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To B or Not To B

An Investor's Guide to B Corps

Bridges Ventures

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A Bridges Impact+ publication

Bridges Ventures is a specialist fund manager focused exclusively on sustainable and impact investment – backing business solutions to some of society's biggest challenges. Founded in 2002, Bridges now has almost £600m under management across its growth, property and social sector funds. It became a certified B Corporation in the summer of 2015.

Impact+ is Bridges' practitioner-led advisory group. It has three functions: to help the fund teams analyse and maximise the social and environmental impact of their investments; to provide strategic advice and practical guidance to external clients looking to better understand this area; and to produce independent research and analysis that supports the growth of the broader sustainable and impact investment sector.

For more information, visit www.bridgesventures.com.

With particular thanks to Charmian Love, B Lab UK and BWB

Introduction

The B Corp movement – a group of for-profit companies that have committed to pursuing social or environmental goals alongside their financial targets – has increasingly global aspirations.

Initially founded in the U.S. in 2006, there are now almost 1,400 B Corps around the world, of various forms and sizes. This September, B Lab (the U.S. non-profit behind the movement) is bolstering its international presence with the launch of two new B Lab 'global partners', in the UK and Portugal – to add to its existing offshoots in Canada, Australia, Europe and South America.

At Bridges, we have always believed that business can be harnessed as a powerful force for good. Since our foundation in 2002, we have been investing in for-profit companies that are seeking to have a positive social and environmental impact – not just because they are good for the world, but also because businesses that are helping to solve society's most pressing challenges have strong long-term growth prospects.

We are seeing more businesses like this emerging than ever before. In this post-crisis world, as the millennial generation increasingly comes to the fore, there is a growing appetite for a different approach to business and investment – one where making a profit and tackling complex social and environmental problems are no longer mutually exclusive. Certifying as a B Corp is a way for companies to signal their commitment to this new way of doing business.

But if this 'profit with purpose' movement is going to succeed and scale, these companies need risk capital to support their growth. And this will only happen if investors are persuaded that this approach can genuinely create more valuable, more sustainable businesses. It is to this end that we are publishing this short paper. Building on the work done last year by the Social Impact Investment Taskforce, it aims to help potential investors understand exactly what being a B Corp involves, and the opportunities and challenges this presents.

01. The Rise of 'Profit with Purpose'

A changing world

We are living through an era of profound change to the business landscape.

Much of this change has been technology-driven. In the last decade, companies like Facebook, Twitter, Uber, AirBnB and Dropbox have come from nowhere to become global behemoths, disrupting a number of traditional industries in the process.

But we are also seeing a philosophical change. The financial crisis only served to highlight the failings of the old model of capitalism; its obsessive focus on shareholder value may have created wealth, but it also fostered a raft of social and environmental problems. There is now a growing recognition that we need a new kind of capitalism: one that recognises the role it can (and should) play in addressing complex challenges like inequality and climate change.

This new mind-set is particularly evident in the attitudes of the millennial generation (usually defined as those born after 1980), who are both public-spirited and also keener than their predecessors to embody their personal values in every aspect of their lives. In one study of millennials last year, for instance, 64% said it was a priority for them to make the world a better place, while 88% said they wanted 'work-life integration'.[1]

As these young people have become more prominent and more vocal as employees, as managers, as entrepreneurs, as consumers, as voters and as investors, they are inevitably having an effect on the way that business functions.

Together, these trends are fuelling a new phenomenon: the rise of the 'profit with purpose' business.

As the name implies, these are companies that want to combine the pursuit of profit with some kind of social or environmental 'mission' or purpose. And we're seeing more and more examples emerge of businesses that are doing this very successfully. To take just a few:

Bridge International Academies was founded in the slums of Nairobi and is now the world's largest chain of primary and pre-primary schools, bringing world-class private education to the underprivileged in countries across Africa and Asia. There's now a new Academy opened somewhere in the world every 2.5 days.[2]

Toms Shoes is a for-profit business based in the US that follows a 'one-for-one' model: for every pair of shoes bought by a customer, a pair of shoes is donated to a child in need. So the bigger it gets, the bigger its impact becomes. To date, Toms has been active in 60 countries and has provided 35 million pairs of shoes.

Warby Parker, the US-based online glasses-maker, employs a similar 'one for one' model: for each pair of glasses sold, it works with local non-profits and vendors to distribute a pair in a developing country. Started in 2010, it now has revenues of more than $100m, and recently topped Fast Company magazine's annual list of the world's Most Innovative Companies.[3]

And to use an example from Bridges' own portfolio: **The Gym Group** is a chain of low-cost gyms that provides affordable, flexible memberships in underserved areas of the UK. In doing so, it opens up access to fitness facilities to a whole new demographic (over 100,000 of its members have never been members of a gym or health club before). Launched in 2008, The Gym now has more than 65 UK sites.

