalf of the company that do not maximize shareholder value."

- Russell Diez-Canseco, CEO of Vital Farms

While four examples don't constitute a trend, they do suggest a change in market and investor perceptions about the value of Benefit Corporations and B Corps. In all four instances, the companies appear to have benefited from these structures (or at least were not encumbered by them).

Just as importantly, these four companies have been able to retain their purpose-driven missions. There is debate, as already noted, about the enforceability of the benefit corporation legal structure post-acquisition, but the experience thus far reflects positively for preserving mission over the long-term. The legal structure and

and certification appear to be the current best way for companies to preserve the principles they were founded on, and to make money in the process.

Managing perceptions

As noted, there are downsides that need to be managed. Considering the Alcoa example and the notion of *business judgement*, a full commitment to the purpose-driven model may be the best way to mitigate risks. It may not be easy in the short-term but communicating the focus on purpose clearly and frequently and referencing examples of how purpose-driven businesses and Certified B Corporations experience greater growth and success will help persuade investors. Or at the very least serve to prove them wrong.

BUSINESS RISKS AND MITIGATIONS

Risks always exist

Risk exists in every decision we make and every action we take as individuals. There are few things in life that don't carry some risk. Businesses are no different – they face risks every day. And while becoming a B Corp provides significant value, it also comes with some risk.

At the highest level, employees and consumers present the largest business risks for purpose-driven companies and B Corps. In both cases, one risk is the same – do they believe that a company's values are genuine and not self-serving. While the B Corp certification signals a company's values, most people want proof before they fully believe the message.

> "One of the ways team members decide if you are serious about your purpose is when you make a decision that isn't in the short-term interest of the business but is aligned with your purpose."
> *- Walter Robb, former Co-CEO of Whole Foods*

Mitigating employee risks

Transparency provides needed insight into company practices and begins providing proof that values are genuine. Starting with employees is important. Sustainable Brands, an online magazine focused on sustainability, notes that just 16 percent of consumers believe what companies tell them. But 54 percent give credence to what employees say about a company. Employees are critical to company success, both in that they are needed to do the work and they have direct and frequent contact with customers. Employees need to buy-in, believe, and/or be engaged with what their company is doing for any effort to be successful. B Corp certification is about culture and the certification has minimal or no value if that culture is not embedded deep into every aspect of the company.

Creating culture is always a challenge. A few simple actions can help mitigate the inherent risks with managing employee expectations:

- *Demonstrate* how they add value
- *Encourage* participation in extracurricular purpose
- *Welcome* engagement in social good
- *Ensure* they know your story of purpose
- *Enable* them to tell your purpose story
- *Empower* them to tell your story

Consumer risks and mitigations

Consumer expectations are also increasing, as noted in prior sections. Edelman, a communications firm, conducted a consumer trust survey they refer to as their Trust Barometer. The survey in early 2020 gauged consumer perspectives on businesses response during the Covid-19 pandemic and their findings are a clarion call for the role of business.

More than half of consumers feel that brands need to take action to help the country survive the pandemic, and many believe that business has been more responsive and effective than the government. The overwhelming majority of consumers – 90 percent – believe that brands need to protect employees and suppliers even it that leads to large financial losses.

Just as (or even more) importantly, the actions companies take now will have long lasting impacts on consumer perception in the future, which in turn will have long-lasting impacts on profitability and longevity.

Protests for racial equity and justice are another example. Companies have responded positively, some have shown their true colors (e.g., the former CEO of Cross Fit), and others come across as completely disingenuous (e.g., the NFL).

Other social issues, while potentially having merit, can be more perilous (e.g., gun violence) and require more thought and consideration before taking a stand. However, there are increasingly more issues where it is no longer acceptable to sit on the fence. Companies either support the community in surviving the pandemic or they don't. They either assert themselves as anti-racist or they don't. They either believe in climate change and build strong, healthy, resilient communities and protect the environment or they don't. And in all cases when companies don't, when they sit on the fence, there are potentially-serious implications.

Business' role in the pandemic

90% want brands to protect employees and suppliers, even if it results in large losses

71% say putting profit over people will erode their trust forever

62% believe brands have a key role in helping the country survive the pandemic

65% consumers say a brand's response to Covid-19 will impact their future purchasing decisions

The Edelman Trust Barometer report provides insights into how companies can stand-up and act effectively without appearing disingenuous and risking a backlash. The table on the following page summarizes their recommendations.

Standing up for social and environmental justice generally isn't controversial, particularly when approached at higher levels and not getting into specific issues. As an example, Patagonia's stance on Bears Ears National Monument may be more targeted and aggressive than some companies are interested in. But advocating for clean water, clean air, and protecting forests in general is *not* controversial. Advocating for strong communities and creating community engagement is *not* controversial.

