



2016 Q3 Research

B Corporation Benefits?

The impact of B Corporation certification on organisations' performance and growth

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Prepared by

The Social Investment Consultancy

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New to the UK in 2015, the B Corporation certification is awarded to for-profit companies meeting specific social and environmental standards. As highlighted in Bridges Ventures' 2015 article "To B or Not to B", the awareness (and therefore success) of the B Corporation movement depends in large part on the participation of large, well-known companies¹; however, there are few multinational or public B Corporations to date.

The Social Investment Consultancy (TSIC) has written the attached brief to share exploratory research on the impact of B Corporation certification on organisations' performance and growth thus far. Drawing on academic theory and previous studies, this research used a questionnaire and follow-up interviews to gather quantitative and qualitative data about B Corporations' financial performance, non-financial performance, and future plans to grow into multinational or publicly traded companies. The initial questionnaire was distributed to 340 B Corporations and had 103 respondents from 21 industries (a response rate of 30%). 82% of overall survey respondents were American organisations as these organisations have had the opportunity to be certified for the greatest length of time. The B Corporations surveyed varied in size from less than 10 employees to over 1,000 and were certified between 2007 and 2016. After an initial analysis of questionnaire results, interviews were conducted with 10 organisations.

By investigating these financial, non-financial, and growth effects of B Corporation certification, this research gathers hard data and evidence from current B Corporations to help potential applicants (including the public and multinational organisations required to bring the brand mainstream) predict the impact of certification. In highlighting benefits and identifying challenges of B Corporation certification, this research suggests opportunities to grow the B Corporation movement.

Much like TSIC's own corporate methodology ("Fuse" - see the research [here](#)) the B Corporation movement supports a systemic approach to corporate social performance, integrating social and economic value into all aspects of a business. Both Fuse and the B Corporation approach see social performance as a positive contributor to an organisation's core brand, staff engagement, partnerships, and community involvement. For these reasons, TSIC is proud to be a certified B Corporation – one of the 62 Founding B Corporations in the UK – and a leader helping navigate other organisations through this rapidly growing movement.

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Research originally conducted for Masters Dissertation (2016) at the London School of Economics under the supervision of Dr. Eleanor O'Higgins

The What and the Why of B Corporations

B Corporations (also known as B Corps) are for-profit companies certified by B Lab confirming they have met social and environmental performance, accountability, and transparency standards. As per B Lab, “B Corp is to business what Fair Trade certification is to coffee or USDA Organic certification is to milk.”² B Lab opened in 2006 in the United States, and certified its first B Corporation in 2007. To date, there have been over 1,600 B Corporations certified in over 40 countries. B Lab UK was initiated in 2015.

In order to become a B Corporation, companies need to meet performance requirements, legal requirements, and complete a variety of documents.³ Performance requirements are evaluated through the B Impact Assessment which measures the overall impact of an organisation on its stakeholders. A score of 80/200 is needed to be considered for B Corporation certification and the assessment must be updated every two years. A B Corporation must also protect its social mission by legally requiring directors and officers to consider the interests of all stakeholders (not just shareholders) in decision-making.

Many in the UK will already be familiar with Community Interest Companies (CICs), a UK legal form initiated by the Office of the Regulator of Community Interest Companies in 2006 for businesses incorporating social and environmental standards.⁴ While both B Corp and CIC status require companies to consider their community impact, CIC is a legal structure only available to UK

businesses and performance standards are self-reported (the B Impact Assessment is not used). Unlike B Corporations, CICs require an asset lock ensuring profits can only be distributed in certain circumstances. CICs are also eligible for social investment tax relief while B Corp status is not enough to qualify (however, businesses that are both a CIC and a B Corporation are indeed eligible).

“...the B Corporation certification filters out those who aren’t legitimate - those who are just talking about ‘doing good’ as a marketing gimmick.”