What these examples show is that businesses do not necessarily have to make a binary choice between profit and purpose; there doesn't have to be a trade-off between financial success and social/environmental impact. In fact – as our own experience has shown – the two often go hand-in-hand: companies that address a pressing societal need have huge growth potential.

That also makes them attractive to a broad range of potential investors, as the aforementioned companies illustrate. Warby Parker has raised a total of $215m from investors including T Rowe Price, Wellington Management and Spark Capital, valuing it at over $1bn. Toms sold a 50% stake to Bain Capital last year, in a deal that valued the business at $625m. Bridge International Academies has raised more than $100m from Learn Capital, the Omidyar Network and others. And Phoenix Equity Partners bought a majority stake in The Gym in 2013, in a deal that valued the business at about £90m.

1 Forbes; What Millennials Want In The Workplace (And Why You Should Start Giving It To Them)
2 Bridge International Academies; About
3 FastCompany; Most Innovative Companies 2015: Warby Parker

Where B Corps fit in

'Profit with purpose' businesses are not always easy to spot, because they can take a number of different legal forms. From the outside, they might look like straightforward limited companies or corporations. And while they are all impact-driven – in the sense they are trying to combine non-financial with financial goals – they might think about, talk about and measure impact in very different ways.

In a paper published last year as part of the work done by the Social Impact Investment Taskforce (established during the UK's presidency of the G8), Bridges and Big Society Capital examined some of the different models emerging in the space between the purely for-profit and the purely social (a hinterland we called 'The Social Business Frontier').

A defining aspect of all 'profit with purpose' businesses in this space, our paper suggested, is that they have been able to 'lock in' their social or environmental mission. This is not an asset-lock, of the kind that charities and many social enterprises have. Instead, these companies will typically have:

- A performance-lock, whereby impact performance is somehow linked to the company's business model or commercial performance (e.g. a business like The Gym that serves underserved communities, or a renewable energy project); plus, in some cases:
- A mission-lock, whereby the directors choose to embed impact into the company's governance, either by amending its articles of association or otherwise.

One way that businesses can achieve this – and in doing so, advertise their 'profit with purpose' credentials – is by certifying as a B Corp.

To become a certified B Corp, a company must first submit to an independent assessment – conducted by a non-profit organisation called B Lab – of its social and environmental performance, accountability, and transparency. If the company scores highly enough, it must then formally incorporate its societal mission into its governance articles. It is subsequently reassessed every two years, to make sure it is maintaining the requisite standard.

So a B Corp is a 'profit with purpose' business with a self-imposed mission-lock (via the amended articles) plus a kind of performance-lock (the strength of which will be assessed by the B Lab test).

The Gym Group, Bridges Sustainable Growth Fund II

02. B Corps International

Since B Lab launched in the U.S. in 2006, it has certified about 1,400 B Corps. About 1,000 of these companies are based in the U.S.; the rest are spread across more than 40 countries around the world.

The proportion of non-US B Corps is increasing, in line with B Lab's own footprint. In addition to the U.S. operation, there are now B Lab partners in Canada, Europe (B Lab EU), Australia (B Lab Australia & NZ) and South America (Sistema B). As of September 2015, there will be two new additions to the family, with the launch of B Lab UK and B Lab Portugal & Africa Lusophone.

Company: **Bethnal Green Ventures**

Country: UK

Bethnal Green Ventures invests in and supports very early-stage businesses solving social and environmental problems using technology, with a focus on health, education, environmental sustainability and civic innovation. It aims to back social ventures whose business model is tied to their social impact.

www.bethnalgreenventures.com

Company: **Dopper**

Country: Europe

The designer of a reusable water bottle to spread clean drinking water and reduce plastic waste. Dopper also works hard to create awareness regarding the impact of single-use plastic waste, inspiring people to initiate a change. Moreover, 5% of net turnover supports the Dopper Foundation, which works with local partner Simavi to improve drinking water and sanitation through projects in Nepal.

www.dopper.com

Company: **Hootsuite**

Country: Canada

Hootsuite provides a platform for managing social media. Through its programme HootsuiteGiving, it offers non-profits discounts of up to 50% on Hootsuite products – helping them harness the power of social media for good.

www.hootsuite.com

Company: **Insight Robotics**

Country: China

Insight Robotics develops robotics-based technology that gives industry data-driven insights to quantify their risks and plan accordingly. The company provides insights, through data and technology, to decision-makers so that they can prevent incidents such as wildfires, pest infestations and pipeline corrosion from becoming disasters.

