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B the Change: Social Companies, B Corps, and Benefit Corporations

Park, Kendall Cox

Princeton, NJ : Princeton University

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B THE CHANGE:
SOCIAL COMPANIES, B CORPS, AND BENEFIT CORPORATIONS

KENDALL COX PARK

A DISSERTATION
PRESENTED TO THE FACULTY
OF PRINCETON UNIVERSITY
IN CANDIDACY FOR THE DEGREE
OF DOCTOR OF PHILOSOPHY

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ABSTRACT

In the wake of highly publicized corporate scandals like the Rana Plaza collapse and the BP oil spill, a new type of entrepreneur emerged, eager to use the market to solve social and environmental problems. Although it is widely accepted that a corporation's primary purpose is to maximize profits, brands like Warby Parker and Patagonia are challenging this model. These organizations are what I call social companies, for-profit organizations with a social or environmental mission at the core of their business model. For example, Warby Parker donates a pair of glasses to someone in need for every pair it sells.

Social companies combine the mission of a nonprofit with the structure of a corporation. How do these companies navigate a capitalist market, one that values profits above all else? How do they balance their social mission with the profit imperative? I explore these questions by studying two types of social companies: certified B Corps and benefit corporations. B Corp is a certification with rigorous social and environmental standards. Benefit corporation is a legal structure, like C Corp or LLC, for companies with a social or environmental mission. Drawing on 76 semi-structured interviews with social entrepreneurs, I examine how these companies balance mission and profit, how they create a cohesive organizational identity, and how they change over time.

This dissertation brings together the disjointed literature on hybrid organizations, examining social companies through the lens of goals, categories, and identity. I investigate the history and consequences of B Corps and benefit corporations and unpack the challenges facing these organizations, both real and imagined. I show that B Corp certification – and to a lesser extent, benefit corporation status – help to solve the problems associated with hybridity. Finally, I demonstrate that quantification remakes what it measures, even in the absence of rewards. To become certified B Corps, companies must pass a rigorous assessment, a quantification of their social and environmental practices. This process drives organizational changes, as companies conform to the assessment's measures. This study extends our understanding of commensuration, reactivity, and incentives, demonstrating that quantification inherently incentivizes.

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CHAPTER 1
Introduction to Social Companies

For decades, activists have argued that companies have a moral obligation to become more socially responsible. And yet most companies maintain that their role is to sell products or services and to make money, not to save the world. Although it is widely accepted that a corporation's primary purpose is to maximize profits, brands like TOMS, Ben & Jerry's, and Seventh Generation[1] are challenging this model (Margolis and Walsh 2003). A new generation of mission-minded entrepreneurs has emerged, eager to use the market to solve social and environmental problems. For example, Nisolo, founded by 29-year-old Patrick Woodyard, offers attractive, durable shoes and accessories made by workers paid a living wage. Nisolo emphasizes quality over quantity, offers its artisans access to education and healthcare, and pays an average of 300 percent more than traditional shoe manufacturers. Nisolo's primary goal is to lift people out of poverty by providing stable, rewarding employment for 500 workers in Peru, Mexico, and Kenya.

When companies like Nisolo take on a social mission, they must balance two, often competing, motives: mission and profit. Social companies, for-profit organizations with a social or environmental mission, must navigate a capitalist system based on the pursuit of profit at all costs. Responsible sourcing and production, however, generally increase a company's costs, often without any appreciable increase in product quality. Social companies must be profitable to make a difference, but they must convince consumers that they make a difference to turn a profit. In a capitalist market where moral mission and profit have traditionally been seen as incompatible, the symbiotic relationship between the two makes the case of social companies both unique and challenging.

Take for example, Serenity[2], a fashion company founded by a former social worker to create stable jobs for vulnerable women. Serenity hired six formerly

[1] These companies take all sorts of forms with an assortment of shareholders. Bain Capital now owns half of TOMs Shoes. Ben & Jerry's is a subsidiary of Unilever. Seventh Generation is now a privately held company. It went public in 1993, raising $7 million, but in 1999, the company bought back all its own stock.

[2] Serenity is a pseudonym. This subject chose to keep her name and her company's name anonymous.

incarcerated women to craft handbags and accessories out of recycled materials, like magazines and cigarette cartons. The women lived in a halfway house and were provided with free group therapy and financial accounting classes. Initially, Serenity sold handbags and jewelry at local markets and pop-up shops around town, but as its reputation and popularity spread, Serenity opened a brick and mortar and began selling products online. Demand quickly outpaced supply, and the company struggled to keep up. Serenity's founder tried to partner with probation officers and caseworkers to ensure a steady supply of new hires, but most new workers quit within a few days. The founder felt compelled to raise prices and cut wages, at least temporarily. During this turbulent time, an investor expressed interest in helping Serenity scale up, but he insisted that part of his investment money go toward hiring a new CEO with experience in fashion manufacturing. Within a matter of months, Serenity's supply chain had dramatically changed. Although five of the original six employees continued to make Serenity's signature handbag, new handbags were made in overseas factories out of virgin materials. This new product line seemed to confuse customers, and sales dwindled. Within a year, the new CEO left, and Serenity's founder converted the company into a nonprofit. She continues to operate the halfway house, which is funded through a combination of charitable donations and revenue from handbag sales.[3]

The case of Serenity demonstrates the fragility of a social mission in a profit-seeking organization. It also illustrates a tension inherent to social companies: the conflicting demands of social and financial goals. Ultimately, Serenity was unable to balance both goals, so it converted to a wholly social organization – a nonprofit. But other social companies have managed to scale up without sacrificing their social mission. The companies featured in this dissertation experience the same, often conflicting, pressures as Serenity. The aim of this dissertation is to explore a specific case of market-based responses to problems like environmental degradation and human rights abuses, to analyze the tension between running a business responsibly and profitably, and to investigate the impacts of a new organizational form. In the following sections I will define social companies, summarize the literature and theories I plan to

[3] Interview with anonymous respondent, May 25, 2016

draw upon, outline my major research questions, describe my data sources and case selection strategy, and sketch out my dissertation chapters.

Social companies

This dissertation focuses on social companies, for-profit organizations with a social or environmental mission at the core of their business models. Social entrepreneurs seek to redefine capitalism, to use "business as a force for good,"[4] and to harness the market to solve social and environmental problems. Patagonia, Ben & Jerry's, Kleen Kanteen, and Warby Parker provide examples of social companies with a variety of missions and business models. Patagonia manufactures outdoor apparel and accessories in an environmentally sustainable way. Many of their products are made out of recycled materials, and customers can drop off old fleeces for recycling in Patagonia stores. Ben & Jerry's makes ice cream but is famous for its progressive politics. In 2002, the company released the flavor "One Sweet Whirled," with proceeds donated to Save Our Environment, and they have renamed four famous flavors ("Hubby Hubby" in 2009, "Apple-y Ever After" in 2012, "EngageMint Party" in 2013, and "I Dough, I Dough" in 2015) to celebrate legislative victories for same-sex couples. Kleen Kanteen is a family-owned business that produces reusable, stainless-steel alternatives to plastic bottles. Finally, Warby Parker donates a pair of glasses to someone in need for every pair they sell. These companies operate in different industries across the country, but they share a common mission – to use business to create positive change in the world, not just to generate profits.

They share another thing in common, too. They are all certified B Corps. B Corp certification signals that companies are socially and environmentally responsible through a quantitative assessment of companies' practices. Certified B Corps are an ideal case for sociologists to theorize about hybrid organizations, because by construction, they pursue two goals: social mission and profit. Only for-profit companies can become certified, and a company cannot become certified without achieving a minimum score on a social and environmental assessment. Like B Corps, benefit corporations are for-profit entities with a social or environmental mission. But unlike B Corps, they are not

[4] B Corp's trademarked slogan (https://www.bcorporation.net)

formally assessed and certified by a third-party entity. Rather, benefit corporation is a legal designation, like C Corp or LLC, for a company with both social and financial goals. This dissertation analyzes social companies and explores the ways becoming B Corps and benefit corporations changes them.

Literature and Research Questions

Throughout this dissertation, I treat social companies as a case of hybrid organizations, because they combine the mission of a charity with the structure of a corporation. An organization with a single, straightforward identity possesses a cohesive template for action, a clear blueprint for decision-making. But because hybrid organizations combine the organizational goals and identities of two distinct sectors, they face the "double challenge of having to survive as new ventures while striking a delicate balance between the…logics they combined" (Battilana and Dorado 2010: 1419). The companies in this study have characteristics of both traditional private corporations and nonprofits, but they do not fit neatly into either category. Without any socially legitimate templates available, these companies face a unique set of problems. The literature suggests that hybrid organizations, like social companies, face challenges establishing legitimacy, gaining resources, defining their boundaries, and reconciling interorganizational tensions (Zuckerman and Kim 2003; Hannan, Polos, and Carrol 2007; Battilana and Dorado 2010; Battilana and Lee 2014). Organizations that span two categories are unlikely to exhibit the prototypical features of either. As a result, audiences will perceive them as illegitimate when they compare them to category expectations (Zuckerman 1999; Rao, Monin, and Durand 2005; Hannan, Polos, and Carroll 2007; Hsu, Koçak, and Hannan 2009; Kovács and Hannan 2010). There is no ready to wear model or identity for hybrid organizations, so over time, most hybrid organizations either fail or become dominated by a single mission (Scott and Meyer 1991; Battilana and Dorado 2010).

Galaskiewicz and Barringer (2012) consider social enterprise "a high risk strategy" (p. 47). On the one hand, hybridity allows social enterprise to straddle two categories – nonprofit and for-profit forms – and exploit opportunities in both legitimate forms. At the same time, this category spanning confuses audiences and creates distrust, as organizations are deemed "too business-like" or conversely "too ideological"

(Galaskiewicz and Barringer 2012: 48). In this dissertation, I will explore the ways that hybridity benefits and constrains social ventures. Do the founders and executives of social companies experience this tension? Do they struggle to appear legitimate to customers and stakeholders? If so, how do they create a sense of legitimacy?

Battilana and Dorado (2010) suggest that new types of hybrid organizations must create a common organizational identity to balance competing logics and alleviate these tensions. Organizational forms gain legitimacy as they are established and institutionalized, and organizations have the greatest likelihood of survival when they follow established forms (Meyer and Rowan 1977; DiMaggio and Powell 1991; Scott and Meyer 1991; Battilana and Dorado 2010; Nicholls 2010). Although hybrid organizations like social companies have received some scholarly attention, no one has analyzed the organizational innovations that reconcile the tensions inherent in these companies. This dissertation expands upon research on hybrid organizations by examining the mechanisms of institutionalization that help stabilize new hybrid forms. I will demonstrate that social companies rely on a variety of techniques, including certification and changing their legal form, to convey a cohesive, legitimate identity. In particular, I examine B Corp certification, a certification system with rigorous social and environmental standards, and benefit corporation statutes, laws that allow for-profit companies to adopt public benefits as a formal part of their corporate structure.

To become B Corp certified, companies must pass an assessment that quantifies and scores their social and environmental efforts. This act of quantification is critical to the perceived validity and credibility of B Corp certification. Numbers carry more weight than other forms of information, because they are precise, and precision creates the illusion of objectivity (Espeland and Vannebo 2007). But the assessment is a social product, one that allows entrepreneurs to set boundaries between true social companies and conventional companies by screening out underperforming organizations. Commensuration "changes the terms of what can be talked about, how we value, and how we treat what we value. It is symbolic, inherently interpretive, deeply political, and too important to be left implicit in sociological work" (Espeland and Stevens 1998: 315). In this dissertation, I examine not just certified companies, but the certification process itself. How do assessments shape the organizations they measure?

Throughout this dissertation, I analyze the ways social entrepreneurs gain legitimacy, a coherent organizational identity, and access to resources. I treat B Corps and benefit corporations as special cases of hybrid organizations, and I examine the ways that certification and legal structures help to institutionalize and legitimize social companies. Finally, I investigate the ways companies change as a result of certification.

Data source

This study relies on a mix of archival data analysis and in-depth interviews. I analyzed both trade journals and news articles for information about the creation and evolution of B Lab. I also conducted interviews with the founders and executives of B Corps, benefit corporations, and other social companies. To begin data collection, I created a census of all 1838 B Corps and 3240 benefit corporations at the time of data analysis.[5] B Lab provided an up-to-date list of certified B Corps worldwide, complete with NAICS industry category, physical address, and date of certification. To create a similar list of benefit corporations, I searched the database at benefitcorp.net, which lists all known benefit corporations. I supplemented this list with data from state agency reports for each state with benefit corporation legislation. Each state has different level of reporting capabilities; some offer comprehensive data on each benefit corporations, while others simply provide the company name. For each benefit corporation, I searched the Internet for information or called the listed company phone number to obtain information on the industry category, physical address, date created, and date incorporated as a benefit corporation.

The census of benefit corporations, while larger than the census of certified B Corps, remains incomplete. The majority of benefit corporations in my census are inactive, have no presence online, and are virtually unreachable. Only 38 percent have a website, Facebook page or social media account of any kind, and only 45 percent have an address or phone number listed anywhere, compared to 100 percent of B Corps. The relative ease of incorporation, discussed in Chapter 1, may help explain this discrepancy. Incorporation is the first step to creating a business, and only half of all new businesses survive the first five years (Small Business Administration 2012). Many of the benefit

[5] April 17, 2016

corporations in my sample either never became operational or failed shortly after creation. For sampling purposes, I condensed the census to the 1458 companies with a listed phone number or web presence.

I then drew a random sample of 100 B Corps and 100 benefit corporations and reached out to the founders and executives of these companies for an interview. I did not contact representatives of all 200 companies, but rather worked my way down the list until I felt I had gathered sufficient data. I had a 67 percent response rate[6] among the companies I reached out to. I conducted 61 semi-structured interviews with entrepreneurs and executives of certified B Corps and benefit corporations. Of these companies, 37 are certified B Corps, 14 are benefit corporations, and 10 are both. To create a reference group, I conducted 15 additional interviews with social entrepreneurs whose companies are *not* B Corps or benefit corporations, three of whom founded nonprofit social enterprises. These 15 subjects were recruited via convenience sampling and are not a representative sample.[7] Overall, eight subjects chose to remain anonymous. Forty-six subjects identified as the founder, with 26 acting as both founder and CEO. Thirteen subjects served as CEO, owner, or president but did not found the company. Fourteen more served in a variety of other roles, like "Director of Social Consciousness"[8] or "Chief Product Officer."[9]

There is greater diversity among B Corps than among benefit corporations in general. My sample of B Corps includes companies new and old, large and small,[10] whereas the benefit corporation sample features overwhelmingly new, small companies. Overall, B Corps tend to be older and have more employees than benefit corporations. *Tables 1* and *2* summarize these descriptive statistics.

