



CHAPTER 2

The B Corp Movement

Abstract This chapter refers to the concept of the hybrid organization and places B Corps along the dimensions of mission motivation and profit motivation. It also illuminates the historical development of the B movement, both internationally and in Chile. The values and motivations of the movement suggest that B Corps not only aim at solving societal and environmental problems but also envisage a sustainable change. As Sistema B's co-founder Pedro Tarak (*Redefinir el sentido del éxito*, 2016) emphasized, the rationale of the movement is to create a new economic sector that will convert into a unique collective voice telling the world that it is time to redefine success and companies are not only to strive for being the best in the world but the best for the world.

Keywords B movement • B Lab • Sistema B • Hybrid organization

BUSINESS AS USUAL AND HYBRID ORGANIZATIONS

Over 250 years ago, the paradoxical ideology of a market driven by self-interested profit maximization and competition that would lead to wealth for all was introduced by Adam Smith (1910 [1776]) and has ever since influenced the economic systems in place today (Felber, 2015). Smith (1910) stated that “it is not from the benevolence of the butcher, the brewer, or the baker that we expect our dinner, but from their regard to their own interest” (p. 13) supporting the idea that an invisible hand

would turn self-interested behavior into a contribution to the common good (Felber, 2015).

As discussed in the introduction of this book, economic activity today does not automatically turn into a positive impact for the common good but in many ways threatens the sustainable survival of all species and the planet Earth (WWF, 2016). Nonetheless, the prevailing economic systems are designed based on this ideology, whereas government and civil society are made responsible to address society's needs. Mission-driven for-profit entities may however ultimately be more effective and more self-sustaining in the long run than the traditional profit, civil service, and government sectors (Boyd, Henning, Reyna, Wang, & Welch, 2009). In some countries, it is the lack of managerial ability and material resources that prevent governments from effectively addressing social and environmental needs, in others, it is cultural and political norms (Felber, 2015).

Against this background, a new organizational form has emerged, often referred to as hybrid organization, which is defined as market-oriented and simultaneously common-good mission-centered (Boyd et al., 2009; Haigh & Hoffman, 2012; Pache & Santos, 2013). Hybrid organizations blur the sectors between the traditional for-profit and nonprofit sectors and can exist on either side of this divide by taking up different business solutions for profit generation coupled with a social and/or environmental mission (Haigh & Hoffman, 2012). Traditionally, profit purpose and social purpose have been perceived as a dichotomy facing constant trade-offs as illustrated in Alter's (2007) hybrid spectrum model exhibited in Fig. 2.1. The

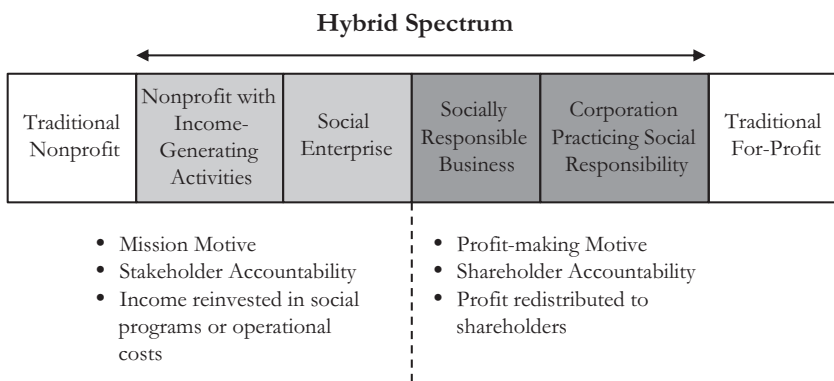


Fig. 2.1 The hybrid spectrum model (adapted from: Alter, 2007)

