Harvard Business Review

REPRINT H02Y9O
PUBLISHED ON HBR.ORG
JUNE 17, 2016

ARTICLE
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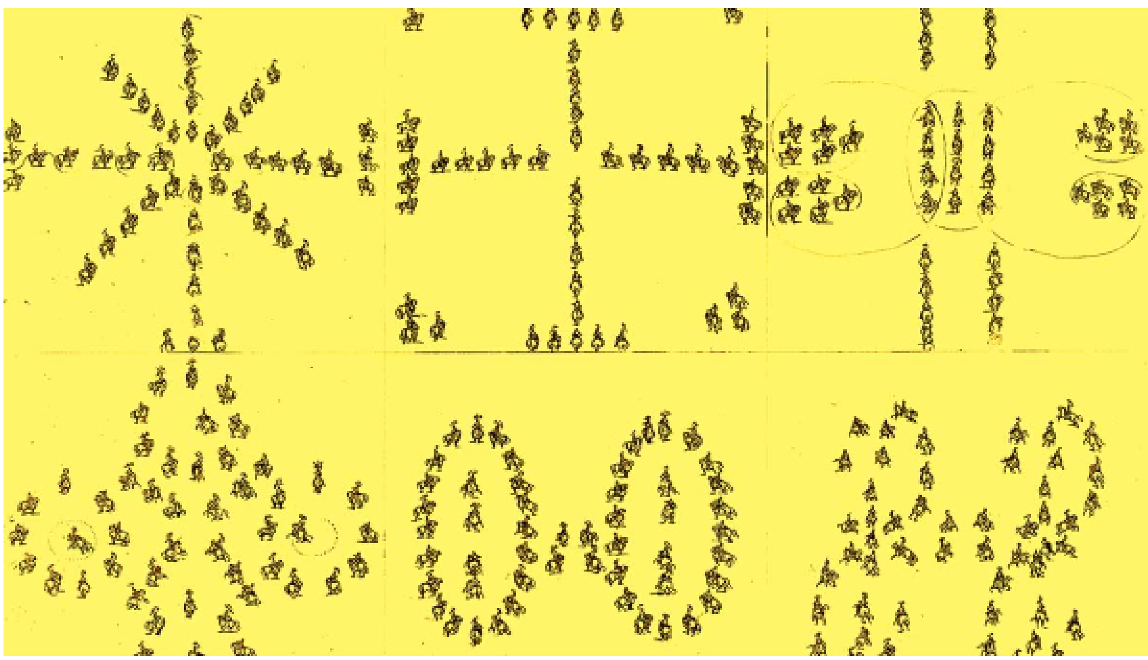

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The landscape of American corporations is changing. Since the financialization of the economy in the late 1970s, corporate governance practices have tightly linked the purpose of business with maximizing shareholder value. However, as the 21st century pushes on, there has been an increased emphasis on other stakeholder values, particularly social and environmental concerns. This trend in corporate governance – which has led to the growth in “triple-bottom line” thinking – has fueled the emergence of a new organizational form: the Certified B Corporation.

Certified B Corporations are social enterprises verified by B Lab, a nonprofit organization. B Lab certifies companies based on how they create value for non-shareholding stakeholders, such as their employees, the local community, and the environment. Once a firm crosses a certain performance threshold on these dimensions, it makes amendments to its corporate charter to incorporate the interests of all stakeholders into the fiduciary duties of directors and officers. These steps demonstrate that a firm is following a fundamentally different governance philosophy than a traditional shareholder-centered corporation.

The first generation of B Corporations was certified in 2007, and the number of firms earning certification has grown exponentially ever since. Today, there are more than 1,700 B Corporations in 50 countries. Although any company, regardless of its size, legal structure, or industry, can become a B Corporation, currently most B Corporations are privately-held small and medium-sized businesses.

Identifying as a B corporation is a way to publicly claim an identity as an organization interested in both shareholder and stakeholder success. Having a clear identity can help firms communicate their values to customers, which is particularly beneficial when they are claiming an identity different from the industry norm. For instance, a study by Kellogg Professor Ned Smith reveals how a clear "nonconforming" identity among hedge funds beneficially influences investors' capital allocation decisions—investors rewarded nonconforming funds (defined as hedge funds with atypical trading strategies, relative to the norm, for their overall fund style classification) with greater investment after short-term success and penalized them less after poor performance.

Indeed, as highlighted in ongoing research by one of us (Matt Karlesky), the individuals who make up a firm's audience (including potential investors, customers, or partners) cognitively categorize businesses according to their similarities and differences. An unconventional identity – such as a B Corporation – helps individuals clearly distinguish between traditional firms and those that are committed to a broader set of stakeholder values.