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[6] Defined as "the number of complete interviews with reporting units divided by the number of eligible reporting units in the sample," according to American Association of Public Opinion Research (2016)

[7] I used my own personal networks to identify these social entrepreneurs. Then I had each subject refer me to several other potential subjects until I had conducted 15 interviews. The sample is overrepresented by entrepreneurs from the South and those with companies only a few years old.

[8] Amy Hall of Eileen Fisher

[9] Anna Noyons of Peerby

[10] Measured as total number of employees

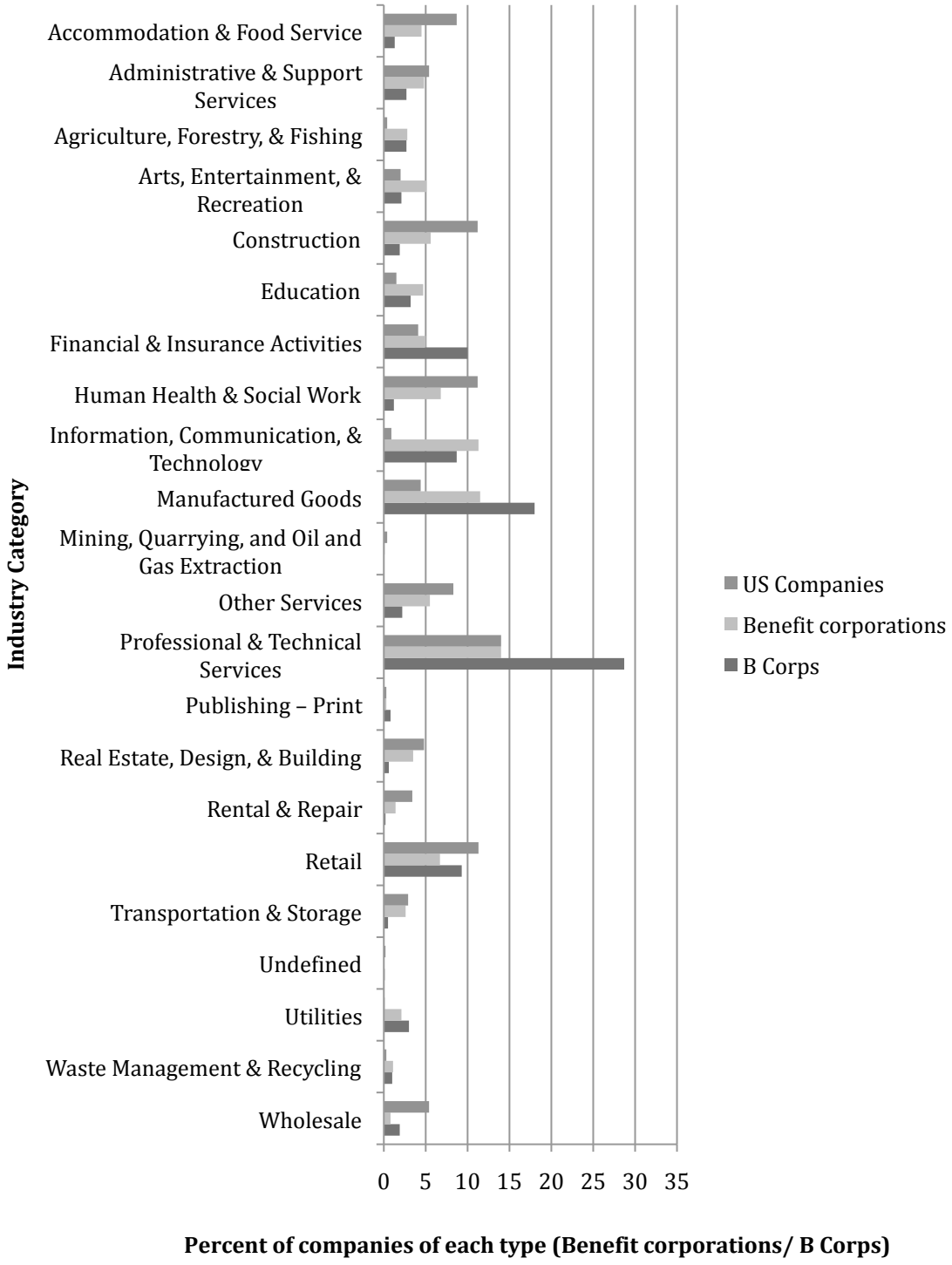
Table 1: Descriptive Statistics for B Corp Sample				
	Median	*Mean*	*Minimum*	*Maximum*
Number of Employees	17	148	1	1600
Year Established	2004	1996	1928	2013
Year Certified	2013	2013	2007	2015
Certification Score	99	101	80	142

Table 2: Descriptive Statistics for Benefit Corporation Sample				
	Median	*Mean*	*Minimum*	*Maximum*
Number of Employees	3	4	1	10
Year Established	2014	2012	1996	2016
Year Incorporated	2015	2015	2012	2016

The types of companies that become B Corps and benefit corporations vary by size, industry, and level of impact. Some companies, like Brand Geek and Sustainability Advantage, have only one employee: the founder. Others, like Ben & Jerry's and Cascade Engineering are global brands with thousands of employees. B Corps and benefit corporations represent all NAICS industry categories except "Mining, quarrying, oil and gas extraction." In *Figure 1*[11] we can see that both benefit corporations and B Corps are overrepresented in: education; information, communication, & technology; and manufacturing. They are underrepresented in: accommodation & food services; construction; human health & social work; other services; and wholesalers. B Corps (but not benefit corporations) are overrepresented as professional & technical services companies and financial & insurance providers. They are underrepresented as real estate companies and rental & repair shops. Conversely, benefit corporations are underrepresented as retailers and overrepresented in arts and entertainment.

[11] Figure 1 was created with data from the B Corp and benefit corporation censuses, not the samples. I excluded international B Corps from this analysis so that all the companies portrayed in Figure 1 would be incorporated in the United States.

Figure 1: NAICS industry categories as percentage of total companies for each company type



A chi squared test indicates that B Corps and benefit corporations occupy significantly different industries than American businesses as a whole (chi squared = 3841 and 6162 respectively with 21 degrees of freedom at $p < .0001$). This tells us that if we randomly sampled companies from the larger population of American businesses, we would have a .0001 percent chance of achieving a distribution as distinct as the distribution of B Corps. There are two possible explanations for this. First, we might conclude that social companies in general – not just B Corps and benefit corporations, are more common in certain industries than in others. Specifically, the pattern suggests that social companies flourish in a few, specific industries, like manufacturing and information and technical services, but struggle in others, like construction and wholesale. But this cannot account for the difference in distributions of B Corps and benefit corporations, which is also statistically significant (chi squared = 404 with 24 degrees of freedom at p-value < .0001). So second, perhaps the barriers to certification and incorporation are larger in some industries than others. The B Corp assessment is slightly different for each industry, so perhaps the assessment filters out certain kinds of companies by virtue of more rigorous scoring criteria. It might be easier for companies in certain industries, like professional and technical services and financial services, to pass the certification assessment than companies in other industries, like accommodation and food service or transportation and storage. Or perhaps states with benefit corporation legislation have different industry mixes than those without. Regardless of the reason, this shows us that the universe of B Corps and benefit corporations is fundamentally different than American companies at large.

There are other critical differences among the social companies in this sample. Although all social companies have a mission of some sort, some are more mission-centric than others. Direct benefit companies are social enterprises, organizations that provide a solution to environmental or social problems through the distribution of goods and services (Di Domenico, Haugh, and Tracey 2010). One example is Clean the World, a company that charges hotels a fee to pick up their partially used toiletries, recycles them into new soap, and distributes the soap to villages at risk of bacterial diseases. Clean the World has a clear, direct benefit. The company reduces landfill waste and prevents deaths by diarrheal disease. Or take Rain Grid, a company that manufactures

neighborhood-wide storm water catchment systems. These systems prevent run-off pollution and create more sustainable utility systems. Both of these ventures were created primarily to address a pressing social or environmental issue.

Indirect benefit companies, on the other hand, provide conventional goods or services in a more socially responsible way. You can think of these companies as refashioned versions of traditional firms. The benefit here stems from superior production practices, employee benefits, an emphasis on sustainability, and/or charitable donations. For example, New Belgium brews craft beers more sustainably than its competitors. They divert 99 percent of their waste from landfills and are working to reduce their greenhouse gas emissions by 25 percent. They sponsor volunteer work for employees and donated nearly a million dollars to charity in 2016. Although New Belgium is a leader in sustainable brewing, the company is not solving a social problem. Instead, it manufactures a commodity in a more environmentally sound way. The companies in this study vary in the degree to which they are socially- or environmentally-focused, and the impact of social companies falls along a spectrum from direct to indirect benefit.

Kevin Mercer, the founder of RainGrid, articulated the distinction between "truly transformative," direct benefit companies and those that "do less harm," indirect benefit companies.

> How you run your business is one thing, but what is your business is the other. In the words of the environmental lawyer, do you move the yardsticks further on a daily basis or do you simply make money? And there's nothing wrong with making money. Everybody has to. You're not in business not to make money, but that doesn't set you aside. In Let My People Go Surfing, he [Patagonia founder Yvon Chouinard] made wackloads of money by changing the supply chain process. The products he makes are as sustainable as he can. But to be honest, recreational products don't move the yardsticks further any iota. They don't improve the livelihood of anybody. They do less harm. And that's distinct from innovation.[12]

Chris Grewe, founder and CEO of American Prison Data Systems, made a similar observation. His company offers educational and rehabilitation services to prisons to prevent recidivism. The goal is to transform the corrections system. He compared this to

[12] Interview with Kevin Mercer, July 25, 2016

Patagonia, which "still sells expensive shirts to white people. They are very ecologically minded, they are very forward thinking, but they are not transforming the lives of their customers."[13] Direct and indirect companies are not two separate categories; rather, they are two ends of a continuum. And yet, entrepreneurs seem to recognize a distinction between the two ideal types.

Methods

I conducted interviews via Skype and the telephone, and they ranged from 45 minutes to two hours in length, with a median interview time of 66 minutes. While telephone interviews cannot reveal nonverbal cues or the immediate context (McCoyd and Kerson 2006; Novick 2008), phone interviews produce data of similar quality to face-to-face interviews (Sweet 2002; Sturges and Hanrahan 2004). I conducted all interviews myself and transcribed each within a day of completing the interview. For my semi-structured interviews, I used a predetermined set of open-ended questions but allowed myself to probe deeper into interesting topics and ambiguous responses. This format afforded the flexibility to tailor questions to the unique experience of subjects and pursue emerging insights.

Throughout data analysis, I compared my emerging findings with existing research on hybrid organizations and social enterprise to identify the extent of correspondence between my data and insights from the literature. I read every interview at least five times and coded the transcripts in Atlas TI as themes emerged. I then wrote memos about emerging themes and made lists of cases that fit into different categories. I highlighted those findings that did not seem to fit with prior research and theory for further investigation. This iterative process continued until I felt I had generated a reasonable and logical fit between my research questions, the theory, and the data.

To provide an example of this type of iterative analysis, let us start with some propositions from the literature on social enterprise. Research suggests that social companies will experience conflicting pressures, that they must balance their social mission with the profit imperative (Scott and Meyer 1991; Battilana and Dorado 2010; Battilana and Lee 2014). As I read through each interview, I kept an eye out for cases

[13] Interview with Christopher Grewe, October 18, 2016

that both confirmed and contradicted this hypothesis. One theme emerged with some regularity: the idea of doing well by doing good, that a company's mission is not at odds with profit generation. Some subjects insisted that their mission was an asset rather than a cost, arguing that a focus on environmental and social problems is good for the bottom line. This evidence contradicts the prediction that social entrepreneurs will struggle to reconcile mission and profit. I coded these interview excerpts as "mission creates profit" to keep track of the cases in which this theme appeared. In one memo, I listed each case that featured this theme and looked for commonalities among them. I also contrasted these cases with the rest. Ultimately, I recognized that among service providers, mission and profit often work together synergistically, whereas for manufacturers and retailers, social and environmental practices cut into their profit margins. This is simply one example of how my analysis produced insights that build upon existing theories. Throughout this dissertation, I have selected quotations to represent themes common among multiple sources.

Chapter outline

In Chapter 2, I outline the emergence of the three B's: B Lab, B Corps, and benefit corporations. B Lab is the nonprofit responsible for both B Corp certification and benefit corporation legislation, created by social entrepreneurs in response to conventional capitalism and the shareholder value principle. B Lab grants B Corp certification to companies that have met rigorous social and environmental standards. Finally, a benefit corporation is a legal structure for for-profit organizations that requires directors to consider the interests of all stakeholders, not just shareholders. While B Corp certification and benefit corporation status differ in structure, both are products of B Lab, and both are responses to the struggles of social companies. After walking through the differences between B Corp certification and benefit corporation legislation, I discuss the implications of these differences for enforcement and attrition. I demonstrate that although benefit corporation status is legally binding, B Corp certification is better enforced with lower attrition rates.

In Chapter 3, I unpack the legal status of the shareholder value principle and illustrate its normative power. I show that although shareholders do not pose a real threat

to most B Corps and benefit corporations, social entrepreneurs strongly reject the ideas behind the shareholder value principle. Opposing the shareholder value principle allows social entrepreneurs to create a distinction between social companies and conventional ones.

In Chapter 4, I conceptualize social companies as hybrid organizations, which combine the institutional logics and organizational identities of two distinct sectors. In the case of social companies, organizational actors must balance a social or environmental mission with a financial one. Hybrid organizations like social companies face challenges establishing legitimacy, defining their boundaries, and creating a cohesive identity. I demonstrate how the focus on multiple stakeholders makes organizational decision making difficult and complex, as managers and executives struggle to maintain a balance between social goals and financial ones. I argue that multiple category membership makes hybrid companies confusing to customers and investors. Social entrepreneurs distance themselves from both traditional charities and conventional corporations, but by rejecting certain aspects of both organizational forms, social entrepreneurs complicate their business models, leading to problems with identity and legitimacy. Social entrepreneurs see social business as a way to combine the benefits of charity with the benefit of business, but this hybridity comes at a cost.

