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# Managing Your Business in the Era of Stakeholder Management

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How the B Corp movement enables a  
shift to a more inclusive capitalism  
that considers all stakeholders

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# How Businesses Can Prepare for the Shift to Stakeholder Capitalism

The economic slowdown and job losses due to the COVID-19 epidemic expose flaws in the shareholder-based capitalist economy. In the widely accepted ideology that rules today's major economies, the role of business is to focus primarily on profits. The other stakeholders in any business, such as the environment, the communities where the business operates, and even in some cases the employees it hires, are viewed as "externalities"—in other words, not the business's problem. But consumers—a large group of stakeholders—are starting to hold bad actors accountable for their profit-at-all-costs behaviors. Amazon, the e-commerce giant, faced a drop in stock price after it fired two tech employees who had publicly criticized safety and working



Allbirds, a B Corp since 2016, sustainably makes its shoes and transparently shares its environmental impact.

conditions at its warehouses during the early period of this epidemic.<sup>1</sup> Supercheap Auto and other auto parts companies had difficulty finding suppliers after they took advantage of the epidemic to further delay paying bills to small vendors.<sup>2</sup> Though financially stable, some big companies, such as Burlington Stores, Staples, Victoria's Secret and the luxury conglomerate LVMH, used the

pandemic to delay paying rent to local malls — and then suffered a cold welcome by local consumers.<sup>3</sup> These public criticisms are demanding that businesses do better by considering and taking care of the lives they touch and the natural world they extract resources from—they are calling for wider adoption of a stakeholder governance model to build a more equitable, just economy.

The leaders of prominent businesses were aware of the necessity of making such a shift before the pandemic began. On August 19, 2019, the influential trade group that represents the largest U.S. companies, the Business Roundtable (BRT) released a statement declaring that a corporation's purpose should be to serve the interests of all of its stakeholders, including consumers, employees, suppliers, communities, and shareholders. This was a dramatic change, because for decades maximizing shareholder returns has been the guiding principle of business, particularly for the large public companies that the BRT represents. This statement marks a potentially significant shift in the strategic priorities of big business. However, it came under quick and significant critique, as the Council of Institutional Investors (CII) said it would result in a

situation where “accountability to everyone means accountability to no one” by diminishing shareholder rights and “proposing no new mechanisms to create board and management accountability to any other stakeholder.”<sup>4</sup>

It is true that without accountability, such discourse could be no more than empty promises designed to sound caring or even possibly to implement a greenwashing strategy whereby a company intentionally emphasizes more socially or environmentally laudable aspects of its record while not really engaging in substantive actions. For example, during the COVID-19 crisis, BRT signatory Marriott furloughed a large proportion of its US employees while at the same time paying out more than \$160 million in dividends to shareholders and seeking a raise for its CEO.<sup>5</sup> Thus, for the CEOs of the BRT to match their words with actions, they must develop mechanisms to align their governance structures and operations to create stakeholder value, not just deliver value to shareholders. Furthermore, they must work toward greater transparency and accountability. Otherwise, a focus on stakeholder governance would be hollow or, like the CII critique states, “hiding places for poor management.”<sup>6</sup>

Now, in 2020, with stark predictions of a drop in the U.S. GDP and a dark outlook for small brick-and-mortar retailers across the country, a business approach that includes consideration of all stakeholders alongside profits is more important than ever. But many businesses have a poor understanding and limited history of incorporating stakeholders in their practices. The purpose of this report is to explain what stakeholders are and why they are important to business operations. This report highlights a movement of businesses that have adopted stakeholder governance with reporting transparency, a recurring assessment of management practices and progress, and third-party, independent review of their impact: Certified B Corporations (B Corps).



The B Corp movement provides a new model of business that can be accountable and transparent to stakeholders and uphold high standards for measuring and managing stakeholder impacts. Such standards are what separates true stakeholder governance from the corporate social responsibility (CSR) initiatives found in many companies, most of which are not an integrated component to the business core. For example, in the home products industry, Method and Seventh Generation have challenged the chemical-based cleaning and home product

industry by providing natural, non-toxic, and biodegradable products. Apparel brands like Patagonia and EILEEN FISHER have been tackling clothing waste through recycling or repurposing. In the education field, Laureate Education has been working to provide quality higher education that is accessible and affordable to underserved populations — almost half of Laureate’s students come from underserved groups. These companies are all B Corps, and they show how businesses that focus on stakeholders can play a positive role in society and generate increased returns through effective stakeholder management.

Based on research I did for my forthcoming book, [\*Better Business: How the B Corp Movement Is Remaking Capitalism\*](#), this report aims to articulate how the B Corp movement model of change enables stakeholder governance and accountability.

### 1) What Is Stakeholder Management and Why Is It Important?

Stakeholders are defined as “any group or individual who can affect or is affected by the achievement of an organization’s purpose.”<sup>7</sup> More narrowly, they are “individuals and constituencies that contribute, either voluntarily or involuntarily, to [the company’s] wealth-creating capacity and activities, and who are therefore its potential beneficiaries and/or risk bearers,” and thus, managing stakeholders can be thought of as “managing the extended enterprise.”<sup>8</sup>

A stakeholder approach to business management views the long-term success of a company as a function of its relationships with its stakeholders, including employees, consumers, governments, investors, suppliers, and communities. In this view, the ultimate purpose of the company is to create and deliver welfare or value to all of its stakeholders, and the achievement of this purpose depends on the cooperation and support of these stakeholders, who also supply critical resources to the company.

