



STANFORD
GRADUATE SCHOOL OF BUSINESS

STANFORD SOCIAL INNOVATION *review*

What Works

Making the B List

The B Corp seal of approval distinguishes truly responsible businesses from mere poseurs

By Jenna Lawrence

Stanford Social Innovation Review
Summer 2009

Copyright © 2009 by Leland Stanford Jr. University
All Rights Reserved



STANFORD
GRADUATE SCHOOL OF BUSINESS

Stanford Social Innovation Review
518 Memorial Way, Stanford, CA 94305-5015
Ph: 650-725-5399. Fax: 650-723-0516
Email: info@ssireview.com, www.ssireview.com

Action What Works



Bikestation, a certified B Corporation, is building this bicycle transit center at Union Station in Washington, D.C.

Making the B List

The B Corp seal of approval distinguishes truly responsible businesses from mere poseurs **BY JENNA LAWRENCE**

REEM RAHIM AND HER BROTHER Ahmed don't always agree. But the two cofounders of Oakland, Calif.-based Numi Tea were both skeptical when the nonprofit B Lab approached them about certifying their business as a B Corporation.

B—"beneficial"—Corporations use "the power of business to solve social and environmental problems," according to B Lab's Web site. Yet Numi Tea had already received organic and Fair Trade certifications, so the Rahims did not understand why they also needed to earn their B Corp bona fides. They questioned whether B Corporation certification was just another marketing fad. And they wondered whether customers would even care that Numi was a B Corp.

But as false claims of social and environmental stewardship increasingly cluttered the corporate landscape, the Rahims sought the B Corp seal of approval. "We were concerned about 'greenwashing,' or attempts by typical companies to portray themselves as something that they are not," says Reem. Although different organizations offered environmental, labor, quality, and governance certifi-

JENNA LAWRENCE received her MBA from the Stanford Graduate School of Business, where she wrote this article as part of the *Frontiers of Social Innovation* course. Still obsessed with social sector innovation, she now develops online products and services for Ashoka's Changemakers in Washington, D.C.

cations, no one offered a single, independent, comprehensive standard for a company's overall social and environmental responsibility. As a result, consumers struggled "to tell the difference between good marketing and good company," explains Jay Coen Gilbert, one of the three cofounders of Berwyn, Pa.-based B Lab, which sets the standards for and certifies B Corporations.

To help both consumers and corporations, Gilbert worked with cofounders Bart Houlahan and Andrew Kassoy to form the B Lab in 2006. Since that time, the total number of B Corporations has grown to more than 180, representing 31 industries. "Numi and other B Corporations are not only directly influencing their industries," says Houlahan, "they are also contributing to a broader movement that will change the way business is done."

GRADED COURSE

Businesses that want to earn their certification must first complete the B Survey, a dynamic online assessment tool that measures social and environmental performance. Although the actual questions differ according to the size and type of the company, all versions of the survey assess a company's governance, environmental impact, community outreach, and employee treatment. In total, the survey takes about 60 to 90 minutes to complete. The CEO typically completes the report with assistance from other departments.

To create its survey, the B Lab convened an independent standards advisory committee to comb through existing labor, environmental, and business certifications. Its mission was to glean the best standards and measures across industries, building on the efforts of the Global Reporting Initiative, WiserBusiness, and the Social Venture Network.

The original survey was one-form-fits-all. But after more than 600 entrepreneurs and experts gave their feedback, the committee fashioned an interactive, dynamic format because the original standards were too broad to distinguish B Corporations from their non-certified competitors. For example, financial services firms like San

Francisco-based Good Capital must answer questions about their lending practices and costs of capital, whereas consumer goods companies like Numi Tea must respond to questions about their suppliers' environmental impact.

After corporations complete the B Survey, the B Lab staff prepare a B Report on the business. Companies that receive a rating above 80 (out of a possible 200) are eligible to become B Corporations. Before proceeding, they must supply evidence for some 20 percent of their survey responses.

To give its certification even more teeth, B Lab audits 20 percent of its member companies every two years. Companies whose audited score falls below 80 have 90 days to clean up their acts. Companies found to have intentionally misrepresented themselves to B Lab face the public revocation of their certification.