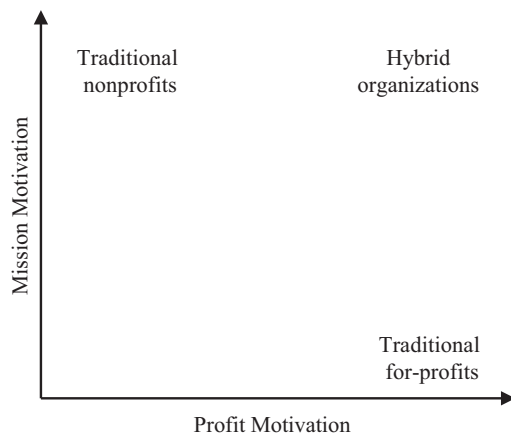
model classifies the different types of hybrids according to their relative adoption of elements of the traditional nonprofit and for-profit sector.

The relative position on the spectrum ranges from organizations that operate as traditional nonprofits generating money solely to fund their social missions to organizations that operate as traditional for-profits that are mainly driven by profit generation and their legal fiduciary duties to shareholders (Alter, 2007; Boyd et al., 2009). Some critics raise the concern that pursuing both profit and social and/or environmental missions might lead to a lack of clear guidance for decision-making (Yunus, 2010). Boyd et al. (2009), however, argue that the emerging types of hybrid organizations overcome the commonly accepted profit-social dichotomy in *business as usual* as illustrated in Fig. 2.2.

Mission motivation and profit motivation are consequently perceived as independent organizational dimensions allowing hybrids to be highly driven by both social and profit missions. This notion is in accordance with Haigh and Hoffman (2012) demonstrating the attempt of the emerging hybrid sector to develop viable new business models that generate mutually enriching correlations between business, social, and environmental value.

The growing importance of this new organizational paradigm is underpinned by an emerging demographic of individuals seeking to fit their personal value systems and beliefs into their workplaces (Haigh & Hoffman, 2012). Hybrid organizations treating profit as a means rather than an end seem to allow self-actualization on the job to be linked with

Fig. 2.2 Hybrid organizations in the profit-social spectrum (adapted from Boyd et al., 2009)



personal notions of purpose and calling (Haigh & Hoffman, 2012) merging the so far opposing value systems found in people's private and corporate lives (Felber, 2015).

The evolving B Corp movement is one type of new hybrid organizational form (Abramovay, Correa, Gatica, & Van Hoof, 2013; Hiller, 2013; Stubbs, 2014; Wilburn & Wilburn, 2014; Soto, 2015) that pursues a triple bottom line of economic, social, and environmental value creation and has the potential to propose concrete and sustainable solutions for the most urgent social and environmental problems faced today (Abramovay et al., 2013).

THE BIRTH OF THE B MOVEMENT AND B LAB

Founded in 2006, the B movement arose out of the strive for a new regenerative economy. Three American friends from Stanford University, Jay Coen Gilbert, Bart Houlahan, and Andrew Kassoy, saw the need for systemic change to foster an economy that would use the power of the private sector of the economy to create social and environmental value (Marquis, Klaber, & Thomason, 2011). Through B Lab, an independent nonprofit organization, they provide three separate but interrelated initiatives to create the needed infrastructure and support for a new social business sector of the economy (Marquis et al., 2011; Harriman, 2015):

1. *Building a community of certified B Corps* that undergo a rigorous external assessment to assure they meet a wide range of high social and environmental standards, public transparency, and legal accountability to differentiate socially positive business activity from marketing ploys (B Lab, 2017).
2. *Creating legal infrastructure* and market incentives in the United States by promoting a new legal business entity called Benefit Corporation that protects social mission-driven enterprises legally enabling them to achieve higher purpose than profit (B Lab, 2017).
3. *Developing and providing a global rating system* called GIIRS (Global Impact Investing Rating System) for social and environmental impact to create a basis for impact investment and encourage responsible investment (B Analytics, 2017).