In Chapter 5, I delve deeper into the benefits of becoming a B Corp or benefit corporation. It can be costly and time-consuming to make the transition, and regulations are difficult to enforce. Even if entrepreneurs, CEOs, and owners were committed to their company's mission, why might they submit to voluntary regulation, especially if there is no promise of financial payoff? In this chapter, I demonstrate that the benefits of certification and incorporation are both symbolic and tangible. Through interviews with social entrepreneurs, I illustrate how B Lab provides commitment devices, offers validation and legitimacy for companies' social and environmental claims, creates a new identity, fosters a supportive network, and helps with recruiting. Becoming a B Corp provides more advantages than becoming a benefit corporation, and I tease out the reasons for this discrepancy.

In Chapter 6, I report the ways companies change after becoming certified B Corps. Do companies adjust their practices in ways not required by B Lab (ie:

manufacturing practices, institutional structures, marketing tactics, product features)? Certification has unintended consequences, and the most striking arises from the measurement itself, the B Impact Assessment. The B Impact Assessment, the tool used to determine whether a company qualifies for B Corp certification, functions as an "educational tool," "a roadmap," and "a guide" for entrepreneurs. It shapes corporate behavior by illuminating some practices and obscuring others. In this chapter, I identify mechanisms of commensuration driving this realignment of values and behavior. Ultimately, the assessment moves companies in a more sustainable direction by offering suggestions entrepreneurs would not otherwise consider, but these organizational changes may distract from a company's core mission.

CHAPTER 2
B Lab, B Corps, and Benefit Corporations

In this chapter, I outline the emergence of the three B's: B Lab, B Corps, and benefit corporations. B Lab is the nonprofit responsible for B Corp certification and for writing and lobbying for the model benefit corporation legislation. B Lab grants B Corp certification to companies that have met rigorous social and environmental standards. Finally, a benefit corporation[14] is a legal structure for for-profit organizations that requires directors to consider the interests of all stakeholders, not just shareholders. B Lab drafted model benefit corporation legislation, which has been passed in 32 states, starting with Maryland. While B Corp certification and benefit corporation status differ in structure, both are responses to the struggles of social companies.

History of the movement

Warby Parker, Etsy, Green Mountain Power, and Method Products operate in different industries for different purposes. They manufacture trendy sunglasses, foster an online marketplace, supply green energy, and make environmentally friendly cleaning products, respectively. But they have one thing in common: they are all certified B Corps. The B Corp movement arose in response to the problems of social entrepreneurs who had trouble raising capital, growing their businesses, and eventually selling their corporations without sacrificing their company's missions or values. In fact, the nonprofit B Lab, which certifies B Corps and pushes for benefit corporation legislation, was the brainchild of three entrepreneurs and investors with firsthand experience managing the pressures of running a social business. B Lab was created by three friends: Andrew Kassoy, former private equity investor; Jay Coen Gilbert, an entrepreneur with experience in both the nonprofit and private sectors; and Bart Houlahan, a former investment banker and entrepreneur. The three co-founders brought together a unique set

[14] Also called benefit companies, public benefit companies, and benefit LLCs depending on the state

of resources, perspectives, connections, and experiences with the common goal of "using business as a force for good."[15]

The three founders of B Corp worked in business for most of their careers. After graduating from Stanford, Jay Coen Gilbert worked as an analyst at McKinsey & Company, a management consulting firm, then with several organizations in the public and nonprofit sectors in New York City. In 1993, when he was 25 years old, Gilbert co-founded AND1, a basketball and apparel company known for their innovative marketing campaigns, with his friend from junior high school, Seth Berger. A year after founding AND1, Gilbert ran into his former college roommate, Bart Houlahan, at a wedding. At the time, Houlahan was working as an investment banker, specializing in corporate finance and merger and acquisition services. He had just been accepted to Harvard Business School and had plans to start an MBA program in a few months. Gilbert instead convinced Houlahan to join as president of his fledgling basketball t-shirt company, worth only $600 thousand at the time. Houlahan went on serve as CFO, COO and president of AND1, where he helped to operate and scale the business to $250 million in revenues over the next 11 years. At the same time, Gilbert led AND1's product and marketing and served as the company's CEO during its most rapid period of growth in the late 1990s.

Despite the fact that AND1's consumers were teenagers who, according to the founders, did not care about social responsibility, the company prioritized the well-being of workers, both in their corporate offices and in their factories. Gilbert and Houlahan grew the company into a triple bottom line enterprise, meaning they prioritized people, planet, and profits. AND1 offered on-site yoga classes, generous parental leave benefits, an in-office basketball court, and widely shared company ownership. The company worked with its factories to create a rigorous code of conduct ensuring fair wages, a safe working environment, and professional development opportunities. It also gave away five percent of its profits to charity. By 2001, AND1 had become the second largest basketball shoe company in the United States. But in the face of market consolidation and intense competition from Nike, the company's sales declined year after year. As a "bootstrapped company," AND1 never took any outside capital, and as a result, the

[15] B Lab's official slogan (https://www.bcorporation.net)

company verged on bankruptcy six times as it outgrew its cash flows. Each time, its suppliers, employees, or retailers "bailed us out," a testament to the strength of AND1's stakeholder relationships (TEDxYYC 2014). But ultimately the company was unable to keep up with the competition, and the partners sold AND1 to American Sporting Goods in 2005. Within a month, American Sporting Goods had stripped AND1 of its triple bottom line approach. The new leadership dismantled community programs, employee benefits, environmental initiatives, and relationships with manufacturers.[16]

Frustrated by what they saw unfold with AND1, Houlahan and Gilbert collaborated with an old college friend, former Wall Street private equity investor Andrew Kassoy, to create a platform to support social companies. They considered creating yet another company, one that would "be a force for good," but ultimately they decided that "even if they could create such a business, one more business, no matter how big and effective, wouldn't make a dent in addressing the world's most pressing challenges" (Honeyman 2014). Instead, after speaking with investors and entrepreneurs, they determined that the responsible business sector was lacking two key pieces of infrastructure: a legal framework to safeguard a company's values and credible standards for measuring impact. The three founded the nonprofit B Lab in 2006, and over the next year, they worked with entrepreneurs, attorneys, and investors to create the first set of requirements for B Corporation certification. By 2007, B Lab announced the first generation of certified B Corps, which included Seventh Generation, King Arthur Flour, and Uncommon Goods. Over time, B Lab began to attract more household names, like Patagonia and Ben & Jerry's. Throughout the next several years, B Lab developed model legislation for benefit corporation statutes, which enabled companies to modify their legal structure to allow for the pursuit of social and environmental goals. By 2017, there were over two thousand B Corps in 35 countries spanning 80 industries, and 32 states have passed some version of benefit corporation legislation.

B Corp vs. benefit corporation: certification vs. legislation

The goal of B Lab is to provide impact measurement tools and a legal framework for defending a company's social values against shareholders. As a nonprofit organization,

[16] Interview with Jay Coen Gilbert, Aug. 26, 2016

B Lab's mission is twofold. First, it certifies companies looking to demonstrate their commitment to social and environmental good. Second, it lobbies state governments to create laws that are conducive to social business. In this section, I provide a comprehensive overview of B Corps and benefit corporations, highlighting the similarities and differences between the two. Essentially, B Corp certification is outward facing. It signals a company's ethical practices. Benefit corporation status is inward facing. It reassures entrepreneurs that their mission is legally sound and that they are free to pursue their social and environmental goals.

In 2006, the founders of B Corp created an Excel spreadsheet that contained the first version of what would become the B Impact Assessment, the test companies take before they can become certified B Corps. The initial B Impact Assessment was built on a number of existing tools: best practice guides from practitioners (like *Values-Driven Business*, a book by Ben & Jerry's cofounder Ben Cohen and Social Venture Network chair Mal Warwick), existing corporate social responsibility (CSR) guidelines (like WISER, the Global Reporting Initiative (GRI), and RSF Social Finance), and other certifications (like Fair Trade, USDA Organic, STFLA, and 1% for the Planet). Every two years, B Lab updates the assessment, with addenda and additional questions for particular industries and cultures.

B Lab verifies that certified B Corps have met rigorous social and environmental standards. B Corp certification is similar to LEED, USDA Organic, and Fair Trade certification except that B Corp certification examines a company holistically rather than focusing on just one component, taking into account its worker engagement, community involvement, environmental impact, and governance structure. For example, the assessment will ask what percentage of a company's employees are minorities, whether it offers paid time off for community service, how often it uses local suppliers, and whether employees have the option to compost in the office. B Lab cofounder Bart Houlahan described certification this way:

> This is a corporate certification. What that means is that if you're perfectly green, but you treat your employees like crap and you're not engaged in your community, then you're not going to pass. Or if you're an ESOP with beautiful working conditions, but you're dumping your effluents out the back door, then you're not going to pass. At the end of the day, that would be a product certification or a practice certification. If you're trying to

> certify the whole corporation, you need to assess the whole corporation. (Hamermesh et al. 2017: 338).

B Corp certification is unique in that it certifies an entire company, not simply a company's farming practices (Organic), worker relations (Fair Trade), facilities (LEED), or charitable contributions (1% for the Planet).

To become a certified B Corp, companies must take the B Impact Assessment and achieve a minimum score of 80 points out of 200. According to B Lab Founder Jay Coen Gilbert, "to achieve 80 points, a company must show excellence in at least one area – like the environment – and proficiency in all" the other sections.[17] Companies then undergo a partial audit and site visit, where representatives must be ready to provide documentation for their answers to assessment questions. After the audit, the company will change its articles of incorporation to include a social and environmental mission (unless the articles already include this language), and finally it will pay its dues ($500 to $25000 per year, depending annual profits). B Lab conducts a full audit on ten percent of certified B Corps every year, and companies can lose their certification for falsifying information on the assessment. Every two years, companies must recertify as B Corps, which means repeating the entire assessment and audit process. Any for-profit company can become a certified B Corp; this includes benefit corporations, C corporations,[18] S corporations,[19] LLCs,[20] L3Cs,[21] FPCs,[22] SPCs,[23] and wholly owned subsidiaries.[24] And there are no geographic constraints on B Corps. As long as a company scores a minimum of 80 points on the assessment, it can become a B Corp, regardless of where it is located.

B Corps and benefit corporations are similar but not identical. While B Corp is a certification, benefit corporation is a legal status. B Corps are held accountable to B Lab,

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[17] Interview with Jay Coen Gilbert, August 26, 2016
[18] a corporation that is taxed separately from its owners
[19] a closely held corporation in which shareholders report the company's income and losses on their own tax returns
[20] an unincorporated association that offers limited liability and protection of the owner's assets
[21] Low-Profit Limited Liability Company (discussed at length later in the chapter)
[22] Flexible Purpose Companies (discussed at length later in the chapter)
[23] Special Purpose Company (discussed at length later in the chapter)
[24] a company that is owned or controlled by another company

whereas benefit corporations are subject to state law. A benefit corporation[25] is a new legal structure that provides an alternative to C corporations, S corporations, and LLCs (Surowiecki 2014). Benefit corporation legislation permits business owners to choose a legal form that allows companies "to create a material positive impact on society and the environment."[26] Additionally, benefit corporations are required by law to consider the impacts of their decisions on workers, the community, and the environment. Finally, benefit corporations must provide a publically available report every year that assesses their social and environmental performance against a third party standard, which is defined in the model benefit corporation legislation as "a recognized standard for defining, reporting, and assessing corporate social and environmental performance" that is comprehensive, developed by an entity not controlled by the benefit corporation, includes multiple stakeholders, and is both credible and transparent.[27] The process of becoming a benefit corporation varies from state to state, but it always includes changing a company's articles of incorporation, which requires at least a 2/3 vote by all shareholders. State filing fees range from $70 to $200. New or existing organizations can become benefit corporations, but only in the states where legislation has passed. For existing organizations, benefit corporation[28] becomes the new legal designation, replacing C Corp, S Corp, or LLC. By 2017, when I finished data collection, 32 states had passed benefit corporation legislation and 7 states were drafting similar legislation.

Table 3 provides concise definitions for B Lab, B Corporation, B Impact Assessment and benefit corporations along with the criteria associated with each. Becoming a certified B Corp is a more costly, time consuming, and rigorous process than becoming a benefit corporation, but it offers a more extensive network, additional resources, and greater prestige, as I will demonstrate in the following chapters.

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[25] This legal form is called a benefit corporation, benefit company, or public benefit company, depending on the state.