- Anonymous interviewee

A greater focus on corporate social performance is increasingly being demanded by stakeholders, and the global movement to use business as a force for good is growing. B Corporations are a key part of this movement; however, the B Corporation status has yet to become mainstream. While B Corporation certification is available to any for-profit business regardless of size, location, or corporate structure, there are few public and multinational B Corps. As identified by B Lab, “a number of institutional and practical barriers have made it hard for multinational private and publicly listed companies to earn B Corp certification.”⁵ Only a handful of public companies are currently certified: the American company Etsy, Brazil’s Natura, Australia’s Ethical in Australia, and New Zealand’s Snakk Media.⁶

B Corporation Benefits: In Theory and In Practice

	In THEORY	In PRACTICE
Performance of revenues, expenses, net income, debt, and overall financial results. FINANCIAL PERFORMANCE	B Corp certification positively impacts financial performance.	B Corp certification has not positively or negatively impacted most organisations’ financial performance.
Performance of partnerships, knowledge-sharing, consumer brand recognition, press brand awareness, benchmarking performance, investor interest, organisational reputation, employee attraction and retention, socially responsible action, products/services offered, markets served, supply or distribution chains, and marketing strategy. NON-FINANCIAL PERFORMANCE	B Corp certification positively impacts non-financial performance.	B Corp certification has indeed positively impacted non-financial performance.
Likelihood of growing multinationally or becoming publically traded. ORGANISATIONAL GROWTH	B Corp certification decreases organisations’ likelihood of growing multinationally or going public.	B Corp certification has not changed organisations’ likelihood of growing multinationally or going public.

Financial Performance in Theory: organisations experience improved financial performance after B Corporation certification.

This hypothesis stems from two theories emerging in previous research: 1) positive corporate social performance leads to positive corporate financial performance and 2) socially responsible third party certifications and labels positively impact organisational financial performance.

Orlitzky, Schmidt, and Rynes' 2003 meta-analysis is one of the most recent studies finding corporate social performance to be positively correlated with corporate financial performance.⁷ Beurden and Gössling support this finding with their 2008 meta-analysis discovering that 68% of studies included in their research demonstrate a positive relationship between corporate social performance and corporate financial performance, 26% display no significant relationship, and only 6% display a negative relationship.⁸ Even more recently, major studies from the International Finance Corporation and Harvard and the London Business School (to name a couple) support these academic findings by showing positive relationships between sustainable companies and both stock market and accounting performance.^{9,10}

Previous research also shows that socially responsible third party certifications and labels (such as B Corporation certification) positively impact organisational financial performance. Parkinson concludes that seals and certifications significantly influence consumer choice behaviour, creating a positive attraction towards a product.¹¹ Etilé and Teyssier support these findings by using an experimental market to compare the impact of two corporate social responsibility (CSR) signalling strategies: 1) CSR signalling through a certified third party label and 2) CSR signalling through unsubstantiated company claims. This research concludes that third party certification clearly produces efficiencies.¹² Finally, Bridges Ventures notes that a benefit of third party B Corporation certification is its advertisement of an organisation's "profit with purpose" approach¹³; otherwise socially responsible organisations are not always easy to identify.