So why do certain firms (and not others) choose to identify as B Corporations? Individual leaders are partly why some organizations broaden their purpose beyond maximizing shareholder value. We might look to Sir Richard Branson, who in 2013 co-launched the "B Team," publicly decrying corporations' sole focus on short-term profits and calling for a reprioritization of people- and planet-focused performance. We might also consider leaders of firms like Ben & Jerry's or Patagonia (both B Corporations) that have prioritized societal and environmental agendas.

Clearly, such leaders can be important catalysts of social change. However, the explosive growth of B Corporations seems also to be driven by broader trends and changes in the corporate landscape that cannot be explained by individuals' actions alone.

Two of us (Suntae Kim and Todd Schifeling) conducted research to build a more robust understanding of the rise of B corporations. By qualitatively examining the internal motives of firms in the process of becoming a B corporation, and quantitatively testing key factors in these firms' external industry environment – including the shareholder- and stakeholder-focused behaviors of their corporate competitors – we found that there are at least two major underlying reasons why firms choose to seek B Corporation certification.

First, as large established firms have ramped up their corporate social responsibility efforts, small businesses that have long been committed to social and environmental causes want to prove that they are more genuine, authentic advocates of stakeholder benefits. For instance, certifying firms often highlighted how B corporation certification would help them stand out "in the midst of a 'greenwash' revolution" among large companies, and "help consumers sort through the marketing hype to find businesses and products that are truly socially and environmentally responsible."

This suggests that one key driver of the emergence of B Corporations was the increasing efforts of more conventional profit-driven companies to be seen as 'green' and 'good'. To test this theory, Kim and Schifeling measured the mainstreaming of corporate sustainability and social responsibility efforts in a given industry (e.g., sustainability-related terms in the trademarks of large public firms and acquisitions of sustainability-focused small businesses), and found that the prevalence of these broader, generic CSR efforts in an industry positively predicted the number of new B Corporations emerging in that industry.

At the same time, the data highlighted a second reason driving B Corporations' rise. The qualitative evidence, gathered from firms' B corporation application materials, revealed that certifying firms believed "the major crises of our time are a result of the way we conduct business," and they became a B Corporation to "join the movement of creating a new economy with a new set of rules" and "redefine the way people perceive success in the business world."

This social movement-like motive suggested another important predictor of a firm's likelihood to certify as a B Corporation: large competitors' persistent use of practices that maximize profits. Correspondingly, the quantitative analysis revealed a positive relationship between the number of "hostile" shareholder-centric activities in an industry – such as mass layoffs and high levels of income inequality between top executives and average workers – and the emergence of B Corporations in that industry.

These findings suggest that B Corporations are not just a function of a leader's will – they are also responses to the common "way" business is conducted in an industry. In other words, we can better understand the recent proliferation of B Corporations, as well as other social entrepreneurship and mission-driven businesses, by carefully examining the environment in which these organizations are embedded. The evidence suggests that key elements of the industry environment—ranging from CSR initiatives and sustainability trademark applications to layoffs and growing income inequality—provide fertile soil for the growth of alternative organizational forms.

Increasingly, corporations are donning the persona of a responsible citizen, while continuously performing practices to maximize profit. These contradictory tendencies motivate traditionally "green" and ethical businesses to unite and stake a claim to their authentic difference, fueling the growth of B corporations and other new types of organizations. For mission-driven businesses, these alternative forms of organizing provide an opportunity to better communicate their commitment to society and to the natural environment in a world where everybody claims to be "green" and "good."

For corporate society, this steady but solid growth of alternatives represents an emerging challenge to the historic dominance of the shareholder-centered incorporated entity. If the public corporation is no longer the default organizational form for businesses, but rather one of many alternatives, how can managers be prepared to ensure long-term competitiveness? How might leaders think about their fundamental organizational structure when they seek to communicate their values in a noisy marketplace of more conventional companies? As the rise of B Corporations among pioneering firms demonstrates, efforts to reform and evolve industry standards increasingly require changes to the fundamental purpose and legal form of an organization.

The traditional corporate form has in many ways monopolized our understanding of how we think and talk about "business." The rise of new forms of organization will require re-imagining what (and who) are the fundamental building blocks of business. Indeed, the advance of new forms such as B Corps may herald the advent of what sociologist Jerry Davis has called the "tectonic shift" to an era where "local and democratic forms of organization could address the needs formerly met by the corporation."

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Matthew J. Karlesky is an assistant professor of management and entrepreneurship at Suffolk University's Sawyer Business School. His research explores social cognition, creativity and innovation.

Christopher G. Myers is an assistant professor at the Johns Hopkins University Carey Business School and Armstrong Institute for Patient Safety & Quality. His research explores organizing processes that support individual learning, development, and innovation in dynamic work environments.

Todd Schifeling is a post-doctoral fellow with the Erb Institute at the University of Michigan. He conducts research on the organizational and political contexts that shape the incorporation of environmental values into markets.