Typically, individual stakeholders may obtain three types of benefits from companies: functional, psychosocial, and “desirable end-states,” based on individuals’ values. Functional benefits refer to tangible benefits that individuals gain from a company’s policies or activities, such as employees learning concrete skills through manufacturing personal protective equipment (PPE) and participating in health-initiative projects launched by their company. Psychosocial benefits occur as the result of functional benefits and/or the stakeholder’s perceptions of and involvement in company activities. In the case of health-initiative projects, employees can achieve psychosocial benefits—work-life integration—through their participation in these programs, and their perception and involvement leads them to feel their companies care about causes that they care about. This leads to those employees achieving “desirable end-states”— they feel that their work and personal lives are in harmony.<sup>9</sup> (See Table 1 below.)<sup>10</sup>

Returns to Stakeholders	Patients	Consumers	Investors	Employees
Functional benefits	Health improvement		Stock returns, Lower risk	Use professional skills to aid personal causes
Psychosocial benefits	Social acceptance	Altruism resonated	Recognized financial success	Work-life integration
Desirable end-states	Self-esteem	Well-being	Sense of accomplishment	Sense of harmony

**Table 1. Example Three Types of Returns to Stakeholders of a Company  
Launching Health Initiative**

(Adapted from the framework in Bhattacharya, Korschin, & Sen (2009)<sup>10</sup>)

As individual stakeholder returns move beyond purely functional benefits, the stakeholder-company relationship improves in quality: from satisfaction that the functional role is being filled, to a relationship based on trust and commitment, to stakeholders identifying with the company and championing its work to other stakeholders. A company benefits if its relationships are built on trust and commitment, and it is able to capitalize greatly on those relationships if the stakeholders develop identification with the company.<sup>11</sup> For instance, the company-consumer relationship can translate into revenue enhancement when customers trust the company, continue to buy products from it, and recommend its products to others. Strong company-employee relationships can improve productivity and thus enhance a firm's financial performance.<sup>12</sup>



The fight against the COVID-19 epidemic has provided examples of how stakeholder governance operates in times of stress and crisis. Communication with investors and clients about how a company addresses this challenge will help build a good reputation, which in return strengthens customer loyalty and investor trust. For example, Redvespa, a B Corp in New Zealand that provides consulting services, has always emphasized open communication and interaction with its stakeholders. During the COVID-19 epidemic, its sales team has been sharing plans with consumers and adapting to changing client needs.<sup>13</sup>

Effective stakeholder management solidifies stakeholder endorsements and can improve companies' financial performance.<sup>14</sup> More importantly, though, it contributes to risk management.

As institutional investor BlackRock CEO Larry Fink wrote in his annual letter, “A strong sense of purpose and a commitment to stakeholders helps a company connect more deeply to its customers and adjust to the changing demands of society.”<sup>15</sup> Good relations with diverse stakeholders foster interdependencies among various stakeholders, which builds stability and flexibility; this in turn enables firms to absorb exogenous disturbances and develop alternative solutions to disruptions.<sup>16</sup>

Academic studies have shown that a commitment to employees, suppliers, customers, and communities enables a company to maintain its current competitive advantages for a longer period, and helps less efficient companies recover from disadvantageous positions more quickly;<sup>17</sup> company engagement in social initiatives that aim to serve communities can offer an



Patagonia closes its stores for elections. The company has been a B Corp for nine years.

“insurance-like” benefit, as these firms experienced less value (i.e., stock price) loss when negative events happened.<sup>18</sup> For example, in the case of the 2008 global financial crisis, companies with high levels of engagement with their stakeholders were able to recover better and faster than others.<sup>19</sup>

The importance of managing businesses from a stakeholder perspective goes beyond creating financial benefits and protecting firms from disruptions. As Klaus Schwab, founder and executive chairman of the World Economic Forum (WEF), said in January 2020: “Business has now to fully embrace stakeholder capitalism, which means not only maximizing profits, but using their capabilities and resources in cooperation with governments and civil society to address the key issues of this decade. They have to actively contribute to a more cohesive and sustainable world.”<sup>20</sup>

## 2) How the B Corp Movement Enables Stakeholder Management

As noted, the recent focus on stakeholders from organizations like the BRT, WEF, and BlackRock has come under attack because it is viewed as potentially nothing more than talk. To ensure effective stakeholder management, mechanisms of accountability are needed. This section elaborates how two fundamental innovations from the B Corp movement—the benefit corporation (a new legal business classification) and the B Impact Assessment (BIA)—can help firms adopt stakeholder governance in a substantive and accountable way.

### A) Aligning Governance Structure with Stakeholders

The benefit corporation is a new corporate form that recognizes a company’s commitment to



creating a material, positive impact on society and the environment in addition to being financially profitable. Registered benefit corporation governance not only permits and requires entrepreneurs to take into account stakeholders' interests in addition to shareholders' interests, but it also offers protection to founders concerned that taking in outside capital could lead their companies to "drift" away from their social missions. The necessity of this structure is illustrated by legal cases challenging for-profit corporations addressing stakeholders' interests. When Ford Company increased the welfare level of its employees, it was sued by its shareholder Dodge and lost the lawsuit for not fulfilling its fiduciary duty to maximize shareholders' value.<sup>21</sup> When Craigslist committed to generous community service, which was part of the corporate culture since its founding, it lost a lawsuit filed by its shareholder eBay for the same reason.<sup>22</sup> Thus for a company to be truly stakeholder driven, this principle needs to be encoded in its foundational legal structure.



This legal form expands the fiduciary duty of directors to consider the impact of their decisions on a broad spectrum of stakeholders, not just shareholders. B Corps register as benefit corporations if that corporate structure is available where they are incorporated. This includes well-known companies like Casper, Kickstarter, King Arthur Flour, Athleta, and Danone's North America business. In addition, for transparency reasons, benefit corporations issue a regular "benefit report," which follows third-party standards, for assessing and reporting on social and environmental metrics that must be distributed to all shareholders. Over the last decade, 36 states, the District of Columbia, and Puerto Rico, as well as Italy, Colombia, and Ecuador have passed benefit corporation legislation, and more than 10,000 U.S. companies have incorporated as benefit corporations.

### ***B) Accountability and Transparency to Stakeholders***

To achieve certification, B Corps have to take the B Impact Assessment (BIA) developed by the nonprofit B Lab to measure the social and environmental impact of their entire operations. To qualify as a B Corp, a company must achieve a verified minimum score of 80 points on the BIA. B Corp certification verifies a company's commitment to a diverse group of stakeholders. The BIA is a holistic assessment of a company's operations organized into five areas: governance, workers,

community, environment, and consumers. The BIA is free and tailored to company size, industry, and geography so every company can use it. The standardized components within the BIA provide a holistic and systemic model for managing a business for the long run. Companies can use different components to guide management of specific stakeholders. As of 2020, more than 3,400 companies across 150 industries and 71 countries have been certified as B Corps.<sup>23</sup>

While becoming a B Corp may initially be a stretch for many larger companies, such as those in the BRT, there are a number of steps they can take in the short term. They can start by using the BIA as a stakeholder performance management tool to assess parts of their business, such as a subsidiary and/or their suppliers. The BIA score gauges where a company is doing well and how well it is doing across the five different areas. Moving forward, these companies could commit to year-on-year improvements on the key stakeholder metrics within chosen BIA areas. More than 50,000 companies already use BIA to measure their impact today.<sup>24</sup>

Companies with BIA scores below 80 can still incorporate as benefit corporations, as B Corps and legal benefit corporations are separate: The former is the certification program for businesses run by the nonprofit B Lab; the latter is a form of legal incorporation akin to a C Corp.

### 3) Managing Specific Stakeholders: Examples from B Corps

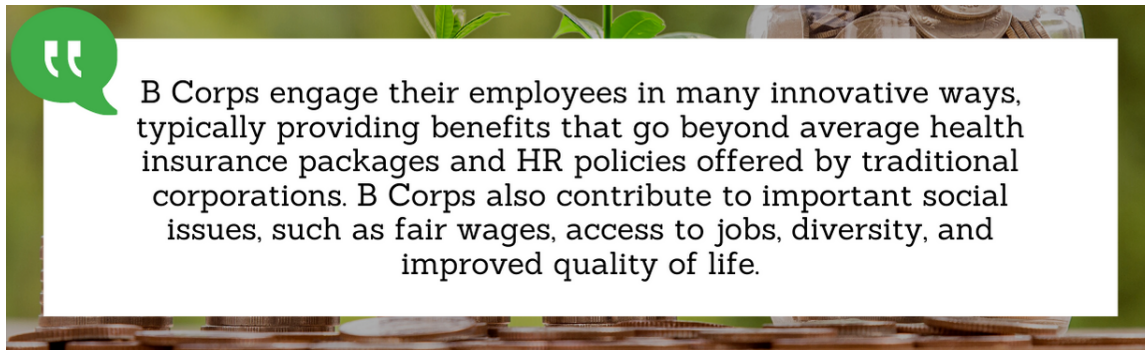
Each section below discusses one of the five primary stakeholders typically considered in the literature on stakeholders—employees, consumers, communities, suppliers, and investors—and provides a summary of (1) how companies can productively engage with that stakeholder, (2) how typical B Corps manage to create value for that stakeholder, and (3) how B Corps benefit from serving that stakeholder. **While B Corps are used as examples, it is important to note that such strategies are applicable to all companies.**

#### **A) Employees**

Without employees, a company cannot exist and pursue its objectives. Employees accomplish the production of goods or services a company provides. Their productivity and quality of work are crucial for companies to compete in the market. That is why many managers implement HR practices designed to improve employee satisfaction and retention, and increase employee commitment and effort.