Completing the B Survey is simple, yet thought provoking, says Reem. Although Numi Tea scored high on the survey, "we had to take a second look at some of our practices that were not covered by our organic or Fair Trade certifications," says Reem. The survey "pushed us to think more about what we should be doing to be good corporate citizens in our hometown, Oakland."

PROTECTING VALUES

Having passed the B Survey, companies must next change their articles of incorporation to reflect their commitment to social and environmental responsibility. In traditional companies, a board's main responsibility is to maximize financial returns to shareholders. B Corporations, in contrast, change their bylaws so that their boards must also consider the interests of their employees, their communities, and the environment. B Lab helps companies rewrite their bylaws, answering questions and linking them with lawyers. "Adding just a few paragraphs helps the business institutionalize the sustainability and socially responsible values," says Gilbert.

These governance changes not only solidify the company's commitment to people and planet, but also protect the company's values from the whims of new management, new investors, and new owners. Among social entrepreneurs, Unilever's purchase of Ben & Jerry's still serves as a cautionary tale of how easily corporate fiat can undermine social responsibility. "The board was legally required to sell to the highest bidder," says Jonathan Storper, an attorney at Hanson Bridgett, the first law firm to earn B certification. Neither Ben Cohen nor Jerry Greenfield wanted to sell the company, but because it was public, they had no choice. Both cofounders have since expressed concerns that the company has shifted away from its original mission of social responsibility.

"In contrast," says Storper, "the board at a B Corporation has permission to take a long-term view of the company's best interests. They do not have to sell out."

Gilbert concedes that no B Corporation has yet been tested by litigation. In 33 states, businesses are permitted to consider the interests of groups other than shareholders. This is not true in the remaining states, however, including California. In these states, B

BE LIKE B LAB

Create a single certification for both environmental and social responsibility

Offer members enticing benefits and privileges

Align laws with values

Corporations cannot yet rewrite their bylaws to conform to B Lab standards, but must commit to changing their bylaws as soon as legally possible.

Storper worries that California's failure to protect B Corporations will drive socially responsible businesses out of the state.

"There has been an explosion of mission-driven companies," he says, "but they will leave California if it is not the best place for them to incorporate, and we will lose our

position in this growing marketplace." As a result, Storper has joined B Lab and other supporters to lobby the legislature to amend state laws to create a type of corporation that can consider social and environmental purposes as seriously as profits. That legislation will go before the assembly in late 2009.

PRIVILEGES OF MEMBERSHIP

The final steps to becoming a B Corporation are signing a so-called declaration of interdependence and paying an annual licensing fee to B Lab. By signing the declaration, the CEO commits to doing business "as if people and place mattered." And by paying fees based on percentage of sales, B Corporations help run B Lab, maintain the certification standards, conduct audits, support policy efforts, and promote their cause.

Having received their B Corp certification, many companies do not rest on their laurels. "We can't stay comfortable for too long," says Reem. "The ratings inspire healthy competition for us to make our businesses better every year."

The extra effort and pressure of being B, however, seem to increase employee morale. Reem reports that employees rallied around the B certification process. And at Hanson Bridgett, employees were so excited about being certified that they took it upon themselves to organize into committees, says Storper. The green committee, for example, convinced the firm to get rid of bottled water because of the environmental impact of the plastic bottles and the purity of San Francisco tap water.

Another benefit of going B is the tight network of trusted partners. "If I am looking for vendors, whether for office supplies or tea, I look to fellow B Corporations first," says Kevin Jones, founding principal of Good Capital. His company also uses the B Corporation certification to decide where to invest its money. "There is so little commonality among social ventures that we have to evaluate investments on an individual basis," he says. "But if we know it is a B Corporation, we already know a lot about the company and its values."

Certification may not matter that much to consumers, say some B Corporations. For instance, Xavier Hegelson, founder of Better World Books, notes that "customers talk about the free shipping that we offer, not the literacy programs we support or the carbon-neutral footprint we maintain." Nevertheless, he points out, "everyone doubted that consumers would be willing to pay three times as much for organic produce, but now even mainstream customers choose organic." Similarly, B Lab founders are betting that investors, employees, and consumers will eventually go the extra mile to find and patronize B Corporations. ■