[26] From the model benefit corporation legislation created by B Lab. See http://benefitcorp.net/sites/default/files/documents/Model_Benefit_Corp_Legislation.pdf

[27] From model benefit corporation legislation

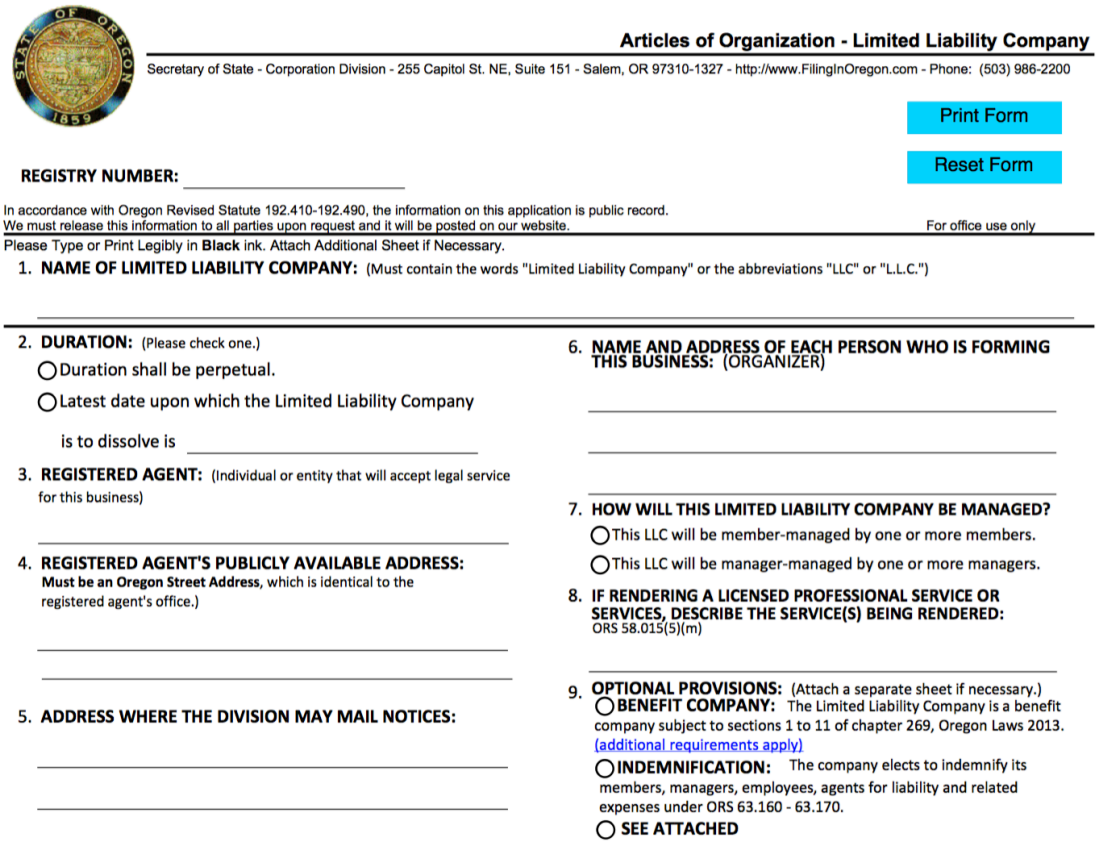
[28] or benefit corporation, public benefit company, or benefit LLC, depending on the state

Table 3: Key terms		
Term	Definition	Criteria
B Lab	Nonprofit organization that supports social companies through B Corp certification and by advocating for benefit corporation legislation	NA
B Corporation	A company certified by B Lab to have met rigorous social and environmental standards	Any for-profit company in the world can become a certified B Corp, as long as they rewrite their articles of incorporation and score a minimum of 80 points on the B Impact Assessment
B Impact Assessment	The assessment created by B Lab to measure companies' social, environmental, and governance initiatives	The assessment is free and available to anyone, but all prospective B Corps must score a minimum of 80 points to become certified.
Benefit corporation	A legal for-profit entity that pursues social and environmental goals in addition to profit-seeking	Companies in any state with benefit corporation legislation can become benefit corporations if they rewrite their articles of incorporation and agree to produce yearly third-party assessment reports.

Benefit corporations lack enforcement mechanisms

Whereas B Corp standards are the same across the world, benefit corporation legislation is only available in the U.S. and varies from state to state. In Oregon, there is even a benefit LLC form. Entrepreneurs use the same paperwork to become a benefit LLC as they would to become a regular Oregon LLC; they simply check a box to signify their benefit status (See *Figure 2*). In other states, like New York, it is more difficult, and most entrepreneurs need to hire a lawyer to incorporate as a benefit corporation. The result, according to James Woulfe, a Connecticut attorney specializing in social enterprise, is that "in places like Oregon, you may have people checking the box who don't even know what it is. Then in New York, you punish people who want to form a

corporation but who don't have a lot of money."[29] My census data support his assertion. In more than half of the Oregon benefit corporations in my initial sample (seven out of twelve),[30] the founders had no knowledge of incorporating as a benefit corporation and no understanding of the legislation. They had checked a box on a form without any awareness of the implications for their organization. As a result, they had not been meeting the requirements of benefit corporation: submitting to a third party audit and publishing an annual report. While Oregon is the most extreme example, several other states have lenient guidelines and enforcement procedures for benefit corporations.



Articles of Organization - Limited Liability Company

Secretary of State - Corporation Division - 255 Capitol St. NE, Suite 151 - Salem, OR 97310-1327 - http://www.FilingInOregon.com - Phone: (503) 986-2200

Print Form

Reset Form

REGISTRY NUMBER: _____

In accordance with Oregon Revised Statute 192.410-192.490, the information on this application is public record.
We must release this information to all parties upon request and it will be posted on our website.

For office use only

Please Type or Print Legibly in **Black** ink. Attach Additional Sheet if Necessary.

1. **NAME OF LIMITED LIABILITY COMPANY:** (Must contain the words "Limited Liability Company" or the abbreviations "LLC" or "L.L.C.")

2. **DURATION:** (Please check one.)
   - ◯ Duration shall be perpetual.
   - ◯ Latest date upon which the Limited Liability Company is to dissolve is _____

3. **REGISTERED AGENT:** (Individual or entity that will accept legal service for this business)

4. **REGISTERED AGENT'S PUBLICLY AVAILABLE ADDRESS:** **Must be an Oregon Street Address,** which is identical to the registered agent's office.)

5. **ADDRESS WHERE THE DIVISION MAY MAIL NOTICES:**

6. **NAME AND ADDRESS OF EACH PERSON WHO IS FORMING THIS BUSINESS:** (ORGANIZER)

7. **HOW WILL THIS LIMITED LIABILITY COMPANY BE MANAGED?**
   - ◯ This LLC will be member-managed by one or more members.
   - ◯ This LLC will be manager-managed by one or more managers.

8. **IF RENDERING A LICENSED PROFESSIONAL SERVICE OR SERVICES, DESCRIBE THE SERVICE(S) BEING RENDERED:** ORS 58.015(5)(m)

9. **OPTIONAL PROVISIONS:** (Attach a separate sheet if necessary.)
   - ◯ **BENEFIT COMPANY:** The Limited Liability Company is a benefit company subject to sections 1 to 11 of chapter 269, Oregon Laws 2013. (additional requirements apply)
   - ◯ **INDEMNIFICATION:** The company elects to indemnify its members, managers, employees, agents for liability and related expenses under ORS 63.160 - 63.170.
   - ◯ **SEE ATTACHED**

Figure 2: Oregon Articles of Incorporation Registration Form

Most states had nonpartisan support for benefit corporation legislation, but the push for a new corporate structure in Delaware was long and contested. Bill Clark, a Philadelphia-based corporate lawyer, worked with B Lab to write the model benefit

[29] Interview with James Woulfe, August 12, 2016

[30] Subjects with no awareness of B Corps, benefit corporations, or B Lab were not included in my analysis. These seven Oregon benefit corporations were not part of the final sample of social companies.

corporation statute, then took it from legislature to legislature across the country. When Clark brought the statute to the Delaware Bar Association, the group was initially opposed. They saw no need for the statute when "Delaware prides itself on having an enabling statute and not stopping people from doing what they want to do" (Hamermesh et al. 2017: 328). But the legislation had support in the state house and with the governor, so the bar association took a second look at it. Rick Alexander, a former partner at Delaware Law firm Morris, Nichols, Arsht & Tunnell LLP and committee member of the Delaware Bar Association still felt that benefit corporation legislation was unnecessary. Nonetheless, the Bar Association agreed to work on the statute. Alexander describes their reasoning for eventually supporting the new corporate form:

> Even without necessarily believing that the benefit corporation is the best model, there's a strong logic from the Delaware perspective saying, 'Gee, if there are entrepreneurs and investors who want to use a form that has something other than stockholder primacy, we ought not prevent them from doing that unless there's some very strong, paternalistic reason for doing so.' And as we thought about it, we didn't think there was" (Hamermesh et al. 2017: 328).

But before the Delaware Bar Association would approve the legislation, it went through rounds of negotiations over the text of the statutes.

The negotiations were so tense that for a while Bill Clark, the author of benefit corporation legislation, insisted that Delaware change the name of the statute to something other than "benefit corporation," because he feared it would tarnish the brand and become a greenwashing tool. In fact, the creators of B Lab were so worried about the state of negotiations that they began to reach out to advocates in the B Corp community to discuss how to move forward. They discussed using publicity to pressure the State of Delaware "to not make it the home of green washing [sic]" (Hamermesh et al. 2017: 332). But within a day, their plans were forwarded to the governor and Leo Strine, who then served as Chancellor for the Delaware Court of Chancery. Bart Houlahan described that day:

> Oh my goodness, that was a bad moment. That was a very bad moment because we had people who had been working with us in good faith to try to find an answer, and they felt we were planning a response that was going to be potentially very damaging to the State" (Hamermesh et al. 2017: 332).

Ultimately, the Secretary of State of Delaware became so impatient with the process that he called a meeting between Rick Alexander, Bart Houlahan, and Andrew Kassoy to force a compromise. "The Secretary of State stood in the room and said 'you're not leaving until you've got a statute.' And so that's how we got our statute in Delaware" (Hamermesh et al. 2017: 328). But it came with a compromise; the resulting statute contained more protections for companies than in other states.

These corporate protections mean that there are fewer obligations – to society, the community, and the environment - baked into Delaware's benefit corporation statute than in other states. Christopher Brechlin, the founder of a social impact measurement firm, created two, now defunct, benefit corporations – one in Delaware and one in Connecticut. He told me that "the Delaware one doesn't have any teeth. It just allows you to put a designation on your company."[31] Brechlin ended up lobbying for benefit corporation legislation in Connecticut, where the laws are more stringent. For example, Connecticut is the only state with legacy preservation provision, a clause that allows companies to maintain their benefit corporation status in perpetuity once they have been chartered for two years. Beyond that point, if a benefit corporation dissolves, its assets must be distributed to a nonprofit organization or to another benefit corporation with a legacy clause.

> The reason Connecticut took 3 years to pass is the people advocating for it wanted to make sure that a business couldn't greenwash what they do. They couldn't say "we're a socially responsible company" and market themselves but not actually do it…You actually had to be a good company. Not every state that allows you to incorporate even leaves room to state a social mission. Connecticut actually allows you to state a social mission in the articles as part of it and connects it back to how you pursue it.[32]

This is tied to the issue of enforcement. Most states have no mechanism for monitoring benefit corporations' practices or revoking benefit corporation status, even if a firm fails to comply with the requirements. Benefit corporation legislation is protective and permissive rather than prescriptive and binding. It allows companies to write their mission into their articles of incorporation and safeguards them from lawsuits when they

[31] Interview with Christopher Brechlin, July 7, 2016
[32] Interview with Christopher Brechlin, July 7, 2016

sacrifice profits in the pursuit of that mission, but the legislation does not force them to prioritize their mission. Nor does it enforce sanctions when companies fail live up to their purpose.

This stands in stark contrast to B Corp certification, which holds companies to rigid standards, and failure to meet those standards means losing certification. Companies must retake the Impact Assessment every two years, and each year, B Lab randomly audits ten percent of certified B Corps, verifying their answers to every question on the assessment. If in a given year, a company's score falls below 80 points, the certification is revoked. But despite its strong enforcement mechanisms, B Corp certification offers no legal status and features no long-term commitments. It is much harder to become a B Corp, but much easier to opt out of it.

Benefit corporations are different. Their primary goal is to write a company's mission into law. Theoretically, the enforcement of benefit corporations lies in the hands of shareholders, who can sue a company's director for neglecting other stakeholders, like the community or the environment. So if a company's mission is to employ youth transitioning out of the juvenile justice system, but a shareholder thinks managers are focusing too much on profits and too little on opportunities for the youth they serve, the shareholder has the right to sue. But the population served – the group for whom the company was created – has no such power. According to James Wolfe, an attorney specializing in social enterprise:

> Within the benefit corporation, there is a right of action from the shareholders or the directors or officers from the company. They can initiate something called the benefit enforcement proceeding. If the company doesn't put out their report one year or if they're not pursuing the creation of the benefit they outlined in their charter, the shareholders have a right to sue to make the company do it. They can get a court order from a judge saying that they have to do it. There's that protection. From the third party beneficiaries, there really isn't a mechanism to enforce benefit corporations to do the right thing. It's specifically stated in the statute that third party beneficiaries don't have the right to. If your benefit corporation is supposed to empower impoverished people in Hartford and it's not doing that, those individuals don't have the right to sue. It's the responsibility of the market to support that benefit corporation through their purchasing decisions or not.[33]

[33] Interview with James Woulfe, August 12, 2016

In theory, the benefit corporation "statutes expressly require the consideration of various non-shareholder stakeholders" and the "pursuit of a 'general public benefit'" (Murray 2012: 22). But in practice, only shareholders can speak for other stakeholders, and as I will show in Chapter 3, few benefit corporations even have shareholders to begin with.

Practically speaking, benefit corporation legislation has no teeth. There is no precedent for shareholders suing corporations over neglect of public benefit, and the wording of the law is just vague enough to protect the firm. Under benefit corporation law, directors of companies *must* consider the effects of their actions on stakeholders, employees, suppliers, customers, the community, society, the local and global environment, and the short- and long-term interests of the corporation. But how do you prove in court that a director did not consider the impact of her decisions on workers, the community, and the environment? And how are directors to consider each of these interests? These obscure mandates may make directors' already difficult balancing act even tougher.

Benefit corporations are also legally required to submit an annual third party report, but there's no quality assurance for this third party standard, and compliance with the reporting requirements are abysmal, less than ten percent (Murray 2015). The legal requirements are "overly vague, in addition to being under-enforced" (Murray 2015: 46). Most states do not have a way to ensure that companies publish reports, nor do they enact punishments on companies that fail to do so.

> The problem is that anyone can show up, say they're a benefit corporation and never do anything. There's the problem of enforcement…If this is going to be more than a flash in the pan, it has to really mean something. Not only do we want the testing to be thorough, rigorous, difficult, but we want the states to be more specific the requirements. It's not just a nice thing that you do the day you incorporate.[34]

Grewe went on to suggest that "they ought to just fine people $1000 if they don't complete their reports on time" to ensure compliance. But enforcement is so minimal that when APDS sent in their annual report, according to Mr. Grewe, the officials at the state filing office "were like 'oh yeah, we forgot about that requirement!'" In fact, only

[34] Interview with Chris Grewe, August 24, 2016

one state, Minnesota, revokes benefit corporation status for firms that fail to file their benefit report on time.[35] While this provision solves the problem of enforcement, it creates a new problem altogether. It creates a simple, easy exit strategy for a director looking to strip her company of its original mission.