The overall motivation of the B movement is to redefine the role of business in society by establishing a new purpose of business and of the

existing capitalist structures (Harriman, 2015). It is not about “creating another label on the side of a coffee bag—it is about trying to create another sector of the economy” (Bart Houlihan cited in Pileika, 2012, p. 6). Bart Houlihan continues to argue that while in today’s economic order the private sector seems to be solely responsible for generating profits, and civil society and government organizations attempt to address social and environmental problems, the B movement envisions a sector made up of a new type of actors that unify the forces of business with the purpose to generate public benefit (Pileika, 2012; Harriman, 2015). Through providing infrastructure and support for that new sector, B Lab hopes to indirectly address the most urgent social and environmental problems society is facing today by reintegrating ethics and values into a corporate model that works towards a triple bottom line of people and planet next to profit (Harriman, 2015).

THE CERTIFIED B CORP

The B stands for benefit and expresses B Corps’ commitment towards benefitting society, the environment, and its workers (Wilburn & Wilburn, 2014). *B Corp* and *B Corporation* are used interchangeably, however, must not be confused with the American legal organization form called *Benefit Corporation* or *Benefit Corp* (B Lab, 2017; Benefit Corps, 2017). Businesses of any kind regardless of their industry or legal structure can become certified B Corps by meeting the required extensive standards of social performance, accountability, and transparency (Gunther, 2013). The voluntary adoption of the high standards of decision-making can emerge from socially aware businesses that were found to resolve social and/or environmental problems, from traditional businesses that decide to change their business purpose and practices, as well as from foundations that decide to adopt a more business-oriented approach to sustainably achieve social change (Abramovay et al., 2013).

According to B Lab, B Corps are “for-profit companies certified by the nonprofit B Lab to meet rigorous standards of social and environmental performance, accountability, and transparency” (B Lab, 2017). B Corp entrepreneurs, in this study defined as founders or co-founders of B Corps or businesses that have become certified as B Corps, seek to create business models that offer solutions to social and environmental issues. The centrality of entrepreneurs in the foundation of B Corps is based on the movement’s logic to exert systemic influence based on a bottom-up

approach. This entails the expansion of the movement among start-ups with the objective to accumulate power and thereby eventually influence global corporations. As for-profit companies, B Corp entrepreneurs are aware of the necessity of generating profits, but not for the sake of the profit itself, but to sustain the business and increase the social impact through growth. B Corps are further not willing to generate these profits at any cost. The company's purpose is the center around which a profitable business model is created. Decision-making relies on four fundamental areas of workers, community, environment, and governance and, as opposed to *business as usual*, is not based on strategies on short-term economic gain (Sistema B, 2017).

To become certified, a company must meet a variety of requirements. Firstly, it must undergo an extensive assessment, the B Impact Assessment (BIA) provided by B Lab, that evaluates the company's impact on its stakeholders (Wilburn & Wilburn, 2015). The BIA serves as a tool to assign scores by evaluating the corporation's business practices and models; a score of 80 points out of 200 is necessary to be eligible for the B Corp certificate (B Lab, 2017). Depending on a corporation's size and industry, the factors it needs to address vary between 130 and 180 (Wilburn & Wilburn, 2014). The factors themselves form part of the four broader impact areas *governance*, *workers*, *community*, and *environment*. *Governance*, for instance, includes transparency and accountability factors, whereas the impact area *workers* includes factors of compensation, training, ownership, and work environment. With community practices and beneficial attributes of products and services, points can be earned in the impact area *community* and with environmental practices in the impact area *environment* (Hiller, 2013).