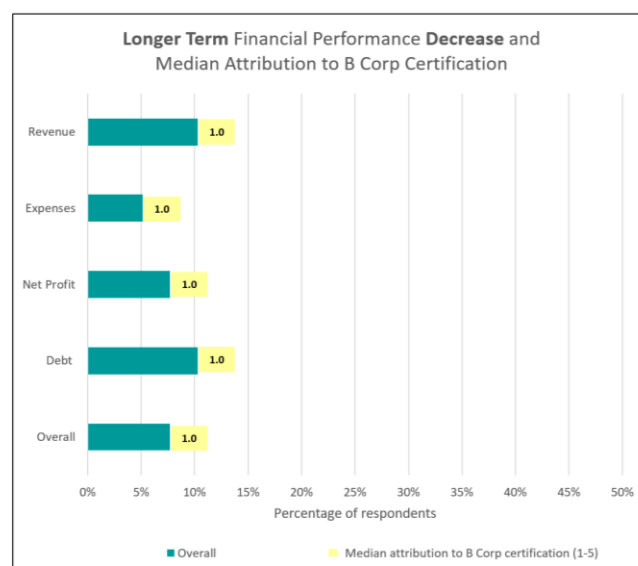
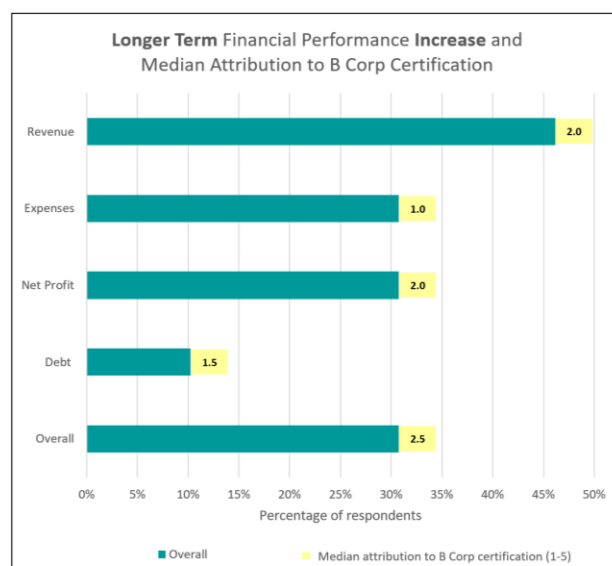
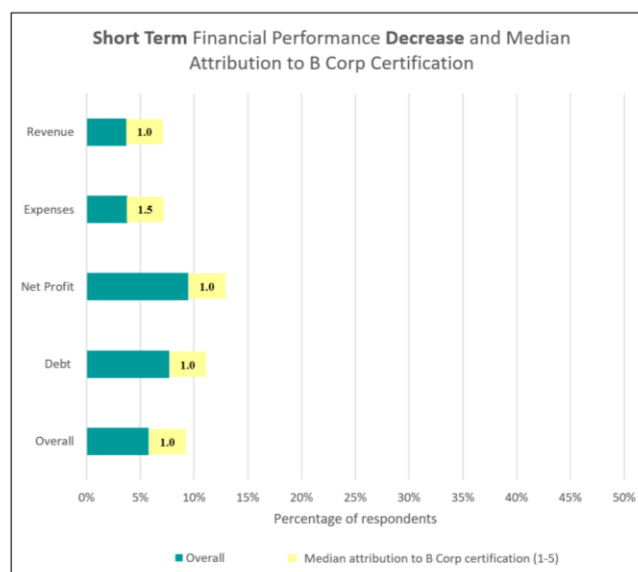
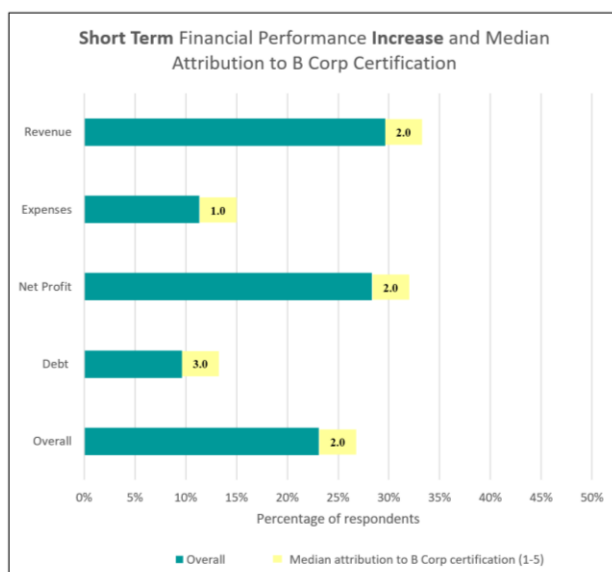
Financial Performance in Practice: Most organisations have not yet experienced a change in financial performance (positive or negative) due to B Corporation certification.

As seen in the survey findings below, our research indicates that more organisations experience an increase (rather than a decrease) in all areas of financial performance after B Corporation certification in both the short and long term; however, most of these organisations do not significantly attribute any change in performance to their B Corporation status. Therefore, these findings do not demonstrate significant positive or negative financial impacts from B Corporation certification.

Perhaps the most likely reason for this result is the general public's limited knowledge of B Corporations. As identified in interviews, most respondents feel that the wider population does not know what the B Corporation stamp means, and therefore few external benefits of certification can be realized. In addition, many participants simply feel it is too soon to thoroughly understand the financial impact of B Corporation certification.

"Most of our clients are not aware of our status and don't factor it into their decision to hire us."