Anda Greeney of Al Mokha, a coffee company designed to create jobs for Yemeni farmers, told me that benefit corporations are "all smoke and mirrors. From a marketing perspective it looks good."[36] He described how easy it is to "get around" the legal obligations. His company is dedicated to "reducing poverty and creating wealth in the third world," but the wording of his articles of incorporation is intentionally vague. It states that Al Mokha *may* "donate ten percent of profits to encouraging next generation innovators," because "if you say you will and you don't do it, then you can get sued." Greeney preferred not to limit his options, and he treated benefit corporation status as a temporary corporate structure.

> If I wanted to change this to a C Corp rather than a PBC I could. Thinking about investors, are they going to want to invest in a PBC? What's on the paper doesn't really matter until you have investors in place so that one person can't unilaterally make a decision. If an investor wanted to change the language of the commitment, I'm happy with the flexibility that I can negotiate with that party or individual and change it as I might need to match our mission, which ultimately is creating wealth and improving things in Yemen.[37]

Ultimately, benefit corporation as a legal form is permissive rather than restrictive. Benefit companies are allowed to pursue their mission, but they are not required to. Legally, companies are required to publish a third party assessment every year, but only ten percent of benefit corporations comply with that requirement (Murray 2015). Except in Minnesota, the remaining 90 percent receive no sanctions for noncompliance.

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[35] According to the Office of the Minnesota Secretary of State, a corporation which has had its status revoked may "reinstate the public benefit status by filing the current year's annual benefit report within 30 days of when we issue the revocation and paying a $500 fee is submitted by mail and $520 for expedited service in-person and online filing." The second time the public benefit's status is revoked, the corporation will be unable to reinstate for three years. When a company's status is revoked, it must reincorporate as an LLC, C Corp, S Corp, or some other legal form.

[36] Interview with Anda Greeney, June 28, 2016

[37] Interview with Anda Greeney, June 28, 2016

The decision makers at B Lab are aware of these enforcement problems. Jay Coen Gilbert, one of the founders of B Lab, acknowledged the weakness, but argued that states would have been even more reluctant to pass legislation with strict enforcement mechanisms.

> There's low compliance with the benefit corporation reporting requirements. That poses real long-term risk to benefit corps as a structure that elicits trust among their stakeholders. The teeth of the legislation, the most important part, was the transparency requirement [publishing an annual report], and if people aren't meeting that, it has the risk of a being big greenwashing factory. That's the Achilles heel, is the compliance…but it's pretty unlikely that there will be public sector government regulation compliance. Knowing what it took to pass the legislation, to get the robust bipartisan support, as soon as you appoint the secretary of state to be the compliance police, then you're imposing costs on the system. In our political environment, it's a nonstarter for governments to find resources to run around checking, which leaves it to the general public to say "hey you're calling yourself a benefit corporation, but I don't see your report."[38]

And B Lab is working on ways to improve the system, to create some pressure on delinquent benefit corporations.

> Maybe we can be a part of this, that we can find the time and resources to do this. Next to each one of those benefit corps, there ought to be a field that has their latest benefit report and if they don't have it, maybe it should be flagged in red. They can be highlighted and say "report not found," so that the public can contact them and say "hey, that's not cool."[39]

But even still, the impetus would be on the consumer to seek out information and shame companies for noncompliance. Benefit corporation status is legally binding, but practically unenforced, whereas B Corp certification is monitored by a non-state third party and strictly enforced.

Benefit corporations and B Corp certification are complementary but rarely coexist

This is not to say that benefit corporations are useless. Benefit corporation legislation was designed to combat the pervasive notion that firms exist solely to maximize profits for shareholders. Passing this legislation symbolizes a shift in our understanding of for-

[38] Interview with Jay Coen Gilbert, August 26, 2016
[39] Interview with Jay Coen Gilbert, August 26, 2016

profit companies; it opens up an avenue for social entrepreneurs who want to create social value and make money. Incorporating as a benefit corporation allows entrepreneurs to write their company's social mission into their governing documents. And incorporation as a benefit corporation is difficult to undo, since reincorporation requires at least a 2/3 majority vote in most states. This new legal form is step toward building a system of "caring capitalism," where companies are held accountable to their constituents (Barman 2016).

Benefit corporation legislation and B Corp certification provide a complementary structure for social companies. Benefit corporation statutes offer legal defense but no assurance of compliance, while B Corp certification assures compliance but does not provide legal safeguards. Jay Coen Gilbert, one of the founders of B Lab, described the difference this way:

> The biggest reason why there's a need for both is that the legal structure [benefit corporation] is very valuable for the company. The [B Corp] certification is really valuable for all the other stakeholders who are trying to decide whether that company is walking its talk.[40]

Benefit corporations are legally protected from shareholders, while B Corps are validated. Lara Pearson from Brand Geek argued that with benefit corporations, "there's no accountability there. It's just words. At least B Corps are audited."[41] Whereas incorporating defends a company's mission, becoming certified creates a sense of legitimacy. I will cover this more in the following chapters, but it is an important difference between the two forms.

> It seems to me like certification was the key to any sort of legitimacy, outward legitimacy. I couldn't see flashing my articles of incorporation or my operating agreements and showing that it's in our DNA. It seems like the certification is the key.[42]

Benefit corporation status is inward facing. It reassures entrepreneurs that their mission is protected and that they are free to pursue social or environmental goals. B Corp certification is outward facing. It demonstrates to customers and investors that a company is responsible and ethical.

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[40] Interview with Jay Coen Gilbert, September 15, 2016
[41] Interview with Lara Pearson, July 22, 2016
[42] Interview with Phil Neuman, September 6 2016

Given the complementary nature of B Corps and benefit corporations, we might expect a great deal of overlap between the two forms. Of 2120 B Corps[43], 831 operate in states eligible for benefit corporation certification.[44] Of these 831 B Corps, only 217 (26 percent) have incorporated as benefit corporations. Or to look at it another way, of the 4711 benefit corporations in the US, only 217 (5 percent) are certified B Corps. If we analyze just the 1790[45] benefit corporations with an online presence (website or social media page), only 12 percent have become certified B Corps. Entrepreneurs and executives seem to prefer either certification or incorporation, not both. Advocates of B Corp certification point out that there are no minimum requirements or enforcement mechanisms for benefit corporations. Companies using energy intensive practices and sweatshop labor can become benefit corporations just as easily as eco-friendly and fair trade firms. There is even a gun shop incorporated as a benefit corporation.[46] Benefit corporations must state in their articles of incorporation that they pursue a public benefit, but they are free to define "public benefit" in any way they wish. Conversely, advocates of benefit corporation legislation point to the narrow requirements and high price of B Corp certification. Startups and small businesses often lack the time, money, and manpower to complete the certification process. Furthermore, becoming a benefit corporation, supporters argue, is a long-term commitment backed by the force of law, whereas certification is a two-year commitment upheld by a nonprofit.

But still, B Lab representatives insist that the two forms work best in combination with one another. B Corp certification and benefit corporation status were designed to support one another. The third party assessment requirement in the model benefit corporation legislation was written with the B Impact Assessment in mind. And all

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[43] These analyses were run with the latest available data on B Corps, as of December 2017. Reporting has improved over the last two years, and as a result, there are fewer missing data in this dataset than in my initial census (presented in the introduction), collected in the Spring of 2016.

[44] Subsetting the census of B Corps to only those incorporated in states with benefit corporation legislation at the time of data collection gives us the number of B Corps eligible for benefit corporation status.

[45] These analyses were run with the latest available data on benefit corporations, as of December 2017. That is why these numbers differ from those of the initial census, collected in the summer of 2016.

[46] Unfortunately, the founder declined to be interviewed for this study.

certified B Corps must amend their governing documents to include a purpose statement in their articles of incorporation: "The purpose of the Company shall include creating a material positive impact on society and the environment, taken as a whole, from the business and operations of the Company."[47] According to B Lab, this legal requirement, which echoes the wording of benefit corporation legislation, "bakes sustainability into the DNA of your company as it grows, brings in outside capital, or plans succession, ensuring that your mission can survive new management, new investors, or even new ownership."[48] Amending a company's founding documents requires buy-in from the board and shareholders, and the process is similar to reincorporating. The technical process of reincorporating is easy for companies, especially since they already have to rewrite their founding documents. This begs the question, why do so few B Corps reincorporate as benefit corporations?

Perhaps social companies are plagued by the same conservatism and organizational inertia as conventional firms (Hannan and Freeman 1984). Most B Corps have resisted reincorporating simply because the corporate form is new and unproven. As one B Lab employee told me, "Not enough attorneys or board members are educated on what exactly reincorporating as a benefit corporation means …but largely the barrier is the 'newness' of the corporate form."[49] Moreover, becoming a benefit corporation is seen as risky and binding. One anonymous respondent remarked:

> Even our lawyers don't know what's going to come of this benefit corporation thing. We aren't about to put our business on the line just to say 'we care about society.' Obviously we care about society. That's why we're a B Corp.[50]

Others feel that because they don't have shareholders, there is no need for benefit corporation status. For example, New Belgium Brewery is 100 percent employee owned.

[47] https://www.bcorporation.net/become-a-b-corp/how-to-become-a-b-corp/legal-roadmap/corporation-legal-roadmap
[48] https://www.bcorporation.net/become-a-b-corp/why-become-a-b-corp/protect-your-mission
[49] Email correspondence with Hardik Savalia, June 1, 2017
[50] Interview with anonymous respondent, December 4, 2016

As a result, its leaders see no need to become a benefit corporation. Why should they defend themselves from shareholders when the shareholders are employees?[51]

But soon, B Corp leaders will lose the ability to choose their corporate form. In late 2016, B Lab announced that all certified B Corps in states with benefit corporation legislation will be required to reincorporate within two years of certification.[52] This new rule applies only to companies incorporated as a C Corp or an S Corp, so LLCs, L3Cs, and FPCs are exempt and can keep their corporate structure. It remains to be seen whether companies will embrace benefit corporation status as a complement to their B Corp certification or whether they will simply opt out and let their certification expire. B Lab founder Jay Coen Gilbert insisted that B Lab will decertify companies that fail to comply.

> The hope is that it doesn't create negative ripple effects if they're higher profile companies. There will be companies that will be disappointedly surprised when we say we aren't kidding about this and you really did have to incorporate. And there will be people who will be happily surprised that we kept our word. We think it's a much more positive thing if folks recognize that we are serious and the standards are the standards.[53]

And just as Jay predicted, business owners do seem to hold out hope that they might somehow be exempt from the benefit corporation requirement. For example, Dansko is a B Corp with an Employee Stock Ownership Plan (ESOP). An ESOP is "a qualified defined-contribution employee benefit plan designed to invest primarily in the stock of the sponsoring employer" (Investopedia 2015). ESOPS are a designed to align the interest of a company's employees with that of its shareholders. Although Dansko is incorporated in Delaware, a state with benefit corporation statutes, the company has not yet reincorporated. Marc Vettori, Dansko's director of HR told me:

> We have not reincorporated. There are a number of different reasons. We redid our corporate structure when we became 100 percent ESOP. We are

[51] In this case, Katie Wallace, my respondent from New Belgium Brewery was likely either naïve or being disingenuous. Worker-owners are susceptible to exploiting themselves, especially when times are rough, and there are a range of B Corp values for which there is no guarantee that worker owners would care at all. Nonetheless, this was the justification Wallace gave me: New Belgium does not need protection from shareholders, because the employees are shareholders.

[52] Interview with Jay Coen Gilbert, founder of B Lab, August 26, 2016

[53] Interview with Jay Coen Gilbert, August 26, 2016.

> committed to [having] an ESOP and want to make sure there's no conflict between the corporate structure. We just aren't convinced yet. Is it [losing certification] something I worry about? Yeah, but I also think we have a really good long-standing partnership, and I'm sure that we will come to a solution. I hope that that doesn't mean we end up not being able to be a B Corp anymore. I have faith that it'll work out for the positive, so we'll see what happens.[54]

By August 2019, all corporations in the 32 states with benefit corporation statutes will be required to reincorporate. It is a symbolic move by B Lab, a statement that B Corp certification is insufficient to defend social companies and that a new legal status is necessary.

Other certification systems and corporate statutes

Of course, B Corp certification is merely one institution in a sea of certification systems, and B Lab risks its members defecting to another certification scheme if requirements are not to their liking. For example, A-1 Building was one of the first certified B Corps in 2007, but ultimately president Rick Dubrow felt that he wanted to focus specifically on local suppliers and sustainability. A-1 allowed its B Corp certification to lapse, and instead became certified by EnviroStars, a consortium of local government agencies throughout the state of Washington. EnviroStars leverages local government consultants to do on-site business assessments, which are reviewed by the Washington Department of Ecology. Like B Corps, EnviroStars can put the logo on their website to signify their sustainability efforts.

Certification systems abound. A company could become Fair Trade, USDA Organic, or Rainforest Alliance certified. Or it could seek certification from a more industry specific organization, like the Marine Stewardship Council (MSC) or the Aquaculture Stewardship Counsel (ASC) for seafood. Certification systems are not without their critics. ISO 14001 for environmental management is a well-known certification scheme, but studies have shown that ISO certification has no impact on regulatory compliance, and certification is seen primarily as a ritual to impress stakeholders (Boiral 2007; Blackman 2012). A 2013 NPR story critiqued the MSC for

[54] Interview with Marc Vettori, September 6, 2016

"labeling some fisheries as sustainable — even when they are not — partly to fill the seafood counters at Wal-Mart and other large chains" (Zwerdling and Williams 2013). The Fair Trade movement arose in an effort to protect farmers and reduce inequality in developing countries, but critics point out that the high price premiums paid by consumers do not go directly to farmers (Haight 2011).

This proliferation of labels makes it easy for companies to commit the "sin of the hidden tradeoff," the practice of using single-issue certifications to "make selective disclosures of positive attributes while ignoring negative impacts" (Lyon and Montgomery 2015: 240-241). Furthermore, certifications, labels, and logos are rendered useless when consumers cannot differentiate them or determine which are the most stringent (Harbaugh, Maxwell, and Roussillon 2011). This can produce a "race to the bottom," whereby certifications compete to become the most business-friendly, relaxing standards to make compliance easier for companies (Fischer and Lyon 2014). B Lab aims to combat this race to the bottom and to provide the antithesis of selective, single-issue certifications. Each year, the B Impact Assessment becomes more stringent, and it includes measures of environmental sustainability, social responsibility, governance, and community involvement to ensure a holistic view of the company and prevent the sin of the hidden tradeoff.

Just as there are many certification systems, companies can choose from a number corporate forms. Lawmakers have enacted legislation enabling new forms of organizations specifically designed for social companies. In eight states, companies can incorporate as an L3C low-profit limited liability company. The L3C takes the LLC as its starting point, with two added requirements. An L3C must accomplish one or more charitable or educational purpose as defined by the tax code and cannot have as its significant purpose the production of income or appreciation of property. And yet, like benefit corporations, L3Cs have no enforcement apparatus. If a company fails to satisfy requirements, it simply reverts in status to an ordinary LLC (Reiser 2014). In 2011, California passed the Corporate Flexibility Act, which allows companies to incorporate as FPCs or flexible purpose corporations (Murray 2012). The FPC requires that founders identify one or more special purpose, which could be charitable or more general, like promoting long-term financial value (Reiser 2014). In 2012, Washington passed a statute

allowing the formation of SPCs, social purpose corporations, which requires directors to consider a social purpose. SPCs are less flexible than FPCs, but neither involves enforcement of the purpose requirement (Murray 2012). The FPC, SPC, and benefit corporation all take the corporate form, rather than the LLC, as the starting point, meaning all three are taxed the same as a C Corp.

Benefit corporations are more narrowly defined than SPCs or FPCs, but more broadly defined than L3Cs, which cannot have the production of profit as a significant purpose. Despite the array of alternatives, benefit corporations have been the most widely adopted of these corporate forms, with legislation in 32 states and thousands of incorporated companies. This is largely due to support from B Lab and its certified members, who have advocated for benefit corporation legislation in their home states. But the presence of alternative corporate structures and certification system illustrates that B Corps and benefit corporations are symptoms of a larger movement, a movement toward markets that reward responsible, sustainable production practices. Like B Corp certification and benefit corporation status, Fair Trade certification and SPCs are symbols of corporate virtue, signifying to consumers that a company prioritizes social causes. Through the creation of its certification system and new corporate form, B Lab aims to create and sustain more virtuous markets and to support the companies that constitute them.

Conclusion

Benefit corporation legislation and B Corp certification are part of a broader movement toward more responsible business practices. Although they function differently, both forms are efforts to address the tensions between running a company responsibly and profitably. Social companies found it so difficult to operate within the traditional corporate framework that entrepreneurs pushed for a new framework altogether. B Lab continually creates and updates new business standards that encourage the pursuit of the triple bottom line: people, planet, profits (Elkington 1998). As a nonprofit, B Lab's mission is twofold. First, it certifies companies looking to demonstrate their commitment to social and environmental good. Second, it lobbies state governments to create laws that are more conducive to social enterprise.

In the next chapter, I will investigate the justifications for benefit corporation legislation. Benefit corporations are framed as a way to defend social companies against profit-hungry shareholders. I will unpack the legality of the shareholder value principle and illustrate its normative power.

CHAPTER 3
The Myth of Shareholder Value: Why the Shareholder Value Principle Matters for Social Companies

In this chapter, I delve deeper into the origins of B Lab, a nonprofit created by social entrepreneurs in response to conventional capitalism and the shareholder value principle. I then explore the legal foundations – or lack thereof – of the shareholder value principle and illustrate its normative power. Shareholders do not pose a real threat to most social companies; as of January 2018, there were only five publically traded B Corps and only one public benefit corporation. Given that the shareholder value principle applies exclusively to public corporations, shareholder value should be irrelevant for all but a few of these social entrepreneurs, and yet, without my prompting, the power of shareholders came up in 77 percent of my interviews. In this chapter, I investigate why the idea of the shareholder value principle is so prevalent among social entrepreneurs. Ultimately I argue that benefit corporation status allows companies to symbolically reject the idea of profit maximizing at all cost. Finally, I put both B Corps and benefit corporations in their broader context as part of a larger effort to create virtuous markets.

The contentious case of Ben & Jerry's

As I outlined in Chapter 2, B Lab's founders began their careers as investors and entrepreneurs. Jay Cohen Gilbert cofounded basketball apparel company AND1 and hired Bart Houlahan to serve as president. The company grew to become the second largest basketball shoe company in the United States. The company stood in stark contrast to industry giant Nike, with its commitment to workers – both at its corporate offices and in overseas factories. AND1 had an on-site basketball court, morning yoga classes, mothers' rooms, and generous employee benefits programs. Workers were given two weeks of paid time for community service each year, and the company upheld a rigorous code of conduct for their suppliers. But as soon as American Sporting Goods bought the company, it stripped away the commitment to workers, environmental initiatives, community outreach, and charitable contributions. While Coen and Houlahan repeatedly insisted they were paid fairly for AND1, they did not feel they had the

opportunity to prioritize their social mission, to give preference to a more socially responsible buyer. Houlahan argued:

> At the moment of sale, the moment when the mission of the organization really hangs in the balance, you don't have any opportunity to consider anything by law other than maximizing shareholder value. You are legally required to only focus on maximizing the return to shareholders. (TEDxYYC 2014)

Coen and Houlahan created B Lab to address the challenges of running, scaling, and selling a socially conscious company – to combat a singular focus on maximizing shareholder value.

The story of AND1 resonates with many social entrepreneurs who fear that selling their company will mean sacrificing their mission. It also hearkens back to the hostile takeover of Ben & Jerry's Ice Cream by the multinational conglomerate Unilever. This notorious case provides B Lab with a compelling illustration of the power of shareholders and the need for a new corporate form.

> Corporate law has been fingered as the culprit in Ben & Jerry's sale, which has become the poster child, proof text, and Exhibit A for the proposition that the traditional business corporation is fundamentally inhospitable, if not outright hostile, to social enterprise (Page and Katz 2012).

But as I will demonstrate, there was no clear legal requirement for Ben Cohen and Jerry Greenfield, founders of Ben & Jerry's, to sell their company. The case never made it to court. If it had, there may have been a long and protracted battle, but precedent suggests that Coen and Greenfield would have won (Page and Katz 2012; Murray 2013). Nonetheless, B Lab advocates use the Ben & Jerry's case as a rhetorical tool to highlight the need for benefit corporation statutes.

Established in 1978, Ben & Jerry's donated 7.5 percent of profits to charity, sourced Brazil nuts from an Amazonian cooperative, bought brownies from a bakery that employs people fresh out of prison, and paid workers a living wage with benefits. The ice cream company resisted venture capitalist funding, and instead offered stock only to Vermont residents in an attempt to "share the wealth." After Ben & Jerry's national stock offering in 1985, Ben Cohen and Jerry Greenfield wrote their mission statement:

"to make the world's best ice cream, to run a financially successful company and to 'make the world a better place'" (Gelles 2015).

When Unilever put together a generous bid to buy out Ben & Jerry's, the owners tried to block the sale but ultimately could not compete with the large multinational corporation. Coen and Greenfield felt forced to sell to avoid lawsuits from shareholders, even though they feared the company's mission would be compromised in the process (Rosenberg 2011). Because Ben & Jerry's was a public company, some argue that it had a legal responsibility to its shareholders to sell to the highest bidder (Gelles 2015). B Lab supporters are quick to point out that after the sale, Unilever closed a production plant and distribution center, laying off workers and sales representatives at both sites. In reality, little has changed for Ben & Jerry's since its acquisition. The company still sources cage free eggs, and each year, they calculate the living wage in Vermont to ensure that every employee can afford housing, health care, transportation, food, recreation, savings, and miscellaneous expenses. Even entry-level employees earn over twice the national minimum wage.[55] After the Supreme Court's decision in favor of gay marriage, Ben & Jerry's released a special flavor called "I Dough, I Dough" to mark the occasion. The company has largely retained its alternative identity and social practices, but "among social entrepreneurs, Unilever's purchase of Ben & Jerry's still serves as a cautionary tale of how easily corporate fiat can undermine social responsibility" (Lawrence 2009). Advocates of benefit corporation statutes suggest that the sale alone illustrates the power of the shareholder value principle, the idea that a company's primary obligation is to maximize profits for shareholders. "The board was legally required to sell to the highest bidder," according to Jonathan Storper, an attorney at Hanson Bridgett, the first law firm to earn B certification. "Neither Ben Cohen nor Jerry Greenfield wanted to sell the company, but because it was public, they had no choice" (Lawrence 2009).

But others argue that if the case had gone to court, founders Ben Cohen and Jerry Greenfield would likely have won (Page and Katz 2012; Murray 2013). Unilever was not the first company to put an offer on the ice cream company: Dreyer's Grand Ice Cream made multiple bids, but Ben & Jerry's board refused (Page and Katz 2012). They

[55] http://www.benjerry.com/values/how-we-do-business/livable-wages

were able to refuse because, according to Page and Katz (2012), the company was *not* legally obligated to sell to the highest bidder. "This perception reflects the erroneous view that corporate directors must always act to maximize shareholder value" (Page and Katz 2012). Ben & Jerry's had in fact taken many steps to prevent a hostile takeover, including the adoption of a "poison pill," control of the company's board, and ownership of super-voting stock (Page and Katz 2012). This is not to say that blocking the sale would have been easy or simple. Unilever's attorneys were ready to challenge Ben & Jerry's poison pill, and refusing Unilever would likely have led to a protracted court battle.[56] Cohen and Greenfield may have sold Ben & Jerry's to avoid litigation, but the idea that they were forced to sell is an overstatement.

Shareholder value principle is a social norm, not a legal mandate

The Ben & Jerry's story came up in nearly a third of my interviews and is a common justification for benefit corporation legislation. The response by social entrepreneurs to the Ben & Jerry's case illustrates the symbolic power of the shareholder value principle. The shareholder value principle is the idea that a company's primary responsibility is to maximize financial returns for shareholders (Dobbin and Zorn 2005; Pearlstein 2013; Shin 2013; Heilbron, Verheul, and Quak 2014). It dictates that companies focus not on a social or environmental mission or even on long-term profits, but on short-term increases in stock values. This often leads to irresponsible production practices and low wages. In reality, many companies have resisted selling to the highest bidder (Air Products Inc. v. Airgas, Inc. 2011; Ryan 2014; Marks 2016), but these cases have not been as heavily circulated as the story of Ben & Jerry's. In this section, I will discuss where the courts stand on the issue of shareholder value – what is settled, what is unsettled, which concerns are real, and which are imaginary.

At first glance, the legal basis for the shareholder value principle seems contested and unclear. The argument over the legality of the shareholder value principle dates back to 1932, when the *Harvard Law Review* published a series of essays by Adolph Berle and Merrick Dodd, two leading experts in corporate law. Berle (1931) argued that all powers granted to a public corporation are "at all times exercisable only for the ratable

[56] Interview with James Woulfe, August 12, 2016

benefit of the shareholders" (p. 1049). Dodd (1932) countered that a public company's purpose was not only to make money for shareholders but also to create jobs for employees, deliver quality products to customers, and improve broader society. The corporation, according to Dodd (1932), "has a social service as well as a profit-making function" (p. 1148). By 1954, Berle conceded that he had lost the argument, that shareholders did not have exclusive power over a corporation, and that the issue was settled. It was not until the 1970s that the Chicago School[57] of free-market economics resurrected the shareholder value principle, with Milton Friedman as their champion (Stout 2012).

Proponents of the shareholder value principle frequently cite the Dodge v. Ford Motor Co. (1919) court decision, which held that "a business corporation is organized and carried on primarily for the profit of the stockholders." The ruling came after Henry Ford tried to reduce car prices and make automobiles more attainable for the average consumer by cutting dividends for shareholders. The Dodge Brothers, who owned ten percent of Ford Motors, won a case against him, preventing him from pursuing broader societal goals at the expense of shareholders. The decision also established that "it is not within the lawful powers of a board of directors to shape and conduct the affairs of a corporation for the merely incidental benefit of shareholders and for the primary purpose of benefiting others" (Dodge v. Ford 1919). But Stout (2012) argues that Dodge v Ford (1919) is a unique case. Henry Ford intentionally withheld dividends to prevent the Dodge brothers, minority shareholders of Ford, from expanding their competing business. The altruistic explanation - that Ford wanted to lower prices for consumers and pay employees higher wages - was a sham to justify withholding dividends (Stout 2012). Furthermore, Dodge v. Ford (1919) was not a decision of the U.S. Supreme Court, but of the Michigan Supreme Court, which "has become something of a backwoods of corporate jurisprudence" (Stout 2012: 27). Nevertheless, the case continues to influence corporate law. Nearly one hundred years later, the chief justice of the Delaware Supreme Court wrote that "directors must make stockholder welfare their sole end and that other

[57] The Chicago School view does not necessarily hold that companies are required by law to maximize shareholder value. Rather the Chicago School is a line of neoclassical economic thought suggesting that companies *should* maximize shareholder value and that rational markets will lead to that result.

interests may be taken into consideration only as a means of promoting stockholder welfare," citing the Dodge v. Ford decision (Strine 2015: 10).

And yet many argue that the shareholder value principle is a standard of conduct, not a legal mandate (Stout 2012; Smith and Rönnegard 2016). The A.P. Smith Mfg. Co. vs. Barlow (1953) case determined that companies could donate up to one percent of capital and surplus to an institution as long as that institution does not own more than ten percent of the company's stock. More recently, the Supreme Court ruled in the Hobby Lobby case that "modern corporate law does not require for-profit corporations to pursue profit at the expense of everything else, and many do not" (Burwell v. Hobby Lobby. Stores Inc. 2014). Shareholders do not really own a corporation; they own the stocks, and this type of ownership provides only limited rights to control a firm (Shin 2013; Pearlstein 2013). Most legal scholars agree that United States corporate law has never required directors to maximize share price or shareholder wealth above all else (Stout 2012). On the contrary, "as long as boards do not use their power to enrich themselves, the law gives them a wide range of discretion to run public corporations with other goals in mind…Chasing shareholder value is a managerial choice, not a legal requirement" (Stout 2012: 3-4). In fact, in most states, corporations can be created for any legal purpose (Pearlstein 2013; Shin 2013).