www.insightrobotics.com

Company: **Kickstarter**

Country: US

Kickstarter is a funding platform for creative projects. Founded on the mantra that creative projects make for a better world. Kickstarter also looks to provide a better deal to employees: even the lowest-paid are paid more than 20% above the Living Wage.

www.kickstarter.com

Company: **Natura**

Country: Brazil

Natura is a Brazilian manufacturer and marketer of cosmetics, beauty, household, and personal care products . The company tracks and reports on the environmental performance of all of its 'Significant Suppliers', to include energy consumption, water use, and waste management. It uses renewable energy generated on-site, and has studied the GHG emissions of its entire operation and supply chain in order to develop a 'carbon-neutral' program with strategies for improvement.

www.naturabrasil.fr

Company: **Zoona**

Country: South Africa

Zoona provides financing options for small business and easy, quick, safe payment options for consumers. It is focused on helping SMEs grow and on increasing financial inclusion in Africa.

www.zoona.co.za

Company: **five:am**

Country: Australia

five:am offers a range of purely organic and natural yoghurts and granolas – all sourced from The Organic Dairy Farmer's Co-operative in Victoria, a group of farms dedicated to upholding the highest standards of sustainable and organic farming.

www.fiveam.com.au

The B Lab Back Story

The B Corp movement was started by the entrepreneurs behind AND1, a sportswear company that grew to $250m revenues over an 11-year period.

Throughout this period, it remained a social business, with family-centric values and benefits extended across the supply chain. 10% of profits went to charities, and staff were given an allowance of two weeks paid time off for community service work.

These initiatives weren't just 'nice-to-haves'; they were also good for business. The company had an employee attrition rate of less than 2%, and suppliers who remained supportive when cash was tight.

However, when the founders decided to sell the company in 2005, they felt that they had only one option: to sell to the highest bidder in order to maximise shareholder return. Within three months of the sale, the social purpose had been stripped out of the business.

The three founders felt it should be possible for 'profit with purpose' entrepreneurs to raise capital or create liquidity without having to give up on mission. So they established B Lab with a view to breaking down some of the existing legal and cultural barriers.

B Lab founders Jay Coen Gilbert, Bart Houlahan and Andrew Kassoy

03. What B Corp certification involves

What B Corps sign up to, and what that means in practice

“We enjoyed the certification process;; it reinforced our predictions about the challenges we expect to face in the near future. More importantly, it puts these issues firmly in the centre of our agenda; being in this process should ensure that we can retain our values as we scale.”

Kresse Wesling, co-founder and director of Elvis & Kresse, a UK-based B Corp that manufactures luxury accessories from materials otherwise destined for landfill.

Eligible[1] businesses that wish to certify as B Corps must go through a four-stage process:

1 PASS THE TEST

The first step is an online test[2] called the B Impact Assessment (BIA), which is designed to examine a company's governance, environmental footprint, community engagement, treatment of workers and so on. Importantly, it also takes into account the extent to which the actual business model drives impact; companies score higher if their impact comes from *what* they do, not just *how* they do it.

The BIA is intended to judge companies against global best practice across all of the aforementioned categories; so those that pass the test (i.e. score at least 80 of the 200 points available) can legitimately claim to be among the leading exponents of 'profit with purpose' business.

2 CHANGE THEIR ARTICLES

Those that do pass are then required to change their constitutional documents to incorporate their societal mission. In the US and UK, this requires a specific amendment to the company's articles[3] (see below for the UK wording). This principally involves:

- A commitment to take into account all its stakeholders rather than just its immediate shareholders;
- A commitment to having a positive impact on society and the environment, in addition to its financial targets (the so-called 'triple bottom line' approach)

The various legal implications of these constitutional changes are discussed in more detail overleaf. (see p. 10)

3 JOIN THE COMMUNITY

Once the company has signed the B Lab 'term sheet' and paid the fee (which is determined based on annual turnover), it then becomes an officially certified B Corp. At this point, it gains access to some proprietary resources that are only available to certified B Corps – notably the B Hive, an online social network intended to help B Corps collaborate across geographies.

4 RE-CERTIFY IN TWO YEARS

The other notable point about certification is that B Corps have to re-certify every 2 years. And since the assessment tool is being updated regularly, to reflect best practice, it should be more difficult to meet the performance bar each time. So in effect, by certifying, B Corps are signing up to a process of continuous improvement; if they allow their standards to drop, or fail to adapt and enhance their policies to keep pace with the leaders in the field, they could end up losing their status in two years' time.

The Legal Requirement: How the clause is worded in the UK

1) The objects of the Company are to promote the success of the Company for the benefit of its members as a whole and, through its business and operations, to have a material positive impact on society and the environment, taken as a whole.

2) A Director shall have regard (amongst other matters) to:

a. the likely consequences of any decision in the long term,
b. the interests of the Company's employees,
c. the need to foster the Company's business relationships with suppliers, customers and others,
d. the impact of the Company's operations on the community and the environment,
e. the desirability of the Company maintaining a reputation for high standards of business conduct, and
f. the need to act fairly as between members of the Company,

(together, the matters referred to above shall be defined for the purposes of this Article as the "**Stakeholder Interests**").

3) For the purposes of a Director's duty to act in the way he or she considers, in good faith, most likely to promote the success of the Company, a Director shall not be required to regard the benefit of any particular Stakeholder Interest or group of Stakeholder Interests as more important than any other.

4) Nothing in this Article express or implied, is intended to or shall create or grant any right or any cause of action to, by or for any person (other than the Company).

5) The Directors of the Company shall for each financial year of the Company prepare a strategic report as if sections 414A(1) and 414C of the Companies Act 2006 (as in force at the date of adoption of these Articles) applies to the Company whether or not they would be required to do so otherwise than by this Article.

B Corps vs. Benefit Corporations

Around the world, certified B Corps take many different legal forms – LLCs, corporations, partnerships, co-operatives, ESOPs, CICs, and so on. The only constraint is that they must be willing to expand their legal responsibilities to take into consideration the interests of all stakeholders.

In some U.S. states, it's also possible for companies to incorporate (or re-incorporate) as a 'benefit corporation'. This is a specific legal form introduced for for-profit businesses that have chosen to hold themselves to higher standards of accountability and transparency; in practice, this means they have to take account of all stakeholders as part of their directors' fiduciary duty, and also to publish an annual benefit report.

In the 31 US states where this legal form is currently available, many certified B Corps have actually chosen to incorporate as benefit corporations – because it is one way to fulfil the legal requirement of B Corp certification. In 11 of these states, corporations that certify as B Corps are actually required to become a benefit corporation within four years of the legislation becoming effective or two years after initial certification, whichever comes later. But beyond this group, B Corps don't have to become benefit corporations (or vice versa).

According to B Lab, there are now seven other countries considering the introduction of a similar legal form (with Italy at the most advanced stage). In the UK, entrepreneur Paul Lindley (founder of baby food business Ella's Kitchen) recently launched a campaign[4] for a new legal form called the 'public benefit company'. Companies who adopted this new model – which would involve committing to particular social and environmental targets, and demonstrating their additional public benefit to an independent third-party – could qualify for lower corporation tax and other benefits, he suggested.

[1] Businesses are only eligible if they: a) have been trading for at least 12 months (though before that they can certify as a 'Pending B'); b) generate the majority of their revenue from trading; c) operate in a competitive marketplace; and d) are not a charity or public body.
[2] Answers are verified via an interview with a B Lab representative, and in some areas, with the help of supporting documentary evidence.
[3] Since this kind of change can take time, B Lab allows companies to commit to making this amendment within an agreed time-frame.

[4] This is Money.co.uk; Ella's Kitchen founder calls for creation of new 'public benefit companies' which will do good in return for tax breaks

04. The Legal View

What are the potential governance implications for investors if a company certifies as a B Corp? Luke Fletcher and Louise Harman of Bates Well Braithwaite[1] explain:

B Corp status does not carry with it express constraints on exits, payments of dividends, indebtedness, use of preference shares or liquidation preferences. There are also no direct consequences for voting arrangements or shareholder agreements and no express statement of the expectations or obligations of investors into B Corps.

But it's not quite business as usual. A typical commercial company exists primarily for the benefit of its shareholders. A B Corp is different in that it is required to include in its governing document a commitment "to promote the success of the company for the benefit of its members and, through its business and operations, to have a material positive impact on society and the environment, taken as a whole". This changes everything.

The directors of a B Corp are mandated to act in the way they consider, in good faith, most likely to promote the success of the company in achieving these purposes. Directors of B Corps are therefore required to look at investor issues like those listed in the first paragraph through a different lens to other directors, and to consider how any arrangement is likely to affect the interests of the wider stakeholders in the company (including employees, members of the community, the environment, suppliers and shareholders). This is a shift from the general position under English company law; in a B Corp, the shareholders do not reign supreme.

Shareholders vs. stakeholders

The elevation of other stakeholder interests means that directors will need to resolve tensions which may exist between the interests of shareholders and other stakeholders in a B Corp. The legal requirement for B Corps essentially gives the directors the authority to do just this.

This means that instead of simply asking whether a particular transaction or arrangement is in the interests of the *shareholders*, and letting the answer to that question guide them, directors will need to ask whether it is in the interests of the other *stakeholders* in the B Corp.

There may be situations where interests are misaligned. For example, shareholders in a B Corp may be willing to take bigger risks with their capital in the hope of large upside returns, whereas employees may be more risk averse – being unable to take a portfolio approach to employment. This might in a particular case mean that directors decide to eschew a risky transaction involving a lot of debt, such as a new international expansion plan which could result in large gains or insolvency, as the plan may not be in the interests of all employees.

Similarly, when choosing between different suppliers, it may be that there is a premium to be paid for the most ethical and sustainable suppliers. If so, there may be tensions between how monies are paid to suppliers, as against cutting costs with a view to declaring greater dividends. A similar tension is likely to exist when deciding how generously to pay workers.

Of course, these decisions are contextual. There will be some B Corps that do take on significant debt with a view to acquiring assets or investing in new business areas because directors determine that there is a reasonable likelihood that all stakeholders will benefit. And the decisions of directors of B Corps in distressed situations may be quite different to the decisions of directors of B Corps that are financially secure and operating sustainably.

In short, B Corp directors are likely to see things differently and may be liable to take a longer-term and possibly more risk-averse view of the company's interests than directors of typical commercial companies, who may be more inclined to seek to create short- to medium-term value for shareholders even when this places other stakeholder interests at risk.

"Investors should expect directors to take a broad view of the company's interests – which might on occasion mean resisting the interests of shareholders."

Influence on board decisions

As directors of B Corps are required to consider the interests of a wider group of stakeholders when making decisions, it is conceivable that on a sale or listing of a B Corp that the directors may accept a lower price than might otherwise have been the case, on the basis that shareholder interests are no longer the primary or supreme concern of the directors.

(It remains to be seen how differently B Corp directors will behave in practice. In the public company context, the UK Takeover Code [the 'Code'] already requires the board of a target company to set out for members its views on a proposed offer, including its likely effects on all the company's interests, including on employment. The Code also specifically states that the board is not required by the Code to consider the offer price as the determining factor in giving its view and may take into account other factors it considers relevant).

It is interesting to note that in respect of Etsy's recent listing[2], the prospectus referred to "loss of B Corp status" as a risk factor for potential investors. When considering potential sales or listings, investors will therefore need to consider how potential purchasers of shares will see B Corp status and the likely reputational issues that might arise from loss of the status.

Investors in B Corps will likely need to be comfortable with the fact that directors of B Corps are mandated to consider other stakeholder interests on a par with shareholder interests. In practice, this may mean that B Corps attract investors who place a premium on impact and, in some cases, from investors and financiers who themselves have obtained B Corp status.

B Corp boards will likely wish to distinguish between long-term investors who are willing to support sustainable growth that is in the interests of all stakeholders, from investors who are seeking short or medium-term returns and who might seek to subordinate other interests. Investors with shorter-term goals may be surprised at the independence of B Corp boards.

"This is a shift from the general position under English company law; in a B Corp, the shareholders do not reign supreme."

Dealing with shareholders

Generally, the relative ranking of shareholders will be a matter for the shareholders and in most cases the share structure will not have a direct impact on other stakeholder interests. Whether shares are issued as ordinary shares or preference shares, for example, should not greatly affect the ability of B Corp boards to seek to honour the interests of other stakeholders. Of course, there are exceptions. Redeemable preference shares, for example, might prove a less patient form of share capital, which presents risks to other stakeholders.

In respect of shareholder voting and shareholder agreements, B Corps may in theory operate with the same arrangements as other companies. However, where there are reserved matters that require shareholder consent, and different constituencies within the shareholder group who have different views on B Corp status, account will need to be taken of the threshold required for a shareholder decision to remove B Corp status.

Investors in B Corps will be signing up to the Articles of Association and will be agreeing to support decisions taken by directors which are made in accordance with the Articles of Association. This means that investors should expect directors to take a broad view of the company's interests – which might on occasion mean resisting the interests of shareholders.

If shareholders decide to direct the board of a B Corp, the shareholders will need to ensure that any direction is in keeping with the Articles and does not subordinate other interests.

[1] BWB, which recently became the first UK law firm to certify as a B Corp, has kindly contributed this chapter to the report, which has then been edited by the authors.

[2] Etsy, an online artisan marketplace, listed on the NASDAQ Stock Exchange in April 2015 with a market capitalisation of $1.8bn. It had previously certified as a B Corp, and has retained its certification since its listing.

05. Five reasons to invest in B Corps...

So in light of the above, do B Corps constitute an attractive investment proposition?

A number of leading investors clearly think so: the likes of Kleiner Perkins, Catterton Partners, New Enterprise Associates and American Express (a corporate VC) have all put money into B Corps already.

There are five key ways in which B Corp status might serve to create tangible value for a business - and thus higher valuations for its investors:

> **"Our investor saw iContact's focus on social and environmental responsibility as a point of differentiation with our competitors and a driver of long-term growth."**
>
> iContact CEO and founder Ryan Allis, after selling his email marketing B Corp to US-listed Vocus for $169 million.

1 MORE TRUST = MORE RESILIENCE

Businesses that pass the B Impact Assessment are generally well-run companies that have sustainability at the heart of their business model – which ought to make them less susceptible to external shocks.

In the responsible investment world, research has shown that businesses with strong ESG practices outperform over time.[1] Similarly, B Lab claims (based on its own research) that B Corps were much more likely to survive the global financial crisis relative to other similar businesses; it further argues that having this community in which to operate and build relationships helps to make B Corps more resilient.

One significant factor here is the degree of trust these businesses can build with their stakeholders – a trust that should, if anything, be bolstered by their willingness to have their societal mission validated by a third party and embedded in their governance articles. Certifying in this way makes it very clear to potential customers (and employees) that the company's commitment to social and environmental goals is a fundamental part of its strategy – not just a specious marketing exercise.

Ultimately, this higher level of trust should make the company more resilient and potentially boost the valuation of the brand and the business.

2 BENCHMARKING AGAINST THE BEST OPERATORS

The B Impact Assessment serves two useful purposes.

The first is that it allows companies to benchmark themselves against some of the world's leading exponents of 'profit with purpose' business (using a test designed by some of the world's leading experts in impact measurement and reporting).[2] This enables them – and indeed potential investors – to identify areas of weakness and work to address them (every company is offered an 'improve your score' report, which helps to spell this out). All the scores of certified B Corps are publicly disclosed, so it's clear where everyone ranks; this gives members of the community a very public incentive to keep improving.

The other benefit of the BIA is the behaviour it incentivises. Just to get through the certification process in the first place requires a degree of analytical rigour. But if companies want to make sure they are able to re-certify in two years, they have to work hard in the interim to ensure that these standards are maintained, and that they are keeping up with the latest developments in the field. The result tends to be that social and environmental best practices become central to their operating model – which should serve as a competitive advantage.

Certified B Corps also have access to free benchmarking tools, including B Lab's own platform, B Analytics, and its fund rating system, GIIRS. This can be helpful from an investor point of view, since a number of large institutions (including the likes of JP Morgan and Prudential) now use these systems to help them conduct due diligence and track impact performance across their fund investments.

1 UN PRI; Responsible investment and investment performance
2 N.B. Bridges Partner and Head of Impact+ Clara Barby sits on B Lab UK's independent Standards Council.

3 ABILITY TO ATTRACT YOUNG TALENT

One of the defining success factors for any business is their ability to attract and keep the best talent. And more and more people are looking for job roles that allow them to feel a greater sense of purpose in what they do.

This is especially clear with millennials. In Deloitte's most recent annual survey, 6 out of 10 millennials said a sense of purpose was part of the reason they chose to work for their current employer. That figure rose to 77% for Connected Millennials (those making greatest use of social media).[3] A report by think-tank Brookings last year also found that 64% of U.S. millennials were actually prepared to accept a lower salary to work in a job that they loved.

B Corp certification allows companies to signal to talented young people that they, as organisations, not only see the value in a greater sense of purpose, but have also taken tangible steps to crystallise and commit to this purpose. This could make them more attractive as an employer, and thus better able to recruit and retain talented people – another positive indicator in terms of company value.

> **"Knowing that a potential partner is already a Certified B Corp makes the on-boarding process so much faster. The kindred spirit and common ground that exists between Bs creates a level of trust that normally takes years to develop."**
>
> New Living founder Jeff Kaplan[6]

4 NEW BUSINESS OPPORTUNITIES

Evidence suggests that consumers are increasingly inclined to purchase from companies whose values align with their own. A recent Nielsen study found that one in three UK consumers will pay more for products and services from companies that are committed to driving positive social and environmental impact; while ethical consumer spending jumped 9% to £32.3bn in 2013[4] – a year when the economy as a whole grew by only 1.9%.

So for B Corps in the 'business to consumer' space, certification may have a positive branding effect – helping them to stand out from the competition and boost sales in a crowded marketplace (which in turn boosts valuations).

For companies in the 'business to business' space, on the other hand, certifying as a B Corp could be an opportunity to establish new trading ties with other B Corps.

For example, Ben & Jerry's and New Belgian Brewing have teamed up to create an ice-cream flavoured beer (Ben & Jerry's Salted Caramel Brownie Brown Ale Beer);[5] while Houston-based B Corp New Living, which sells sustainable furniture and home goods, has developed a trading relationship with Savvy Rest, a B Corp that manufactures organic mattresses and bedding using environmentally-friendly materials.

More generally, there should be some brand value attached to joining the B Corp movement. These companies are positioning themselves in the vanguard of a new approach to business; the associated connotations of qualities like leadership, innovation and boldness should reflect positively on all B Corps. So too should the concomitant PR and media opportunities.