Moreover, it must adapt its articles of incorporation as necessary to conform to B Lab's commitment to sustainability and social purpose, meaning to always act as required for the company to consider stakeholder interests of not only their shareholder but also their employees, customers, suppliers, the environment, the community, and society overall (Wilburn & Wilburn, 2015). It must concomitantly sign the declaration of interdependence that states:

We hold these truths to be self-evident: That we must be the change we seek in the world; that all business ought to be conducted as if people and place mattered; that, through their products, practices, and profits, businesses should aspire to do no harm and benefit all. To do so requires that we act with the understanding

that we are each dependent upon another and thus responsible for each other and future generations. (B Lab, 2017)

This legal framework provides protection for the survival of the social mission and reduced liability for directors who do include social considerations in financial decision-making, against new management, investors, or changes in ownership (Wilburn & Wilburn, 2015). A certified B Corp is, however, not a different legal entity as sometimes confused with B Lab's promoted legal form of a Benefit Corporation. Intersection with corporate law does take place to such a degree as to the change of articles of incorporation. By agreeing to the respective term sheets provided by B Lab, B Corps enter into a private contractual agreement (Hiller, 2013).

B Lab claims that the B certificate provides B Corps with several benefits (Honeyman, 2015). This includes to be part of a like-minded community, attracting and engaging talent in the search of work with a purpose, increasing credibility and creating trust which differentiates the social responsibility from pretenders in the industry, generating press, benchmarking performance, attracting impact investors, protecting the social mission, creating a collective voice, saving money through the access to services, and leading a global movement.

In 2012, the movement started to spread internationally with the first B Corp outside of North America being certified in Chile. Global partnerships have since then been established firstly in South America, then Australia, New Zealand, and Europe. Chile, as a market for B Corps and location of the global partnership for Latin America called Sistema B, plays a pioneer role in the movement's global spread (Harriman, 2015). To date there are more than 2048 certified B Corps from 50 countries, operating in more than 130 industries (B Lab, 2017). Among the most popular B Corps around the globe are the ice cream producer *Ben and Jerry's*, outdoor apparel producer *Patagonia*, and fair brownie producer *Greyston Bakery*.

THE B CORP MOVEMENT IN CHILE AND SISTEMA B

In 2011, four entrepreneurs with diverse backgrounds but one common interest, Pedro Tarak, Juan Pablo Larenas, Gonzalo Muñoz, and María Emilia Correa, got together to work on solutions for the transition towards an alternative economy and a more sustainable development of Latin America. The frustration of trying to promote changes within traditional

corporations and the limitation of the need to always prioritize shareholders' financial interest over long-term social benefits despite shared social interests by directors drove them to action (Abramovay et al., 2013).

Among the most urgent social problems that need to be tackled in Latin America are the regeneration of the ecosystems, the conservation of biodiversity, the use of alternative energy, conscious consumption and reduction of garbage, social protection, and lastly the access to qualitatively high public service in the urban sphere as well as in rural parts of the countries (Abramovay et al., 2013). A first concept of social companies existed already across Latin America. However, there was no uniform definition nor standards guiding these scattered lone warriors (Harriman, 2015). In the search of solutions, they were confronted with the B movement and B Lab in the United States which reflected their notion of an adequate alternative for Latin America's economy. In an interview with *GOOD* magazine, Larenas explains: "We were researching different experiences related to social enterprise all over the world, and we found out about the experience of B Corporations in the U.S., so we took a plane and decided to go meet the co-founders of B Lab" (Goldmark, 2012).

In Chile, like the rest of Latin America, a specific ecosystem for B Corps does not exist yet as it is still an emerging phenomenon. Different kinds of social businesses have been founded but have so far struggled in isolation from the national economy (Abramovay et al., 2013). However, compared to its Latin American neighbors, Chile has a favorable ecosystem for entrepreneurship and innovation (Abramovay et al., 2013). According to data from the OECD, Chile's economy is comprised of 99% small and medium-sized enterprises that employ about 57% of the national working force, and the willingness of Chileans to start their own business is steadily increasing (Abramovay et al., 2013). There is a series of governmental initiatives like the passing of the law *Tu Empresa en un día* (English: "Your company in one day"), which enables the foundation of a Chilean company within one day and without costs. The governmental organization *CORFO* (Corporación de Fomento de la Producción) financially supports thousands of entrepreneurs, while the program *Start-Up Chile* financially supports mainly foreign entrepreneurs to attract foreign talents and make Chile the focus of innovation and entrepreneurship in Latin America. This makes Chile an attractive region for an increasing B Corp community and the further development of a favorable ecosystem (Abramovay et al., 2013; Soto, 2015).