Best practices for communicating commitments to social and environmental challenges

Approaches	Context
Show up and do your part	Brands have a vital role to play. Now is not the time to disappear, but to show up and use all your resources and creativity to make a difference.
Don't act alone	There is strength in collaboration. Truly helping people during this crisis requires a joining of forces with others, most critically government.
Solve, don't sell	Brands should focus all efforts on finding appropriate and meaningful solutions to the problems people are facing today.
Communicate with emotion, compassion and facts	People are reassured by positive brand actions and commitments. Communicate with empathy to help both inform and calm.

The statistics shared in all prior sections point to a growing demand for businesses to take a more active role in social and environmental issues. Over the past decade, those numbers have been increasing and support growing. B Corp certification provides a signal to those who are passionate and find it important. Those who don't feel strongly likely are not paying attention, are not passionate on the topic, and are unlikely to lash out. And if you are living your values as a company, those who do lash out probably are not your target audience to begin with.

Risks exist and always will. And with work, all risks can be mitigated.

CONCLUSION

We know that the climate is changing – 97 percent of scientists agree. While social problems are not new and have been transparent to many people, Covid-19 and racial justice protests shine a bright light on the challenges facing our country and the world. With Covid-19, we are seeing the economic impacts (i.e., clear economic shocks impacting GDP) and social impacts (i.e., nearly 400,000 deaths in the US and over 2 million deaths worldwide as of mid-January 2021). Climate change will have a significantly larger economic impact over a longer period. And continued inequality, inequity, and blatant discrimination and racism could lead to increasing civil disobedience and civil disruption if not addressed at all levels of society.

> "The cost of a thing is the amount of what I will call life which is required to be exchanged for it, immediately or in the long run."
> *- Henry David Thoreau*

We already know the impact of doing nothing – we can see it all around us.

Demand for purpose-driven companies is increasing, the market opportunity for those companies is large, and investors see the inherent value in the purpose-driven business model. Companies that manage with purpose tend to be more profitable. And Certified B Corporations made it through the 2007-2009 recession more effectively than other companies. Purpose-driven companies are more resilient.

There are risks and downsides. Those risks can be managed and are easily offset by the corresponding upsides already noted. Committing to the B Corp model or Benefit Corporation legal structure brings additional reporting and management burdens. At the same time, those additional accountabilities support operational management structures that promote increased productivity and efficiency and improve employee engagement. All of which directly support profitability.

Companies that already manage with purpose, that have created company cultures around social and environmental sustainability, may already be enjoying and maximizing all the positive impacts noted throughout. Those companies already understand the benefits, and the B Corp certification may just incrementally-build on existing customer awareness of company practices and values rather than providing a substantial lift.

However, Certified B Corporations represent a movement. It is a movement of companies that believe business *can* and *should* be a force for good. It is a movement that continues to grow and gain momentum. B Corps are businesses that already believe they have a responsibility to social and environmental sustainability, and that they have an outsized role to play in this movement. By becoming B Corps, all companies send a loud and clear message to the global business community that change is coming. This alone may be reason enough to pursue certification.

ABOUT MEASURE MEANT

Born out of that deep, human desire to leave a legacy, Measure Meant's journey began in 2017 with the goal of empowering businesses to participate in the hard work of literally saving the world. We've found that the greatest heroes have guides who will champion their efforts until the mission is complete. They have a Yoda, a Gandalf, or a Leslie Knope.

Since our inception, we've had the opportunity to guide clients of all sizes through some incredible transformations. We've been able to consistently identify areas of impact and implement lasting change, providing the insight, expertise, and capacity for the task at hand.

Each member of the Measure Meant team is personally committed to doing good in the world. We're an agile, interdisciplinary team with complementary areas of expertise, and we put our heads together on every project to ensure we always deliver the best results.

Kara Odegard

Kara is the fire and vision behind Measure Meant. She has worked in aerospace, information systems and technology, marketing, hospitality, real estate, public policy, and nonprofits. She found the B Corp movement after beginning her social impact journey with a consultant securing nonprofit partnerships for tech companies in Southeast Asia. Recently Kara led the City of Spokane in creating their climate plan and will start teaching climate action planning at Gonzaga University in the fall of 2023.

Mark Odegard

Mark quit his corporate job to join Measure Meant in 2019. He has over 24-years of experience working in small business and corporate environments, consulting on operations, management, coaching, and strategy across 19 different countries, including 13 years leading Lean and Operational Excellence efforts. He's particularly gifted in communication, articulating complex ideas to varied audiences.

Annie Wissmiller

Annie has been with Measure Meant for over three years. She leads B Corp certifications with clients of all sizes. Before Measure Meant, she managed the sustainability programs for a minor league baseball team, including their Zero Waste Campaign and community engagement. While there, she authored the first ever impact report in minor league baseball. She's a certified TRUE Zero Waste Advisor and an FSA Credential holder.

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