5 PROTECTION AGAINST 'MISSION DRIFT'

Mission drift is an ever-present issue for the management teams of impact-driven companies – particularly those whose business model may involve some kind of trade-off between financial performance and impact, and/or where the possibility exists to migrate to 'easier' impact outcomes. Achieving B Corp certification mitigates this by effectively 'locking in' the mission.

Investors may look at this in different ways. Where there is clear value in this mission – i.e. where it represents an obvious source of differentiation or competitive advantage for the company – investors are unlikely to want to change it. So the mission-lock is helpful, though not necessarily essential.

In other cases, investors (particularly mission-driven investors) may believe that the value will accrue over a longer time horizon. Here, the B Corp mission-lock provides a valuable way of protecting against mission drift in the short term. Indeed, because it aligns both management and shareholders behind a particular social or environmental agenda, and creates some accountability around that, it actually helps companies commit to ensuring that these benefits are achieved.

Another potential advantage of the B Corp mission-lock is that in a competitive situation, investors won't necessarily have to compete purely on price; B Corps have much greater legal freedom to select an investor whose values they believe align with their own.

On the other hand, for those who invest in the expectation that they will have full control of strategy, and don't see the value of the company's social or environmental agenda, then the B Corp mission-lock may well be a downside. We examine this in more detail (along with some other potential drawbacks for investors) overleaf.

3 Deloitte; Mind the gaps: The 2015 Deloitte Millennial Survey
4 Ethical Consumer Markets Report.
5 ABC News; Ben & Jerry's Is Making Salted Caramel Brownie Brown Ale Beer
6 B Corporation Blog; Joining Forces: New Living and Savvy Rest

05. ...and five questions still outstanding

1 Can the B Corp brand go mainstream?

The positive branding effect and potential sales uplift from becoming a B Corp – which in turn translates into higher valuations for investors – is predicated on a certain level of awareness of what the movement is all about and what these businesses are trying to achieve.

Certified B Corps will only enjoy a halo effect if the B Corp brand itself is sufficiently well-known, well-understood and well-regarded – both by other businesses and by consumers.

This will partly depend on the success of B Lab's efforts to promote and explain the concept, particularly when it launches in new countries. For instance, its recent 'B the Change' marketing campaign aimed to encourage certified companies to make greater use of the B Corp branding on their packaging and marketing materials. B Lab also needs to keep coming up with new ways to get its messages across to the mass market.

Another critical factor here will be B Lab's ability to sign up large, well-known companies as certified B Corps – since this is likely to generate extra attention from both mainstream media and potential investors (see point 2).

2 Can B Lab get the benchmark right?

Striking a balance between accessibility and exclusivity is likely to be one of the toughest challenges for the B Lab teams in the coming years.

On the one hand, the credibility of the B Corp brand – and thus its value to investors – depends on the performance test being a stringent test of a company's social and environmental impact credentials. That means it must ask sensible questions; it must be applied in a consistent way; and it must be continuously adapted to reflect best-in-class standards.

On the other hand, if B Lab wants this to be a mass movement (which is unquestionably the most effective way of positively influencing business practices across the board), the assessment criteria must also be flexible enough to accommodate the widest possible variety of companies – in terms of size, structure, sector and geography.

If that does not happen, and B Corp status becomes achievable only by a select few, there is inevitably a danger that this could become a niche proposition with limited broader influence.

If it does happen, it will broaden the pool of expertise available to other B Corps, while also improving the chances of signing up high-profile companies that can help get the message across to a wider audience.

As such, it was encouraging to see B Lab reveal on the day of the UK launch that Unilever, the listed consumer goods giant with a current market capitalisation of $76bn, is to participate in a new working group that will help large, complex, listed multinational businesses (like Unilever) understand what might be required to certify as a B Corp. The recruitment of companies such as Unilever could be an important step in persuading investors that B Corp status does not require a trade-off in terms of commercial performance.

3 Can B Corps create value through collaboration?

As discussed above, part of B Lab's value proposition for B Corp certification is the potential for companies to enjoy direct commercial advantages as a result of being part of this like-minded community – whether that's in terms of new customers, trading relationships, knowledge-sharing, joint ventures or otherwise.

Given that any such commercial benefits will have clear implications for the company's valuation and exit prospects, investors will be eager to see how meaningful this collaboration actually turns out to be in practice – and what B Lab is doing to help B Corps find new ways to connect and collaborate.

With the B Hive, its proprietary social network, B Lab already has a tool in place to help B Corps work together wherever they are in the world. This could prove to be a significant benefit as the movement develops – although it will require ongoing augmentation and moderation by B Lab, in order to facilitate connections proactively.