To enable the formation of a partnership and licensing agreement with B Lab, they founded Sistema B, an independent nonprofit organization,

that would promote and facilitate the B movement in Latin America (Abramovay et al., 2013). Headquartered in Santiago de Chile, Sistema B hence embodied the first step towards a global expansion strategy of the B movement (Gilbert cited in Harriman, 2015). It licenses the intellectual property of B Lab and earns a share of their income generated through B Corp certifications of Latin American companies (Harriman, 2015). Until today, Sistema B International, located in Santiago de Chile, is the starting point for the funding and establishment of every Latin American national team, for instance, Sistema B Brasil and Sistema B Colombia (Sistema B, 2017; Harriman, 2015).

Different from the B movement in the United States that focuses mainly on companies themselves, legal infrastructure, and a global rating system, the Latin American founders focus their work on holistic systemic change by creating a linkage between the most important actors in the ecosystem. The differing approach derived from the context-driven inherent lack of social entrepreneurship infrastructure, particularly for-profit social businesses (Harriman, 2015). The purpose of the so-called Sistema B is to facilitate the creation of a new economy where success is measured by the well-being of society and the environment. Its name reflects Sistema B's mission of a systemic approach towards creating a favorable ecosystem to establish a market that resolves social and environmental problems (Sistema B, 2017; Harriman, 2015). Not only does the nonprofit strengthen B Corps directly but also bring together the different strategic key players of social and economic change by focusing on six key components of the ecosystem: B Corps, capital, public policy, opinion leaders, an academy, and the market (see Fig. 2.3).

Building strong relationships with actors in the economy apart from the B Corp community was identified to be important to achieve the intended systemic change. Among these are the work with policymakers to positively impact regulatory frameworks, the involvement of universities to develop further empirical knowledge and reach academics, and the approach of opinion leaders to spread the idea and raise awareness (Harriman, 2015). Particularly, close collaboration with the government and policymakers is of high importance in Latin America to develop the legal framework needed for B Corps that recognizes their corporate form and legally protects their social mission (Soto, 2015).

Very particular for the region's initial development of the movement was the financial support and the commitment to work in favor of such an ecosystem through public policies and education agendas coming from

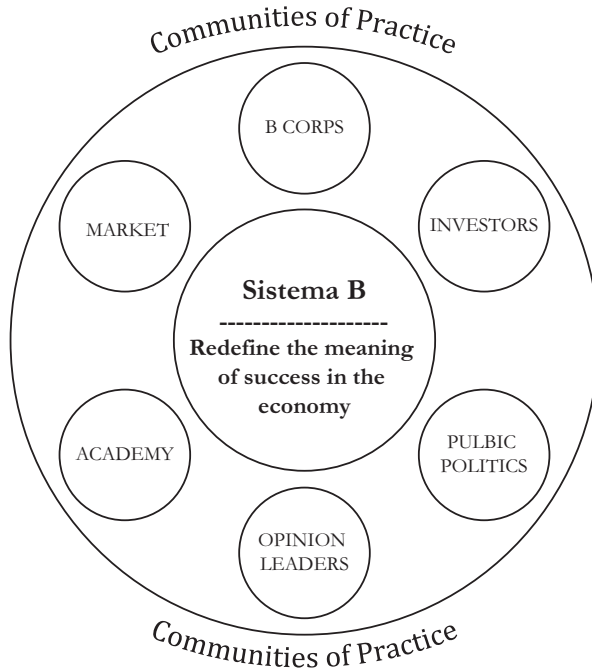


Fig. 2.3 Strategic model of Sistema B (adapted from: Sistema B, 2017)

the Chilean governmental organization CORFO, the multilateral investment fund called FOMIN, and CAF, the Latin American Development Bank (Harriman, 2015).

At the time of writing this book, the Chilean community is comprised of 101 certified B Corps, making it the largest B Corp community in Latin America and third largest B Corp community globally after the United States and Canada (B Lab, 2017).

VALUES AND MOTIVATIONS OF THE B CORP MOVEMENT

Harriman (2015) finds the B Corp movement to be value-driven in nature and an expression for the idealization of its adherents' values and beliefs. Supported by her selected theory of framing, she stresses the importance of taking cross-cultural borrowing of values, beliefs, and thought constructs of the movement into consideration. To date, literature on B Corps

has predominantly depicted B Corp entrepreneurs in alignment with the movement's ideology. Therefore, an elaboration on and understanding of the values and motivations of B Lab and the respective Sistema B in Latin America is pivotal to the proper collection and analysis of data.

Values and Motivations of B Lab and the Global B Movement

B Lab sees itself as serving people that use *business as a force for good* and envisions a future of companies competing to be the *best for the world* with the consequence of a more shared durable prosperity for society instead of the best in the world with the consequence of short-term individual prosperity. The collective voice plays a pivotal role in the achievement of that goal (B Lab, 2017). The central ideology is thus the potential and power of business to solve social and environmental problems and the need to change the role of businesses in society. The B Corp Declaration of Interdependence indicates B Lab's vision of unifying businesses that have the motivation to change the world. Those must value people and the planet in the sense that they aspire to benefit these and do them no harm through any of their business activities. They are further expected to value and support the community of B Corps based on the value of solidarity and the concept of collaboration and knowledge sharing, which breaks with the paradigm of competition in business as usual (B Lab, 2017).

The emphasis of B Lab's activities within the B Corp movement lies on its BIA of (potentially) certified B Corps, as the assessment system is a concrete strategy for the increase of impact of businesses that aim at solving social and environmental problems. It is consequently these uniform standards translated into measurable indicators that embody the core values of B Lab (BIA, 2017; Harriman, 2015). Thus, it becomes evident that the values of B Lab lie in the holistic ethical behavior of people and their businesses in the areas of governance, workers, community, and environment and the desire to work towards continuously improving these (B Lab, 2017).

B Lab's founders and leaders have established a variety of recurring vocabulary throughout the organization's communication with the objective of echoing and spreading these core values among the global B Corp community. Examples of these include *people using business as a force for good*, *best for the world*, *B the Change*, *Measure what Matters*, and *Profit with a Purpose* (Harriman, 2015; B Lab, 2017).

Values and Motivations of Sistema B and the Chilean B Movement

According to Harriman (2015), the fact that the B Corp movement has spilled over to the Latin American continent demonstrates B Lab's ability to define and transmit its values and beliefs to regions beyond North America to become a global ideology among movement adherents. Nonetheless, it needs to be considered that the ideology of the B Corp movement in the United States had been borrowed by the founders of Sistema B in Latin America and therefore put into a new cultural context. This cross-cultural borrowing of the ideology and concept of B Corps was not only embedded into a distinct societal context but also a distinct ecosystem for (socially motivated) businesses (Abramovay et al., 2013). To enable and determine necessary contextual adaptation to the transmitting of the ideology, Sistema B has been identified to be in the active role in Latin America. Academia B, an internal initiative responsible for the engagement of the academic community through relations with local universities, was one salient difference (Harriman, 2015).

Sistema B's co-founder Pedro Tarak (2016) states the collective of the movement to create a new economic sector that will convert into a unique collective voice telling the world that it is time to redefine success and companies are not only to strive for being the best in the world but the best for the world (Spanish: "Juntos podemos crear un nuevo sector que se convierta en una nueva voz única que le diga al mundo que ya es hora de redefinir el sentido de la palabra éxito. Para que las empresas sean no solo las mejores del mundo, sino para el mundo"). The use of the same (translated) words and ideas reflects the closeness of the cross-national borrowing within the global movement.

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