- Anonymous survey respondent

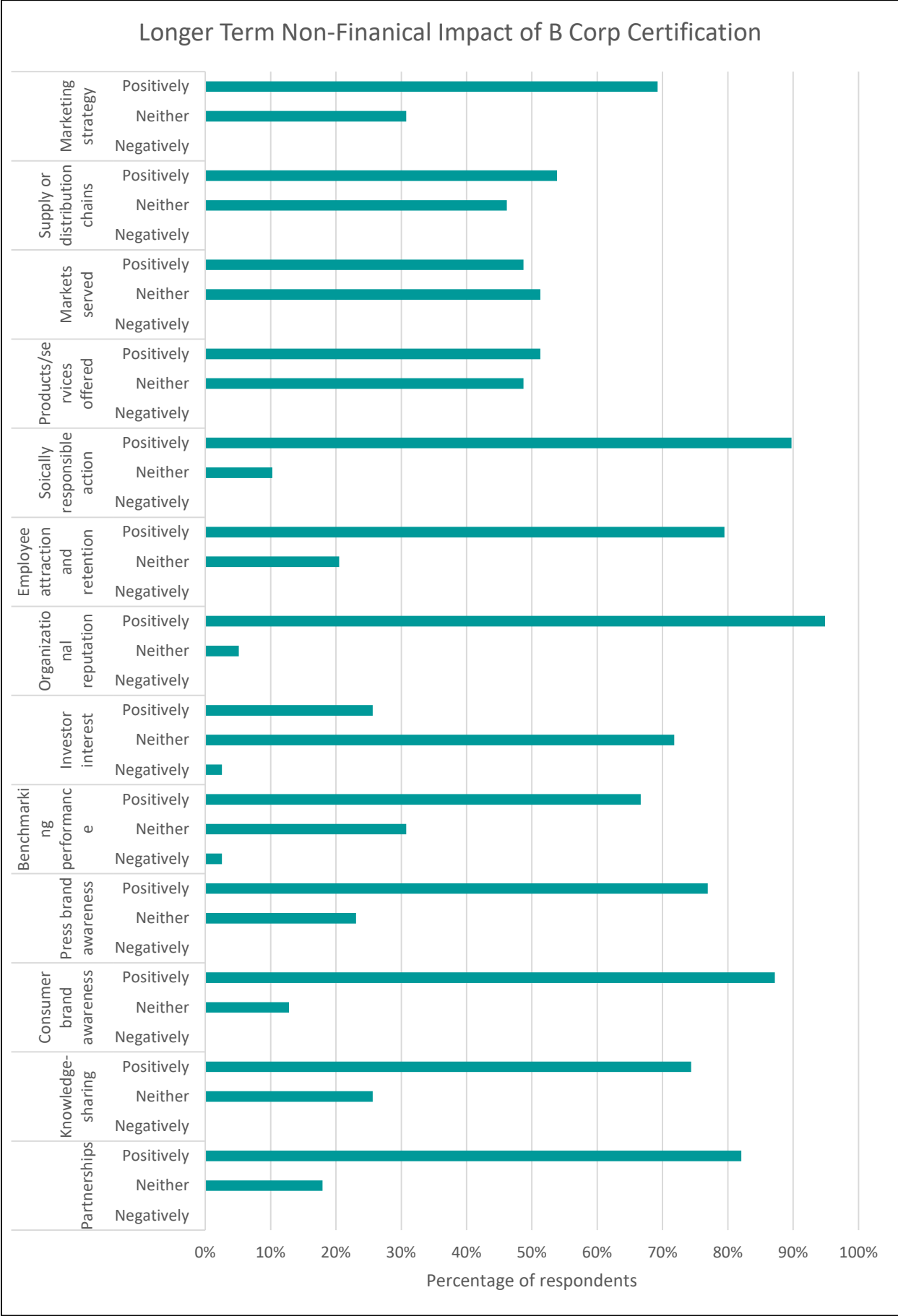


Non-Financial Performance in Theory: B Corporation certification positively impacts organisations' non-financial performance.

The 2014 B Corporation Handbook by Ryan Honeyman contains some of the most comprehensive research on B Corporations thus far. This handbook provides a step-by-step resource explaining the B Corporation movement and supports the business case for B Corporation certification through interviews with certified organisations. Specifically, this research outlines 10 benefits to B Corporation certification: being part of a community of leaders with shared values; attracting talent and engaging employees; increasing credibility and trust; generating press; benchmarking and improving performance; attracting investors; protecting a company's mission for the long term; building a collective voice; saving money; and leading a global movement.¹⁴

Non-Financial Performance in Practice: B Corporation certification does indeed positively impact organisations' non-financial performance.

As shown in the survey findings below, our research supports Honeyman's conclusions. Our results indicate that the longer term impact of B Corporation certification on non-financial performance is nearly entirely positive, with the greatest impact being reported for "organisational reputation" and "socially responsible action". This shows that participants feel the B Corporation certification contributed much more significantly to their organisations' non-financial than financial performance.



Organisational Growth in Theory: Organisations’ likelihood of growing multinationally or going public will decrease after B Corporation certification.