B Corps engage their employees in many innovative ways, typically providing benefits that go beyond average health insurance packages and HR policies offered by traditional corporations. B Corps also contribute to important social issues, such as fair wages, access to jobs, diversity, and improved quality of life. These are integrated into the everyday culture of B Corps and often have the added benefit of increasing performance.





### **Best practices and benefits of employee stakeholder management:**

- Providing a living wage and benefits to employees is a cornerstone of effective stakeholder management.
- Fostering workplace justice, equity, diversity and inclusion (JEDI) is essential, and can improve a company's strategic capabilities.
- Creating effective employee engagement attracts a better pool of potential employees and increases employee retention, innovation, and performance.

**Living wages and benefits.** B Corps focus on fair compensation for employees. For example, nearly 90% of B Corps pay their employees a living wage.<sup>25</sup> Some pay more. For example, Green Mountain Power pays 25% more than a living wage to its lowest-paid employees, and Method pays 40% more.

Many B Corps also offer benefits that have an impact on employees' lifestyles. For example, Natura offers employees on-site meditation rooms, a \$500 subsidy for gym memberships under its "Get Fit" program, and the use of the company's organic food garden. Employee benefits at The Alchemist include yoga classes every week, kitchens fully stocked with whole foods, and a chef on staff to prepare lunches. Badger has a Babies at Work program, which allows employees to bring their babies to work until they are 6 months old or crawling.<sup>26</sup>

Such benefits can also have a deep impact on employees' livelihoods and futures. Boloco offers its mostly Spanish-speaking employees English language courses and leadership training as part of its mission to help employees advance in society. In addition, every year, Boloco increases its minimum wage and average wage per employee—in 2019, it was about \$15.25/hour. Greyston Bakery has an open hiring policy that welcomes immigrants and refugees, the economically disadvantaged, people of all faiths and sexual orientations, and the formerly incarcerated. Rhino Foods has an income advance program that provides employees grants for emergency situations. In its first 10 years, the program provided \$380,040 to 379 employees, helping them salvage their credit histories and establish banking relationships.

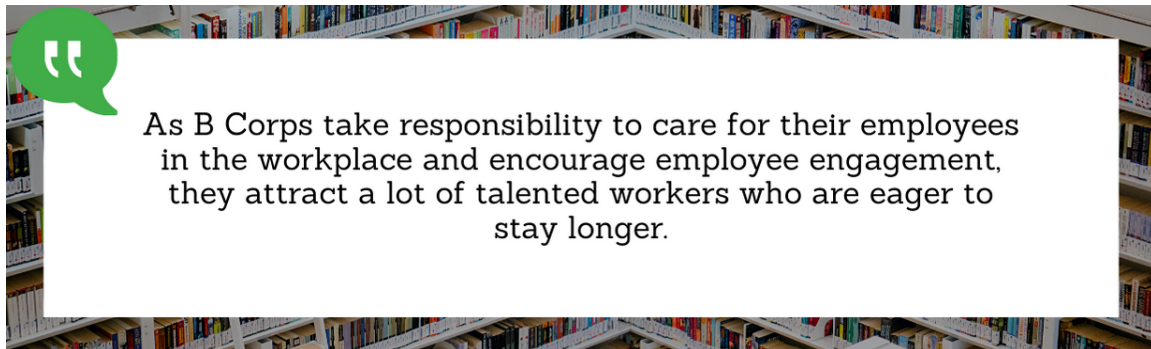
**Fostering workplace justice, equity, diversity, and inclusion (JEDI).** A crucial aspect of engaging employees is having an effective approach to workplace justice, equity, diversity, and inclusion. Beyond the social justice rationale to be inclusive, research has shown that addressing these issues can promote employees' performance, attachment, and engagement while improving their perceptions of their own careers and of the organization.<sup>27</sup> Not only do employees feel valued when their workplace is focused on their well-being and happiness, they are also more eager to be at work. Effective workplace diversity management promotes civility in the workplace; increases employee retention rates, innovation, and organizational voice; and enhances sales performance.<sup>28</sup>



Employees at Greyston Bakery, which has an open hiring policy in place. Greyston first certified as a B Corp in 2008.

In 2016, B Lab launched the Inclusive Economy Challenge, inviting B Corps to set and meet three specific, measurable goals from a diverse set of themes: support for vulnerable workers, climate change mitigation, and supplier screening. The goal of the Inclusive Economy Challenge was to create an equitable, diverse, and inclusive economy with those values as the core of business, from hiring

to sourcing to ownership. In the first two years, more than 250 companies participated, collectively achieving 887 measurable inclusion goals.<sup>29</sup> They made measurable progress on issues such as equitable pay across race and gender; equitable benefits for part-time and contract workers; shared ownership, workforce and board diversity; and renewable energy. Although diversity plays a big role in this challenge, inclusion is equally important and incorporates goals regarding parental leave as well as the creation of income and wealth-building opportunities for low-income or underrepresented populations.



As B Corps take responsibility to care for their employees in the workplace and encourage employee engagement, they attract a lot of talented workers who are eager to stay longer.