Furthermore, the business judgment rule protects the board of directors, even when they act in ways that fail to maximize shareholder value. The business judgment rule stipulates that as long as the board of directors has no conflict of interests and makes a reasonable attempt to be informed about their decisions, courts will not second-guess them (Marens and Wicks 1999; Stout 2012). For example, in 1968 Philip Wrigley, the owner of the Chicago Cubs, refused to hold night games, even though doing so would increase attendance and profits. Wrigley argued that baseball should be a daytime sport and that installing lights would disturb the surrounding residents. Wrigley even admitted that he was not particularly interested in the financial consequences of his decision. Nevertheless, the court ruled in favor of Wrigley under the business judgment rule, since there was no evidence of illegality or conflict of interest (Shlensky v. Wrigley 1968). The outcome of Shlensky v. Wrigley (1968) indicates that "contrary to what many

believe, U.S. corporate law does not impose any enforceable legal duty on corporate directors or executives to maximize profits or share price" (Stout 2012: 8).

Although the shareholder value principle has no clear legal basis, it operates as a strong social norm, as I will demonstrate empirically in the next section (Smith and Rönnegard 2016). Useem (1993) argues that the business tactics promoted by the shareholder value principle have become widespread and commonplace, and Dobbin and Zorn (2005) describe how the shareholder value principle came to be the most influential business tenet of the 1980s and beyond. Although "by definition, the concepts of shareholder value and the shareholder value principle apply only to publicly traded corporations," both public and private companies have embraced the tactics promoted by the principle (Shin 2013: 830). The concept has become so entrenched that it has been dubbed the shareholder wealth maximization *norm* (Bainbridge 1993; Roe 2001; Bartlett 2015). Amidst confusion over the legal status of the shareholder value principle, the idea has retained its symbolic power and significance.

Shareholder value without shareholders

The influence of the shareholder value principle extends beyond corporate law and public corporations. Bob Willard, the founder of consulting company Sustainability Advantage, told me "the idea of shareholder value is really entrenched in the minds of executives and of sustainability champions." In fact, according to Clark and Babsen (2012), "it is against the paradigm of shareholder primacy that benefit corporation statutes have been drafted" (p. 838). Benefitcorp.net is the official website for benefit corporation legislation, powered by B Lab. The site states:

> Traditional corporations are expected to use profit maximization as the primary lens in decision making. Many now see this as a hurdle in creating long-term value for all stakeholders, including the shareholders themselves. Benefit corporations reject this myopic model. They are required to consider all stakeholders in their decisions. This gives them the flexibility to create long term value for all stakeholders…even through exit transactions such as IPOs and acquisitions. (Benefit Corporation 2017)

We see here that benefit corporation legislation is framed as a response to the shareholder value principle. Benefit corporation status is posited as the antidote to this

obsession with short-term profit maximization. Chris Grewe, the CEO of APDS, echoed this sentiment as he described the importance of benefit corporation legislation.

> I think if you are going to walk the walk as a benefit company, you absolutely need to be registered as a benefit corporation not a C Corp. The reason for that is that it removes some ambiguity with regards to the relationship between management and shareholders. Explicitly if you're registered as a C Corp and you need a widget to make your project, say you get a bid and one is 28 cents and another is 30 cents. As a C Corp, all you can consider if they are equal quality is what's best for shareholders, and what's best for shareholders is cheap. If I add to that that the 30 cent widget was made by unionized workers down the street from my company, I could get in trouble if I make a decision based by that. Incorporating as a benefit corporation protects you from the threat of your shareholders.[58]

But APDS is a privately held company. Even if the shareholder value principle were legally sound, it would have little bearing on APDS. Legally, Grewe could buy a widget from anyone, at any price he likes. Nevertheless, this narrative, that the shareholder value principle restricts directors' decision-making, is used over and over again throughout my interviews and throughout articles about benefit corporation legislation. Why has this become such a compelling narrative to social entrepreneurs?

Out of thousands of certified B Corps worldwide, only six are, or have been, public companies, and only four are still certified.[59] Just one of these is an American corporation. As of 2017, there is only one publicly listed benefit corporation.[60] Within my sample specifically, every company is privately held, and most are sole proprietorships. Given that the shareholder value principle applies exclusively to public corporations, shareholder value should be irrelevant for these social entrepreneurs, and yet, without my prompting, the power of shareholders came up in 77 percent of interviews. How can we explain this phenomenon? Why is the shareholder value principle a part of the conversation at all?

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[58] Interview with Chris Grewe, August 24, 2016

[59] Natura (Brazil), Australian Ethica (Australia), Snakk Media (New Zealand), Rally (American – no longer a B Corp), Etsy (American – no longer a B Corp), Laureate Education (American)

[60] Laureate Education

Shareholder value principle is an ambiguous concept

One explanation is that without any experience in corporate law, most entrepreneurs are unsure of what the shareholder value principle is, whether it is a legal mandate, and to whom it applies. Given the prominence of the shareholder value principle, some entrepreneurs seem to believe that maximizing shareholder value is their legal responsibility. The confusion surrounding the legal status of the shareholder value principle is frightening, and entrepreneurs seek out solutions – like benefit corporation status – that offer protection and certainty. James Woulfe, a lawyer from ReSet, discussed the prevalence of the shareholder value principle.

> This mythology of maximization of shareholder value, it was taught in most business schools. Milton Friedman pushed this idea in the Chicago School of Economics. It's pervasive in C suite culture generally, and it's taken as a maxim that everyone just follows. When it comes down to it, any lawyer will say, actually when we form a corporation, it's created for any lawful purpose. You can say in your charter that a corporation is created to help solve social and environmental problems and yada yada yada. But there have been some court cases that have come down where there is some gray area.[61]

Woulfe acknowledged the pervasiveness of the shareholder value principle, but he also understood that it is not a legal mandate. This nuanced understanding of the shareholder value principle – that it is a powerful business norm with no legal basis – is lost on many entrepreneurs, who struggle to disentangle market mechanisms from legal requirements. The shareholder maximization *norm* is assumed to carry the weight law.

Ambivalence is a common theme in discussions of the shareholder value principle. David Young, the CEO of VIF, a company with no shareholders or outside investors, told me:

> I was listening to NPR the other day and they were talking about shareholder value and they were saying there's this myth that board members must always prioritize shareholder value and they were saying that's not true but I had the perception that it is true. I think a lot of people have that perception. I wish shareholders could have a more nuanced view of what profit or success means and that the bottom line net income isn't the measure of whether you're a successful company. I don't know how we get there, but I wish it were true.[62]

[61] Interview with James Woulfe, August 12, 2016
[62] Interview with David Young, June 16, 2016

David Young expressed his uncertainty over the legality of the shareholder value principle. Even after acknowledging that the principle may be more myth than legal mandate, he doubled down on his "perception that it is true." Young then critiqued shareholders' narrow, profit-centric view of success. This passage is characteristic of entrepreneurs' discussions of the shareholder value principle. Subjects are not sure whether it applies to them, but they feel certain it rests on fallacious assumptions about value and success. Afraid they *may* be held legally accountable to shareholders, social entrepreneurs look for protection and assurance that they can make decisions freely, decisions that account for multiple stakeholders. Benefit corporation status offers that protection. Even if, like David Young, entrepreneurs suspect that shareholder maximization is not a law – or at least a law that applies to them – incorporating as a benefit corporation allows them to hedge their bets. It is the safe, conservative choice.

Shareholder value principle as a symbol for corporate greed

As I have shown, the shareholder value principle has no legal basis and no practical relevance to the companies in this study. And yet, it comes up repeatedly throughout my interviews. Ultimately, the shareholder value principle is a straw man. Although many social entrepreneurs understand that the principle is a myth, they use it as proof that the market is inimical to social companies and that conventional firms will do whatever it takes to maximize profits. According to Mike Humphries from Waldron HR, among corporations, "there's an overemphasis on shareholder value and that tends to be the lens through which all decisions are made."

> I would say this: I think business in general is challenged by its very nature. Business' very nature is to serve the interests of its own shareholders. So it's not the job of any single business to change the world. Businesses don't exist to do that. They exist to serve certain markets and retain profits and to serve their respective stakeholders, but we think that includes a wide range of actors…We want to take better care of our workforce and customers and create healthy communities. And we can share – because we are grateful for what the market has provided to us – we can share that wealth to our communities, so we can define what issues are aligned with our values and we can make a financial impact on those issues outside of business with our profits. I wouldn't go so far to say that it's business' responsibility to do that, but it's important for *our*

> business. We think that we thrive in part because our community thrives, and the better we can make our community, the better it's going to be for us.[63]

In this quote, Humphries contrasts the larger corporate climate with the goals of his social company. Business in general is "challenged by its very nature," but social companies expand the definition of stakeholders. They go beyond "business' responsibility" to incorporate "values into the way we do business." He juxtaposed the shareholder value principle with the stakeholder model, the idea that companies should maximize value for all stakeholders, not just shareholders. In reality, taking care of his workforce and creating healthy communities are well within his rights as the president of Waldron HR. The company has no outside investors or shareholders, but even if it did, Humphries would be protected by the business judgment rule.

This is not to suggest that the entrepreneurs in this study intentionally misrepresent the law. Rather, the shareholder value principle is a powerful business norm, one that serves as a foil for social companies. The shareholder value principle provides an extreme example of corporate greed, of the single-minded focus on profits. As a result, it makes for an easy target and a good talking point. Taking a hard stance on the shareholder value principle allows entrepreneurs to symbolically reject the profit-maximizing tactics of conventional companies and to set themselves apart. Social companies define themselves against conventional corporations through the processes of boundary maintenance and boundary work.

Boundary maintenance refers to the ways social groups maintain distinctions between themselves and others. Social psychologists, cultural sociologists, and social identity theorists all investigate the ways people segment the world into "us" and "them." Symbolic boundaries "are conceptual distinctions made by social actors to categorize objects, people, practices, and even time and space. They are tools by which individuals and groups struggle over and come to agree upon definitions of reality" (Lamont and Molnár 2002: 168). This type of boundary maintenance occurs within professions, between ethnic groups, and inside the academy. Gieryn (1983) coined the term boundary work to describe how scientists construct a social boundary between

[63] Interview with Mike Humphries, June 29, 2016

science and nonscience by emphasizing the characteristics of the institution of science. Boundaries help us understand how professions and disciplines are categorized and how dichotomies – like those between experts and laymen or science and nonscience – are drawn. A similar dichotomy is constructed in conversations about the shareholder value principle. Insiders, social entrepreneurs, vehemently object to the idea that corporations should maximize value for shareholders – even when they have no shareholders themselves. They rewrite their articles of incorporation to signify their opposition to outsiders, conventional corporations. Incorporating as a benefit corporation or becoming a certified B Corp draws a bright line, a clear boundary, between social companies and conventional ones.

But critiques of the shareholder value principle are about more than boundary maintenance. They are part of a larger movement toward more responsible business practices. Bob Willard, founder of Sustainability advantage described his desire to initiate change among investors and corporations in all industries.

> We need to change the dynamic and show executives that if they don't clean up, they're shirking their fiduciary duty. That changes the tone of the conversation, it changes the content of the conversation.[64]

Social entrepreneurs are not only interested in setting themselves apart. They also actively engage in the creation of virtuous markets - networks of entrepreneurs, gatekeepers, and investors who share a desire to use business to tackle social and environmental problems. They are working to create what Barman (2016) calls "caring capitalism," where companies are held accountable to their constituents. Social entrepreneurs want to differentiate themselves from conventional capitalists but also to change the system, to shift expectations about what a company can and should do.

What happens when B Corps go public?

For the most part, B Corps and benefit corporations are small, privately held companies with no plans to go public. Discussions of the shareholders are largely hypothetical, and the shareholder value principle serves as a foil to distinguish social companies from

[64] Interview with Bob Willard, June 17, 2016

conventional ones. Nevertheless, the stories of Etsy and Laureate Education are instructive, because they were two of the first B Corps to complete an IPO.

Etsy is a peer-to-peer ecommerce website that connects artisans and makers to customers looking for handmade, vintage, and unique items. Rob Kalin, a craftsman and woodworker, created Etsy in 2005 with two programmers, Chris Maguire, and Haim Schoppik, both of whom left the company within three years. In 2011, after a period of rapid growth, the board voted to replace Kalin with Chief Technology Officer Chad Dickerson. Etsy continued to grow steadily from 2011 to 2014, but all the while, Dickerson focused on protecting the company's unique corporate culture. Etsy became a certified B Corp in 2012. Its new office building is Petal Certified, a green building certification that is more stringent than LEED certification. Employees receive free lunch and on-site continuing education. The company covers 100 percent of health-care premiums and pays all employees at least 40 percent above the local living wage (LaRocca 2016). Dickerson became a champion for Etsy's social and environmental values. In 2014, at a corporate social responsibility conference, Dickerson gave a speech, quoting Friedman's notorious line: "There is only one social responsibility of business, to use its resources to engage in activities designed to increase its profits" (Friedman 1970). After a short pause, Dickerson said, "you are all free to hiss" (Chafkin and Cao 2017). The audience laughed and hissed.

At the time of his speech, Dickerson was preparing to take Etsy public. When Etsy filed for an IPO, it set a limit on the value of shares a retail investor[65] could buy: $2500 per person. Dickerson's intention was to ensure that shares would be available to Etsy sellers, to create a shareholder base that was sympathetic to Etsy's social and environmental mission. To illustrate the company's commitment to its values, the IPO filing described in detail Etsy's CSR practices. For example, it outlined the "Eatsy" program: twice a week, Etsy provides locally sourced catered lunch for the entire staff.

> In 2014, we sourced food from over 40 local businesses with an emphasis on our health and ecological impact. We eat on compostable plates, and employees sign up to deliver our compost by bike to a local farm in Red Hook, Brooklyn, where it is turned back into the soil that produces the food we enjoy together. In this

[65] An individual investor, as opposed to an institutional investor

> way, Eatsy goes into the very soil we live and work on. Eatsy is a metaphor for how I think about many aspects of our business and our relationship to the world around us: regenerative, mindful, interdependent, community-based and fun. (United States Securities and Exhange Commission 2015a: 93)

Programs like Eatsy are what make Etsy a high scoring B Corp. The focus on local caterers, the provisions for employees, and the dedication to composting all gain Etsy extra points on the B Impact Assessment. But investors seemed skeptical. In fact, in an article for *Bloomberg*, Chafkin and Cao (2017) suggest, "investors hate B Corps," and a *New York Magazine* cover story characterized Etsy as "an extremely cozy private welfare state" for employees (LaRocca 2016).

As the second B Corp to complete an IPO, Etsy provides a case study of the relationship between shareholders and social values. The day Etsy went public, Dickerson wrote in a blog post acknowledging the perception that Etsy's values were misaligned with becoming a public company, with responsibilities to shareholders.