Bridges Ventures’ article questions whether B Corporation status creates governance issues.¹⁵ The B Corporation legal framework requires that decision-makers consider the interests of all stakeholders (including broader society and the environment) rather than solely shareholders. This presents obvious tensions for public companies who have traditionally been required to hold the best interest of financial shareholders above all else. These traditional ideas stem in large part from Friedman’s classic position that a corporation’s sole responsibility is to make money for its stockholders.¹⁶ Even for investors who believe corporate social action will benefit their investment, there are further tensions; it has yet to be determined whether the B Corporation “mission lock” is too restrictive.¹⁷ Corporate structures in place to preserve the long-term social mission of B Corporations can lead to less flexibility for investors. Therefore, these legal and mission-related challenges suggest that organisations’ likelihood of growing multinationally or going public will decrease after B Corporation certification.

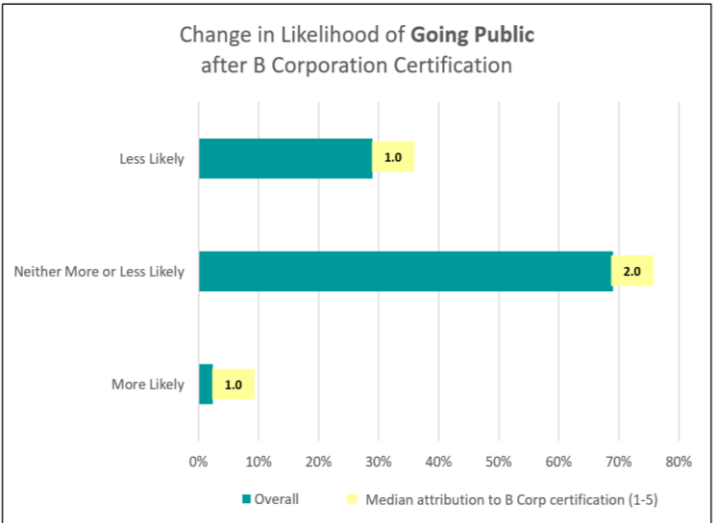
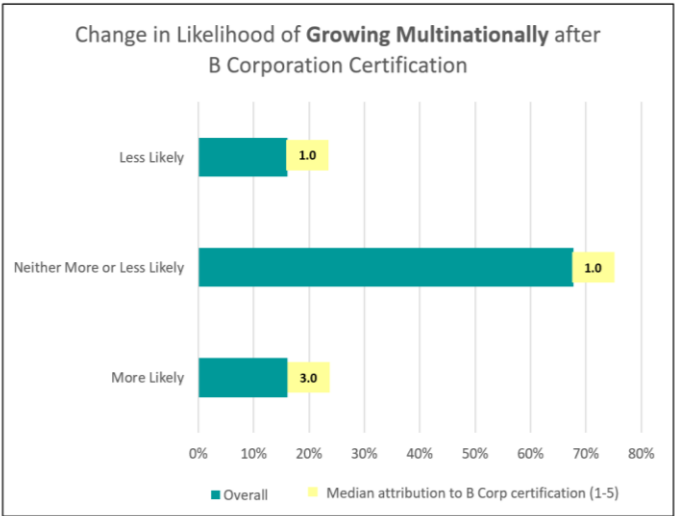
Organisational Growth in Practice: Most organisations have not changed their likelihood of growing multinationally or going public after B Corporation certification.

As shown in the graphs below, 70% of organisations surveyed have not changed their plans to grow multinationally or become publicly traded since B Corporation certification. In addition, when asked how they feel the B Corporation certification will impact their future growth overall, 75% of respondents indicate that their B Corporation status will positively impact growth overall and 25% feel it will have no impact. No respondent feels B Corporation certification will have a negative overall impact on growth. These quantitative results suggest, overall, that respondents feel the benefits of B Corporation certification outweigh the challenges.

These quantitative results, however, do not align with many of our research’s qualitative responses.

“Many investors think of social organisations as nothing more than non-profits in different clothes.”

- Anonymous survey respondent



Qualitative responses concerning the likelihood of companies growing publicly show that B Corporations are experiencing investor aversion to the certification. Many respondents feel that investors “simply walk away when they hear ‘B Corp’”. Most believe this is because investors are still not convinced it is possible to be profit-seeking while also “doing good”. Another interviewee, however, feels some of this aversion extends beyond financial factors: “We’ve heard some comments from people worried about ‘yet another certification’ – there’s no trust yet.” This respondent does find, however, that investors are much more receptive once they are made aware of the certification’s high standards. Many respondents are concerned that protecting the B Corporation mission and values, given investor interests

and short term financial pressures, would be a challenge should they become publicly traded.