**Employee attraction and retention.** Not only do B Corps attract passionate, socially driven employees, they hold on to them for much longer. As B Corps take responsibility to care for their employees in the workplace and encourage employee engagement, they attract a lot of talented

workers who are eager to stay longer. For example, the average employee tenure at Badger is more than five years, and Rhino has seen a 36% increase in employee retention since its income advance program began.<sup>30</sup> Compared to its competitors with an average turnover rate of 40% to 50%, Ian Martin Group has a turnover rate under 10%.<sup>31</sup>

### **B) Consumers**

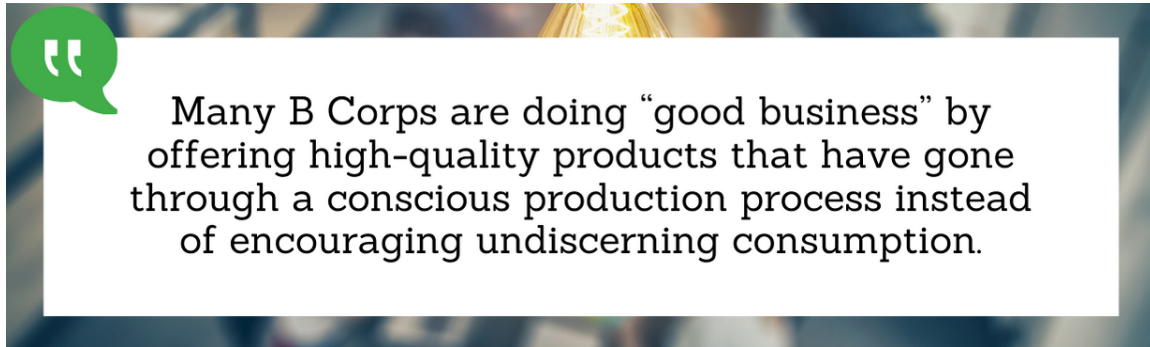
Consumers can reward a good company with brand loyalty and can punish a notorious company with boycotts. The management of long-term relationships with customers plays a critical role in corporate sustainability. B Corps engage their consumers with high standards on quality and sustainability. The certification differentiates a B Corp from both conventional for-profit companies and nonprofit organizations, and helps consumers align their values with the companies they patronize. Millennials and Generation Z are highly engaged consumers who care about equity and sustainability. Research has shown that this ascending population is willing to pay extra for products that account for social and environmental issues across the world: A 2017 survey released by Good.Must.Grow found that 61% of Americans believe that buying products from socially responsible companies is important.<sup>32</sup> Another survey found that 73% of Millennials around the globe are willing to pay extra for products they believe are sustainable and that come from businesses focused on doing good.<sup>33</sup> Research on Fair Trade certification has found that 50% of Millennials look for proof when a company claims a social or environmental mission.<sup>34</sup>

#### **Best practices and benefits of consumer stakeholder management:**

- Providing customers with high-quality products and services is a first-order objective of stakeholder management.
- Acting authentically and maintaining high standards of quality and sustainability helps companies build valuable relationships with customers.
- Committing widely to customers will benefit the company with greater market value and brand loyalty.

**Providing high-quality products and services.** Many B Corps are doing “good business” by offering high-quality products that have gone through a conscious production process instead of encouraging indiscriminate consumption. For instance, Patagonia not only encourages customers to “buy less,” it also organizes workshops and tours across the country to teach people how to repair their own apparel at home. Most B Corps are committed to using clean and safe ingredients for their products; investing in renewable materials, clean energy, and sustainable sources; and reducing waste and pollution. Allbirds, a shoe manufacturer, focuses on creating sustainable shoes out of natural materials and opened the process used to create its sole material “SweetFoam,” made out of sugarcane, a completely renewable resource, to everyone—including competitors. Production of SweetFoam’s base resin is carbon negative, which means

that the process actually cleans the atmosphere, much as a tree does.<sup>35</sup> Another example is Green Mountain Power, a utility company that has set the goal to have a 100% carbon-free energy supply by 2025 and be 100% renewable by 2030.



**Importance of authenticity.** An important aspect of how B Corps connect with consumers is authenticity. B Corps and other mission-driven businesses are emerging from an environment that has been rife with empty corporate social responsibility initiatives and greenwashed sustainability goals, so consumers are understandably wary of “faux-responsible” businesses. The BIA is rigorous and all-encompassing, so when consumers see the B logo displayed on B Corp products, they can recognize its strength in assessing a company’s holistic impact and begin to trust that company.

**Greater market value and brand loyalty.** When a B Corp highlights its commitment to social and environmental causes, consumers, especially younger consumers, are more likely to be loyal to that brand. For example, Ben & Jerry’s conducted a study to better understand existing consumer resonance and loyalty. It discovered that its customers are two and a half times more loyal to its brand than other ice cream consumers. The study revealed that consumer loyalty is high because the consumers believe the company stands for something and is authentic about it.

### **C) Community**

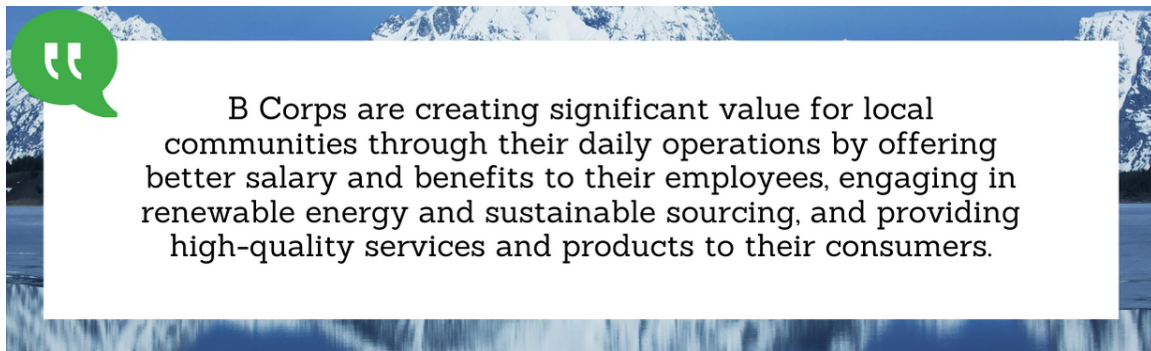
Neighbors living in the local community could be the employees, suppliers, customers, and partners of a business. A community can be a small township, a big city, or even online, and is essentially the living space for a corporation. It is the first line of defense against a crisis. Without the support of a community, survival in quarantine conditions is a particular challenge.

B Corps have proactively engaged in community development. Through a variety of inclusive social initiatives, B Corps become agents of change in their communities. In addition, B Lab has teamed with B Corps to create regional groups of leaders, called B Local groups, focused on their city’s or state’s B Corp community. In return, the communities act as collaborators to support the B Corp movement.

### Best practices and benefits of community stakeholder management:

- Contributing to local community development through inclusive social initiatives is one aspect of proactive stakeholder engagement.
- Organizing locally helps companies build greater engagement and impact.
- Engaging inclusively enables the community to become a collaborator for the company's social initiatives.

**Contributing to local community development through social initiatives.** B Corps are creating significant value for local communities through their daily operations by offering better salary and benefits to their employees, engaging in renewable energy and sustainable sourcing, and providing high-quality services and products to their consumers. They also contribute to community development through social initiatives such as providing job opportunities to local disadvantaged people, encouraging volunteering and pro bono work, donating to NGOs, and much more.



Roshan, the largest telecommunications provider in Afghanistan, has been contributing to the social and economic redevelopment of that country by improving its communications grid. The B Corp also has been training doctors and providing telecommunications solutions to hospitals, building playgrounds and schools for children, and encouraging sports programs and youth development initiatives. Importantly, the company has made women a specific focus of its efforts, providing them with job and educational opportunities.<sup>36</sup> Instead of sourcing coffee beans from South American and African countries and then roasting them in the developed world, Moyee Coffee keeps the roasting process in the beans' home country's "coffee belt" so more jobs and profits stay there. In doing so, Moyee Coffee has improved working conditions, increased wages, and had a positive effect on those communities.<sup>37</sup>

Cabot Creamery partnered with Little Pickle Press in 2015, creating a picture book titled *The Cow in Patrick O'Shanahan's Kitchen* that showed readers where their food comes from and donating 15% of net sales to the ONE Campaign, a nonprofit that fights preventable disease and extreme poverty around the world and particularly in Africa.<sup>38</sup> Cabot Creamery also partners with various B



Corps on its Reward Volunteers program. Participants log how many hours they volunteered through an app or an online widget, which makes them eligible to win prizes from other B Corps such as King Arthur Flour, Gardener's Supply, and Divine Chocolates. GrowHaus, an indoor farm in Denver, organizes events with B Local Colorado to encourage individuals to "B of Service" by providing volunteering opportunities for companies and individuals. At each of its institutions, Laureate Education has a Corporate Citizenship program focused on volunteering, community development, and pro bono work.

**Organizing locally for greater engagement and impact.** Beginning at a grass-roots level, B Lab has teamed with local B Corps to create groups of leaders focused on their city's or state's B Corp community. They come together on formally constituted B Local boards, or informally through social networking, to host events and encourage new businesses to participate in the B Corp movement. As these companies get together, they can share ideas and best practices and support others. In some cases, they can work to create a more welcoming environment for like-minded, mission-driven companies.

**Engaging with the community creates collaborative benefits.** The community in which a



Bags of flour from King Arthur Flour, a Certified B Corp since 2007.

company operates also can act as a collaborator for corporate social initiatives. When firms become more strategic, they can create economic clusters — “geographic concentrations of firms, related businesses, suppliers, services providers, and logistical infrastructure in a particular field”—that can increase both company productivity and community welfare.<sup>39</sup> Firms also can form social

clusters to improve social and environmental impact. Indeed, studies have shown that local community features such as understandings, norms, and rules have a strong influence on corporate social actions.<sup>40</sup>

### **D) Suppliers**

Suppliers provide raw materials, semi-manufactured goods, machines, and equipment to a business. The quality and sustainability of their resource supply plays a significant role in the survival and development of a firm. Mutual trust between a firm and its suppliers ensures the competitive expenditure and efficiency of the business. The interdependence along the supply chain makes it necessary to keep suppliers afloat.

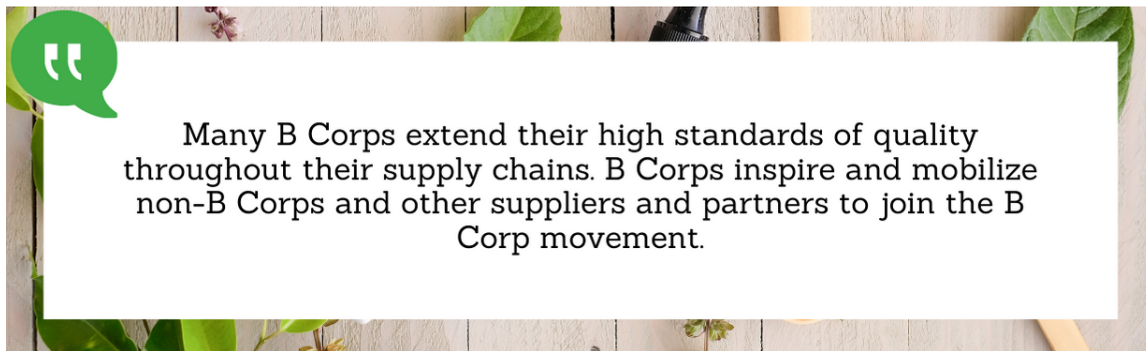
Many B Corps extend their high standards of quality throughout their supply chains. B Corps inspire and mobilize non-B Corps and other suppliers and partners to join the B Corp movement.



The BIA is an effective sustainability tool for businesses, and many B Corps have encouraged their suppliers to undertake the BIA. In this way, the suppliers are able to create intrinsic good by offering high-quality resources that have undergone a conscious production process.

### **Best practices and benefits of supplier stakeholder management:**

- Motivating companies to extend high quality standards throughout their supply chains.
- Transforming a supply chain requires close examination of a suppliers' practices, and the current or potential supplier must be encouraged to be transparent and accountable.
- Enhancing productivity and quality and reinforcing mission commitment.



**Extending high quality standards down the supply chain.** When companies extend their standards down the supply chain, they not only create social value but can improve product quality and reduce costs. In fact, many companies already were selective with their supply chain and other partnerships—many B Corps now prioritize other B Corps as suppliers. Ben & Jerry's, for example, has been buying cookie dough from Rhino Foods and brownies from Greyston Bakery. Seventh Generation has set a goal to purchase only from companies that qualify for B Corp certification. King Arthur Flour and COOK Food have committed to similar goals. For purpose-driven companies that would like to work with like-minded businesses, B Corp certification becomes the filter.

**Educating current and potential suppliers to be transparent and accountable.** B Corps are transforming their supply chain by encouraging or requiring current and potential suppliers to complete the BIA or a pared-down version of it. When possible, B Corps also often help their suppliers become B Corps as well. For instance, Natura created an electronic bidding system for its suppliers that is based on B Corp values. BAMA Company requires its suppliers to take a sustainability survey, and the company is working to get its top 25 suppliers to complete a pared-down BIA. In addition to re-examining their supply chains, many B Corps now form partnerships within their industries and geographic regions for mutual support and broader change. For example, Patagonia led a group of five B Corps—the first-ever partnership of its kind—to create a \$35 million tax equity fund that made solar power available to thousands of households:

Patagonia was the tax equity investor; Kina'ole was the fund manager; New Resource Bank and Beneficial State Bank were lenders; and Sungevity provided the solar power. In another example, Rubicon Global, a waste-management technology company, partnered with World Centric to encourage the use of World Centric products among its customers in an effort to reduce the waste found in landfills.

**Enhanced productivity and quality and reinforced mission commitment.** A close examination of a supply chain helps companies better understand how their suppliers are doing on sustainability. As suppliers increasingly integrate into the B Corp model, the partnerships gradually shift to relationships built on shared beliefs and understandings, which ensure trust and cooperation. This in turn can enhance productivity and quality and, importantly, further align a firm's overall operation with its social mission. For example, the Italian olive oil company Fratelli Carli has created a set of guidelines, called the "Codici," for its suppliers that ensures that all of their products are sustainable and has been conducting regular quality assurance reviews with its suppliers. In addition to enhancing protections for the environment, ecosystem, farmers, and workers, this has led to a shorter and more efficient production chain. In another example, Bancolombia asked about 150 of its suppliers to use the full-length BIA and report their results in 2016; more than 100 did so. Among these companies, women held 36% of executive positions, 68% of them had an environmental policy, and they created over 17,500 jobs that year. Having suppliers complete the BIA helped Bancolombia better understand the scale and makeup of its supply chain, which in turn reinforced the bank's mission of providing "more human banking" to customers.

### ***E) Investors***

Investors provide funding to a business when it faces shortage of capital and/or demands a larger scale of production. They can be either the creditors who offer loans to a business or the shareholders who purchase and own the equity shares of a company. A company has a fiduciary duty to all its investors to effectively manage their investment. When an increasing proportion of investors are concerned about social and environmental impact, they will divest from less responsible firms and invest in those that match these expectations.