At a country or regional level, collaboration is also likely to involve events designed to help like-minded B Corps network more effectively. One obvious option would be to put together sector- or function-specific working groups; this would allow companies operating in similar spheres to learn from each other's experience, and also potentially to lead on the recruitment of other businesses in the sector.

4 Will B Corp status create governance issues?

Adopting the B Corp legal framework fundamentally changes the way a company is governed – because it compels directors to make decisions that are in the broader interests of all the company's stakeholders (as opposed to the narrow interest of its financial shareholders), and to consider the impact on society and the environment.

While this clearly doesn't prevent B Corps from taking on institutional capital – as the likes of Warby Parker have shown – investors may need to become comfortable with a slightly different *modus operandi.*

For instance, in situations where the interests of shareholders and broader stakeholders do not align, directors must find a way of resolving that tension – and at times, of resisting the interests of shareholders.

There is clearly an ongoing requirement for the B Lab groups to engage with investors to allay any possible governance concerns – and of course, to make sure that wherever possible, potential issues are resolved during the assessment process, before certification.

5 Is the 'mission-lock' too restrictive?

While the mission-lock inherent in B Corp certification helps to mitigate some risk for investors by preventing mission drift, and potentially even gives mission-driven investors an advantage in a bidding process, the obvious flipside of the B Corp 'mission-lock' is that it means less flexibility for a potential investor. This will be the biggest single concern for many investors.

It's worth emphasising that B Lab prefers not to use the term 'mission-lock', on the basis that B Corp certification is not necessarily meant to be permanent or irrevocable. Under the current B Corp rules, a new management team can choose to reverse an earlier decision to certify, (assuming it receives enough support from shareholders to change the articles back again).

Instead, B Lab prefers to talk about 'mission alignment', for the reasons outlined in point 5 on p. 13.

Nonetheless, any legal commitment arguably does constitute a mission-lock of sorts, particularly since removing it may have reputational consequences. And some B Corps could go further: impact-driven entrepreneurs who want to ensure their mission is protected for the long-term may choose to adopt a stronger lock (a golden share, for instance[1]) that is less contingent on the support of the current management.

Either way, investors are likely to have less control than they might be used to over everything from strategic decision, to the priority given to price considerations on exit.

So the question then becomes: to what extent do the additional benefits of B Corp certification offset this reduced level of control? Or alternatively: is the company's inherent performance-lock sufficiently strong that there will be no tension between the interests of shareholders and stakeholders?

[1] One powerful way companies can do this is by creating a 'golden share', which gives a named party an effective power of veto over any change to the company's founding mission, in perpetuity; Bridges Ventures is structured this way, with the golden share held by the Bridges Charitable Trust. For more on golden shares, see the forthcoming Hogan Lovells paper 'Going for Gold: How golden shares can help lock in mission for social enterprises'.

06. Conclusion

The emergence of the B Corp movement – and, in particular, its increasingly global focus – is a positive development for anyone interested in the growth of 'profit with purpose' business (which most of us should be, given these companies' potential to offer new solutions to intractable societal problems).

For entrepreneurs, B Corp certification has much to recommend it: improving their employer brand; learning from some of the best 'profit with purpose' companies in the world; attracting new customers; and locking in their societal mission – which in turn gives them more control if and when they choose to exit, in the sense that they don't necessarily have to sell to the highest bidder.

For investors, the argument is slightly less straightforward – since on the face of it, the more control the company has, the less control investors have. However, some investors will feel that the potential value-add of B Corp certification – notably in terms of mission-alignment, competitive differentiation, enhanced resilience and best-in-class operating practices – more than outweighs this limitation.

That is particularly true for companies with a strong performance-lock, where there's less potential for tension between the financial and the impact model. And it's particularly true of mission-aligned investors who can afford to think long-term (since B Corps may sometimes make decisions that have a short-term cost but drive long-term value).

The other interesting question is whether this movement can have a broader catalytic effect in raising impact performance, over and above the group of certified B Corps. B Lab's online tools are freely available to any business with an interest in this area; to date, over 33,000 companies have apparently used the BIA to review their existing practices. This suggests there's a much broader group of businesses starting to recognise the importance of 'measuring what matters', as B Lab puts it.

Clearly, challenges remain; not least in terms of getting the B Corp message to a wider audience, and (on a related note) keeping the right level of rigour in the assessment process. There are still opportunities to bolster the value proposition, particularly around facilitating greater collaboration and knowledge-sharing between B Corps.

Nonetheless, the B Corp movement certainly has the potential to bolster the 'profit with purpose' ecosystem, by improving standards and raising its profile. Over time, this should boost the valuations of these businesses, making them increasingly attractive to investors – mission-aligned or otherwise.

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