Qualitative responses concerning the likelihood of companies growing multinationally are quite varied. Some respondents feel that B Corporation status would benefit multinational growth through the contacts in the international B Corporation network and through consumer confidence inspired by a familiar certification. Others suggest that legal and regulatory requirements would make it difficult to hold a global standard like the B Corporation certification. Finally, some respondents feel that certification would not lead to any additional challenges or benefits for multinational growth.

This research provides a number of insights for the B Corporation movement moving forward:

First – there is no need to be scared.

While this research has been unable to show that B Corporation certification leads directly to greater financial performance, there is also no notable decrease in financial outcomes attributed to B Corp status. In addition, significant links to greater non-financial performance were clearly observed. Finally, this research indicates that many companies feel investor aversion to the certification, but have not changed management's growth plans in spite of this. Overall, research participants are optimistic that their B Corporation status will eventually offer considerable favourable impacts.

Second – there is still need for further research.

Our research indicates that participants feel the B Corporation certification contributes much more significantly to their organisations' non-financial than financial performance. However, it is reasonable to believe that these non-financial factors affect the financial results of organisations in a way that is difficult for organisations to identify; therefore, the B Corporation certification may in fact contribute to positive financial performance. Further research into the correlation between corporate social performance and more specific non-financial facets of organisational performance, as well as their indirect impact on financial outcomes, could be helpful in order to understand the comprehensive impact of B Corporation certification.

In addition, our research indicates that growing multinationally or becoming publicly traded is not a necessary limitation of B Corporations. Yet, there are few multinational companies certified, and even fewer public companies. This suggests the need for further research into potential public and multinational B Corp candidates to understand their hesitations. B Lab has already taken action in this area through the development of the Multinationals and Public Markets Advisory Council.¹⁸ Through our work on corporate social investments, TSIC is also keen to explore what we could do to help multinational businesses overcome their concerns of being B Corporation certified.

Third – the movement may simply need more time.

The greatest limiting factor of our research is the newness of the B Corporation movement; 70% of survey respondents were only certified in 2014 or later. Perhaps simply more time is required in order to prove the benefits and challenges of B Corp certification. Professor Pamela Hartigan reminds us that while microfinance seems to be the only system-changing approach that has managed to go to scale, it took 30 years and an estimated US\$20 billion in subsidies from major foundations and individual philanthropists to transform microfinance from an undefined effort, to something much closer to mainstream investing.¹⁹ The B Corporation movement has the potential to be a system-changing approach operating at scale and disrupting multinational businesses, but it is still nascent. It is also a movement that requires more attention from major foundations and individual philanthropists.

“We are still young in our strategy and finding footing in how to utilize our B Corp status.”

- Anonymous survey respondent

Fourth and finally – let us not forget the importance of smaller, private, local B Corporations.

Studies such as this are part of the movement to attract multinational and public companies to the certification, bringing it mainstream and thereby elevating the social performance of the broader corporate community. However, while the limelight may not be on the many smaller, private, local companies that constitute the bulk of the B Corporation movement, it is also essential to recognize it is their performances that have made the B Corporation certification what it is today. As a small business ourselves, we think the dynamism and ability to pilot new ideas among small businesses will be critical in the growth of the B Corporation status. Ultimately, we trust that bigger companies will recognize and join this important movement.

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About Us

The Social Investment Consultancy (TSIC) operates at the intersection of the for- and non-profit worlds, dedicated to helping charities and businesses maximise their social impact. The latest models of social enterprise, revenue generation and social investment, and the integration of skills and expertise from across the public, private and third sector form the basis for our work.

Our consultants have **in-depth experience** of working in-house for and consulting to many of the **world's leading private and charitable organisations**. The integration of skills and expertise from across the **public, private and third sector** forms the basis for a range of professional services that drive **social impact** and **organisational change**. We work across the whole spectrum in social change.

Our services to **charities & social enterprises** include:

- Exploring revenue-generating opportunities and incubating new business ideas
- Preparing for successful investment and fund-raising through strategy and communications planning
- Evaluating and communicating the impact of charitable programmes

Our services to **businesses** include:

- Building flagship corporate community engagement programmes through the TSIC Fuse process
- Identifying high-impact cause areas and partners, performing due diligence
- Developing external marketing campaigns and reporting on impact
- Engaging employees and internal stakeholders



We also work with **philanthropists & foundations** through our partner brand, [Ten Years Time](#).



Our current and past clients include:

