

# B Corporations

Finding the balance between purpose and profit, and connecting with consumers along the way.



For business owners and consumers, 21<sup>st</sup> century brands are about much more than just the product, or available service. The overall impact the business has on people and the environment has come center stage.

According to Forrester Research, nearly 7 in 10 millennials and 52% of U.S. adults consider company values when making a purchase.<sup>1</sup> The result is an emphasis on organizations to build out corporate social responsibility (CSR) business practices and the emergence of the B Corporation, organizations that are making sustainable choices in their operations and putting gains back into the community for positive impact.

## What is a B Corporation?

The term “B Corporation” refers generally to an entity organized as a benefit corporation, social benefit corporation, or public benefit corporation under state law. A B Corporation is a for-profit company that leverages its resources for a positive impact on the commonwealth, alongside providing returns to their shareholders. B Corporations span a variety of industries, from clothing to beauty, nutrition, and everything in between.

Some of today’s most well-recognized brands are at the forefront of the B Corporation movement. Patagonia, an outdoor clothing and gear designer and retailer, was the first California company to become a B corporation in 2012, just as it was imposing an earth tax against itself and transferring 100% of its Black Friday profits to grassroots environmental-focused non-profits.<sup>2</sup>

Beauty corporations, such as Prose, joined the B Corporation list due to their quest to exclusively use clean and sustainably sourced ingredients, while others like Beautycounter are active in advocacy for stronger legal regulations against the use of harmful chemicals in the beauty industry.<sup>2</sup>

## Shareholder responsibility

Historically, corporations had a fiduciary responsibility to focus solely on maximizing shareholder value. Yet, the B Corporation distinction is not a choice between shareholder interest and a positive impact on society. Instead, these organizations are incorporating sustainable practices into their sourcing, production, and operations to connect their business to the success of their society as well as connect with consumers who share these same values.

While some organizations build in sustainable practices after great success as a way to give back, there are also many like the sock company Bombas that start with the idea of giving back to the community before designing a product to meet that mission.

B Corporations are also discovering the positive impact sustainability can have on performance, both in sales and in talent. With a widespread passion for social and environmental awareness, younger generations entering the workforce are looking for careers at corporations that act on their values.

*The Harvard Business Review* found that 9 out of 10 people would be willing to earn less to work a more meaningful job.<sup>3</sup> Investment firms are following suit, looking for companies with long-term views. And 47% of consumers say they would pay at least 25% more for a more sustainable product, while Gen Z consumers are willing to pay 50-100% more.<sup>4</sup>

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## How to create a B Corporation

The rules governing B Corporation distinction vary from state to state, but two requirements are universal:

**1. An established goal** to produce a public benefit and actions to accomplish that goal

**2. An annual benefit report** for transparency of the established public benefit

Businesses must file with their state to become a B Corporation.<sup>5</sup> Some states may require third-party certification as well. In these cases, requirements of the third-party may be in addition to the state requirements.

## What is a Certified B Corporation?

B Corporations and “Certified B Corporations” (sometimes referred to as “B Corps”) are two different (potentially overlapping) things—it’s important to understand the difference between the two. The B Corporation is an entity created under a state’s laws. On the other hand, a Certified B Corporation reflects a designation obtained from a private non-profit company called B Lab. B Lab, founded in 2006, has already changed the face of the global economy with the development of standards, policies, tools, and programs that mobilize and support companies in their push to social and environmental action.

While a B Corporation’s status is designated by the state, earning and maintaining B Corp certification from B Lab often requires the organization to meet stricter requirements than those designated by the applicable state statutes. While this is more work, many B Corporation stakeholders value the additional transparency and prestige that comes with a B Lab certification.

## Three conditions that define a Certified B Corporation

The three principles that B Lab holds organizations to for certification are:<sup>6</sup>

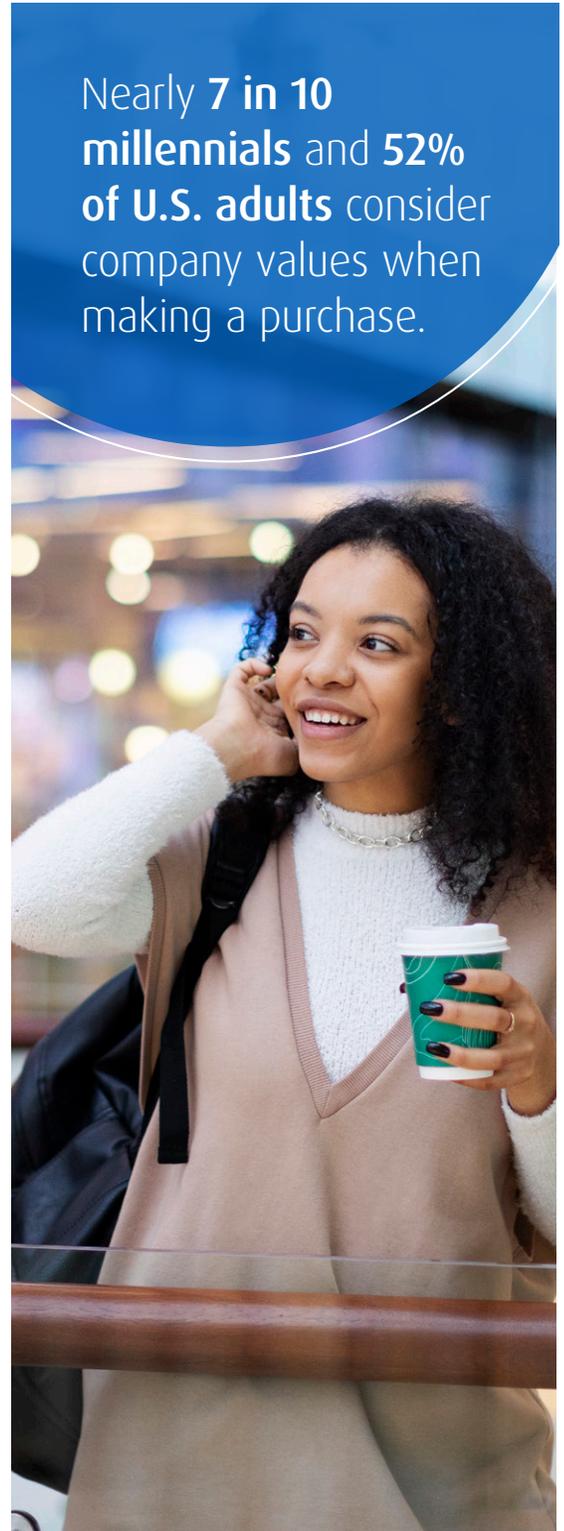
**1. Performance.** The company must demonstrate high social and environmental performance by achieving a B Impact Assessment score of 80 or above and passing B Lab’s risk review.

The B Impact Assessment covers the impact of the business on all its stakeholders, including workers, suppliers, community, and the environment—and captures best practices regarding the company’s mission, measurement, and governance. Most important to the assessment is the company’s Impact Business Model which focuses on how particular stakeholders benefit through the company’s products, services, or internal practices.

**2. Accountability.** The company must establish accountability to all stakeholders, not just shareholders, through changes to its corporate governance structure.

**3. Transparency.** The company must measure and publish performance metrics against B Lab’s standards on their B Corp profiles.

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## Purpose is good for business

Many B Corporations utilize their mission statement to establish and declare their public benefit goal. Patagonia's mission statement, for example, is "We're in business to save our home planet." Its core values expand on this with "Build the Best Product. Cause No Unnecessary Harm. Use Business to Protect Nature. Not Bound by Convention."<sup>7</sup>

Sustainable practices and responsible governance are the future of capitalism. By balancing profit with societal benefit, B Corporations are building trust with their communities and customers in a way that goes beyond providing a good product: it goes to the heart of building an enduring relationship with consumers—all in the name of the common good.

For more information on B Corporations and how to align your long-term business goals to a social mission, speak to your BMO Wealth Management Advisor.



<sup>1</sup> Forbes, "Millennials Call for Values-Driven Companies, But They're Not The Only Ones Interested," May 23, 2018.

<sup>2</sup> Insider, "16 B Corps making product we love that you can feel good about buying," November 17, 2021.

<sup>3</sup> Harvard Business Review, "9 Out of 10 People Are Willing to Earn Less Money to Do More-Meaningful Work," November 6, 2018.

<sup>4</sup> Means & Measures from Bank of the West, "The Four Reasons B Corps Are the Business Model of the Moment," March 11, 2022.

<sup>5</sup> Benefit Corp., "State by state status of legislation."

<sup>6</sup> B Lab, "Measuring a company's entire social and environmental impact."

<sup>7</sup> Patagonia, "Patagonia's mission statement."

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