When investors choose to invest in social and environmental solutions while also pursuing economic returns, B Corps become an obvious choice. In the meantime, investors who consider social and environmental impacts play a key role in supporting the development of B Corps. Thus, it helps both B Corps and investors to create long-term value and mitigate short-term risk.

### **Best practices and benefits of investor stakeholder management:**

- Mobilizing investors to take actions to solve broader societal problems through effective stakeholder management.

- Aligning on metrics and transparency is essential to driving investment in the long run.
- Providing lower-risk and long-term sustainability benefits companies and their investors.

**Mobilizing investors to take actions to solve broader societal problems.** Nowadays, the public is progressively asking companies to make a positive contribution to society; they are demanding companies take actions to solve broader societal problems including inequality, discrimination, and climate change.

This puts investors that do not prioritize social value creation as well as financial return in a dilemma. On the one hand, investors want assurance that they are investing in the “right” companies that have social initiatives, which add to or at least do not detract from their interests. This move toward impact investing has been gaining traction since the early aughts, when the [GIIN](#) and [SOCAP](#) emerged as leaders and conveners. On the other hand, the public as universal shareholders themselves are demanding investors, especially institutional investors, be responsible and serve a social purpose. Organizations like [The Shareholder Commons](#) have been formed to lead this charge in recent years. Increasingly, investors are compelled to invest in responsible businesses. The challenge for them becomes how to screen out firms with empty CSR claims.

The rise of the B Corp movement helps investors take up the challenge in a number of ways. First, the increasingly diverse B Corp community serves an investment class that signals quality with sustainability. B Corps’ high standards on social and environmental performance guarantee their commitment to social value creation, reducing the possibility of encountering public criticism. For risk-averse investors, B Corps are a good option, as they offer benefits that traditional corporations often don’t, such as long-term sustainability, risk mitigation, and management quality. Many investment companies, including mainstream firms such as T. Rowe Price, Fidelity Management and Research Co., Tiger Global Management, and Kohlberg Kravis Roberts (KKR)—a classic “old-school corporate raider” and pioneer of the leveraged buyout—have been investing in B Corps. The former three have invested in the sustainable footwear startup Allbirds, a B Corp founded in 2015 and certified in 2016, while KKR invested in Laureate Education, a B Corp and the first publicly traded benefit corporation.



**Aligning on metrics and transparency.** For investors who would like to invest in social solutions while pursuing economic returns, the BIA is a powerful tool to manage their portfolios. By encouraging the companies in their portfolios to undertake the BIA, they can better understand the social and environmental impact of these firms, identify their weakness, and then make improvements. London-based Bridges Fund Management, for example, has businesses in its portfolios take the BIA and use their scores to see where their impact is lacking and where they can help—environmental initiatives and human resource management are two areas of focus. If going through a full BIA is not possible, investors can use components of the BIA to guide their work. For instance, the Boston-based social investment pioneer Trillium Asset Management has been using components of the BIA in its advocacy work. With a focus on workplace practice, Trillium asks its portfolio companies to develop diversity and inclusion programs instead of asking them to completely align with the B Corp model. In 2016, Trillium urged J.B. Hunt Transport Services to adopt a policy prohibiting discrimination based on sexual orientation, gender identity, and gender expression, and shareholders voted 54% in favor of the proposal.<sup>41</sup>

**Appealing to a new demographic, lower risk, and long-term sustainability.** Engaging in the B Corp movement helps investors, especially institutional investors, attract new clients and better



Rhino Foods, a B Corp since 2013, has an income advance program that provides employees grants for emergencies.

serve them through investing in businesses that hold their values. Millennials make up approximately half of the workforce already, and they are set to inherit \$30 trillion in the next few decades.<sup>42</sup> This generation is much more conscious than older generations about the products and businesses they endorse through their consumption. As they become asset owners and investors, their values and preferences will drive investment ideology to

value sustainability. Aligning with B Corp values through investing in B Corps or using the BIA to manage their portfolios helps position institutional investors for this new era of investing. Many financial services companies—including venture capital firms, commercial banks, wealth managers, and insurance companies—are B Corps themselves.

Every day, companies are confronting fierce competition, adversity, and increasingly requirements on accountability. This has forced investors to reduce investment risk by prioritizing companies that are credibly making a social commitment. For investors, as well as their target companies, embracing the B Corp movement can drive them to build partnerships based on the same ground: long-term sustainability.

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## *Better Business*

### *How the B Corp Movement Is Remaking Capitalism*

Businesses have a big role to play in a capitalist society. They can tip the scales toward the benefit of the few, with toxic side effects for all; or they can guide us toward better, more equitable long-term solutions. *Better Business* tells the story of the rise of a new corporate form—the B Corporation. B Corps undergo a rigorous certification process, overseen by the non-profit B Lab, and commit to putting social benefits, the rights of workers, community impact, and environmental stewardship on equal footing with financial shareholders. Informed by over a decade of research and animated by interviews with the movement’s founders and leading figures, *Better Business* explores the rapid growth of companies choosing to certify as B Corps, both in the United States and internationally; and explains why the future of B Corporations is vital for us all.



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