> We understand the concern, but reject the premise that there is a choice to make between the two. Etsy's strength as a business and community comes from its uniqueness in the world and we intend to preserve it. *We don't believe that people and profit are mutually exclusive.* (Dickerson 2015, emphasis added)

And in fact, Etsy had been thriving financially even as it added more social and environmental initiatives. Prior to the IPO, Etsy grew quickly under Dickerson's leadership, doubling its revenues from 2013 to 2015. In April 2015, on its first day as a Nasdaq-listed company, Etsy's market value doubled to more than $3 billion, but over the next two years, the stock fell 63 percent in value. Growth fell from 44 percent in the first quarter of 2015 to 25 percent in the last quarter of 2016, and Etsy reported a loss in the first quarter of 2017 (Chafkin and Cao 2017). *Fortune* called Etsy "the worst performing IPO of 2015" (Gandel 2015).

Etsy's underwhelming financial performance inspired a shareholder activist campaign. Late in 2016, Seth Wunder, a tech investor and hedge fund manager, began investigating Etsy's growth – or lack thereof. Despite having more social media followers than EBay and more website traffic than Target, Etsy's profit margins were low. The company's general and administrative expenses made up 24 percent of total

revenue, compared to EBay's ten percent. These high expenses paid for a breathing room, catered organic lunches, and crafting classes at Etsy's Brooklyn headquarters. It covered generous employee benefits, like six months of maternity and paternity leave and 40 hours of paid volunteer hours a year. Wunder's company, Black and White Capital, began buying Etsy stock, and when it acquired two percent, Wunder launched an activist campaign criticizing the "lack of cost discipline at the company" (Wunder and Terzian 2017). Wunder suggested that Etsy cut costs, remove Dickerson as chairman, and "begin evaluating any and all strategic alternatives for creating shareholder value" (Wunder and Terzian 2017). Private investment firms TPG Capital and Dragoneer Investment Group, which collectively owned eight percent of Etsy, joined Black and White in urging Etsy to consider a sale. Just hours after Wunder went public with open letters to the board, Etsy announced that Dickerson was stepping down and that it would lay off 80 workers, eight percent of its staff. Among those fired were members of the "values aligned business" group, the division dedicated to ensuring that Etsy stayed true to its social and environmental mission (Chafkin and Cao 2017).

Several months later, Etsy announced another headcount reduction with 230 layoffs planned for 2017 (King 2017). In November 2017, the company's new CEO, Josh Silverman, announced that Etsy would not reincorporate as a benefit corporation and that he intended to let the company's B Corp certification lapse (Silverman 2017). Even though B Lab offered Etsy a one-year extension on its requirement to reincorporate as a benefit corporation, Silverman felt that "converting is a complicated, and untested process for existing public companies" and that "our current corporate structure gives Etsy adequate flexibility to advance our mission and the interests of all our stakeholders" (Silverman 2017). As he was dismantling many of Etsy's social programs, Silverman seemed to be turning the company around. Revenues were up and the stock price increased 50 percent in his first six months. Meanwhile, on career reviews website Glassdoor, Etsy's overall company rating declined sharply after Silverman's takeover (Gelles 2017). A November 2017 *New York Times* article remarked:

> Once a beacon of socially responsible business practices with a starry-eyed work force that believed it could fundamentally reimagine commerce, Etsy has over the past year become a case study in how the

> short-term pressures of the stock market can transform even the most idealistic of companies (Gelles 2017).

For Etsy, going public has meant shareholder pressure, a new CEO, a round of layoffs, and the loss of its B Corp certification.

Etsy's story demonstrates three critical points. First, institutional shareholders do seem inherently hostile to social programs. While a private company can maintain a carefully curated set of shareholders who support a company's goals, public companies offer shares to anyone, including institutional investors, which can exert influence on public firms with strong social programs. Second, shareholders have power over the corporations in which they invest. Because of Wunders' letter, Etsy's CEO was replaced and hundreds of jobs were eliminated. CEO Josh Silverman, seems determined to cut overhead costs and increase profit margins. Finally, B Corp certification cannot protect a public company from shareholders. Even if shareholders like Black and White Capital and TPG Capital have no legal claim over Etsy, their dollars imbue their words with power. Etsy's rewritten founding documents and B Corp certification seemed unable to defend against the power of shareholder demands. It remains to be seen how Etsy will fare in the years to come, whether the company will be able to preserve its social and environmental initiatives in the face of shareholder opposition. Even though, as I have argued in this chapter, companies are legally allowed to pursue objectives other than profit, the shareholder value principle maintains its influence over social companies. Investors believed Etsy was undervalued because of its social expenditures, so they purchased ownership and exerted their power to reverse these practices. Etsy demonstrates that, for companies that go public, the market for corporate control exercises a real constraint, beyond the normative force of shareholder value.

After Etsy's IPO, Laureate Education became the first benefit corporation to go public. Laureate Education is the largest for-profit higher education operator in the world, with 88 institutions and over 1 million students enrolled, over 90 percent of whom live outside the U.S (Edmondson 2016). Laureate's goal is to expand access to education in developing countries, with a heavy focus on Latin America. In late 2015, Laureate became the largest certified B Corp in the world, but the company was struggling financially. Despite tripling enrollment over five years, the company reported

a loss of $158 million in 2014 and $316 more in 2015. In January 2016, the 16-year-old company reincorporated as a benefit corporation in Delaware and registered for its IPO. In Laureate's IPO filing papers, founder and CEO Doug Becker wrote:

> We recognize that some investors in public companies are highly focused on short-term results, and we hope that it is very clear to them that this is not our approach. With the benefit of a long-term view, we will balance the needs of stockholders with the needs of students, employees and communities in which we operate, and we believe that this approach will deliver the best results for our investors. (United States Securities and Exchange Commission 2015b: iv)

Just as Etsy did a year earlier, Laureate clearly spelled out its long-term focus and commitment to stakeholders in its IPO filing papers. Laureate made its public debut in January 2017, raising $490 million, and in the following year, share prices increased 7.6 percent (Gilbert 2018; Nelson 2018). In its first quarterly report since going public, Laureate posted a $41.3 million profit, a turnaround from the company's consistent quarterly losses leading up to the IPO (Wilen 2017). Laureate's Senior Vice President, Esther Benjamin, reported that the IPO gave the company a platform to educate investors about benefit corporations (Gilbert 2018). As of 2018, the company remains a certified B Corp and a Delaware benefit corporation.

There are two major differences between Etsy and Laureate Education. First, Laureate Education reincorporated as a benefit corporation, which as I have shown, allows social companies to distinguish themselves from conventional corporations. Even if benefit corporation status is not necessary to protect against shareholder threats, it serves as a powerful symbol for a company's value system. Second, recall from the introduction the distinction between direct and indirect benefit companies. Direct benefit companies solve a social problem through the provision of their goods and services, whereas indirect benefit companies provide conventional goods and services but operate in a socially or environmentally responsible way. Laureate Education is a direct benefit company. Its goal is to provide education to traditionally underserved communities; the company was built around that mission. Etsy's goal is to create a marketplace for handmade goods. The products bought and sold on Etsy do not solve a social problem.

Rather, Etsy "uses business as a force for good"[66] through its employee benefits and sustainability initiatives. For indirect benefit companies like Etsy, the mission may look like fluff, overhead that makes an easy target for budget cuts. Investors may be drawn to Etsy *in spite of* its social and environmental initiatives, not because of them – and indeed, that seems to be the case. Conversely, shifting Laureate's focus away from underserved students would be a difficult task, because for direct benefit companies, the mission is at the heart of their operating model.

Etsy's IPO has not seemed to deter large corporations from considering B Corp certification. Campbell's and Unilever may soon become the first publicly held multinational B Corps. Both Campbell's and Unilever have bought certified B Corps and allowed them to maintain their certification, and by extension, their social and environmental initiatives. After Plum Organics was bought by Campbell's, Plum not only renewed its B Corp certification, but it also became one of the first Delaware benefit corporations. Houlahan describes Plum Organics as an "intrapraneur" at Campbell's, changing its parent company from within (Hamermesh et al. 2017). And indeed, Campbell's now serves on B Lab's multinational and public markets advisory council, which aims to make certification more feasible for public corporations.

Paul Polman, CEO of Unilever, has also expressed interest in seeking certification for the multinational corporate giant. Unilever's subsidiary Ben & Jerry's is already certified, and Polman has taken a progressive approach to environmental sustainability. Since taking over as CEO in 2009, Polman has transformed Unilever into what *Harvard Business Review* calls "one of the world's most innovative corporations" (Ignatius 2012). As CEO, Polman eliminated quarterly reporting and earnings guidance. In 2010, Polman launched Unilever's "Sustainable Living Plan," an initiative to double revenues by 2030 while halving the company's environmental impact.[67] By 2016, 51 percent of the agricultural raw materials used by Unilever subsidiaries were sustainably sourced. And while Unilever aims to cut costs as it cuts waste and energy consumption, the company is pursuing its sustainability mission even when it is not necessarily profitable. In an interview with the *Harvard Business Review*, Polman says:

[66] B Lab's trademarked slogan (https://www.bcorporation.net)
[67] https://www.unilever.com/sustainable-living/

> First of all, you have to accept that our job isn't just about creating shareholder wealth. A myopic view of driving shareholder wealth at the expense of everything else will not create a company that's built to last. Second, you need to attract a shareholder base that supports your strategy—not the other way around. So we actively seek one that is aligned with our longer-term strategy. We tell hedge funds and short-term speculators, "You don't belong in this company. The sheer fact that you buy a few shares doesn't give you the right to mess up our strategy." We don't condemn them, but they can go somewhere else. (Ignatius 2012)

Polman is leading the way for other multinationals to prioritize social and environmental goals without fear of threats from shareholders. For Polman, B Corp certification is not a necessity for pursuing a stakeholder model, but rather a symbolic stake in the ground, a statement about what sort of company Unilever is – or is becoming.

Social entrepreneurs want to transform markets

Critiques of the shareholder value principle are part of a larger movement away from exploitative markets toward more virtuous ones. Social entrepreneurs – even those without shareholders – care about the shareholder value principle because they recognize its prevalence among powerful public corporations. Eileen Fisher is the largest fashion company to become a certified B Corp and is the largest B Corp in New York. The company is 100 percent employee owned, meaning that employees are the only shareholders. For Amy Hall, Director of Social Consciousness at Eileen Fisher, the problem lies with *other companies'* preoccupation with shareholder value.

> I would love to see the B Corp movement have an uptick within publically traded companies so that shareholders and investors really begin valuing what's important to communities and not just the bottom line. For me that would be the ultimate golden ring. Because that meant that our whole system of what we value in business and as a country – in terms of our GNP for example – will shift and that we have hope for a different kind of future for business and for the people how toil and for our precious resources.[68]

Public companies have more visibility, power, and resources than privately held social companies. As a result, social entrepreneurs see the value in toppling corporate "assumptions about what makes a business good" and replacing them "with a more

[68] Interview with Amy Hall, June 6, 2016

holistic view of success."[69] David Young, CEO of the education technology and curriculum company VIF, suggested that for B Lab to make a real difference, the organization needs to recruit larger, publically held companies.

> I think for them [B Lab] to get to the next level, they need to get to publically held companies. If that could become a reality, it could change the world. If all companies could work for the public good, for the global good, for environmental responsibility, for employee wellbeing, that would be pretty awesome.[70]

The shareholder value principle is important *not* because it is legally sound or because it threatens the mission of social companies. It is important because it is a powerful symbol of the kind of profit-centric mindset that social entrepreneurs reject.

Lizardo (2016) argues that cultural symbols have two components; the external form or observable characteristic is coupled with a conception, or a cognitive component (Turner 1967; Shore 1996; Strauss and Quinn 1997). In our case, the B Corp logo or benefit corporation articles are the external form, the visible manifestation of a company's character. The rejection of the shareholder value principle and the conception of what constitutes a moral or social company is the cognitive component. The idea underlying these symbols is that good companies prioritize people, planet, *and* profits, not just maximizing short-term financial value. "Status symbols visibly divide the social world into categories of persons, thereby helping to maintain solidarity within a category and hostility between different categories" (Goffman 1951: 294). B Corp and benefit corporation status divide companies into two broad groups: social and conventional. The shareholder value principle serves as a proxy for a profit-centric mindset, and B Corp certification or benefit corporation status symbolizes an opposition to that mindset. As Sally Fridy, co-owner of Naturescapes, put it, "we're pushing back against this preoccupation with money that says 'the environment be damned and the community be damned.'"[71]

B Lab capitalized on this fear and suspicion of the shareholder value principle. Although there is no legal requirement to maximize shareholder value, short-term profit maximization remains the norm among the most visible companies – large, public

[69] Anonymous interview, July 27, 2016
[70] Interview with David Young, June 16, 2016
[71] Interview with Sally Fridy, June 10, 2016

corporations. Benefit corporation legislation – and to a lesser extent, B Corp Certification – are a reaction to the confusion and ambiguity surrounding the legality of the principle. Social entrepreneurs set themselves apart from conventional companies by stressing their accountability to stakeholders, not shareholders.

In the next chapter, I will discuss the problems that arise when social companies distinguish themselves from conventional companies. Social companies operate in the space between corporations and charities, and this hybridity creates problems for social entrepreneurs trying to solve social problems through the market.

CHAPTER 4
Managing the Tension: Social Companies as Hybrid Organizations

In this chapter, I conceptualize social companies as hybrid organizations, which combine the institutional logics and organizational identities of two distinct sectors. In the case of social companies, organizational actors must balance a social or environmental mission with a financial one. I outline the three types of hybridity and use the literature to generate predictions about social companies. I predict that hybrid organizations like social companies will face challenges managing their priorities, creating a cohesive identity, defining their boundaries, and establishing legitimacy. I demonstrate that bridging business and charity makes hybrid companies confusing to customers and investors. It also causes problems internally, as managers and executives struggle to maintain a balance between social goals and financial ones. Social entrepreneurs distance themselves from both traditional charities and conventional corporations. They describe their organizations as more efficient, sustainable, and independent than charities. At the same time, they emphasize their companies' higher purpose, the mission that distinguishes them from typical companies. Social entrepreneurs see social business as a way to combine the benefits of charity and corporations, but attempts by social entrepreneurs to distance themselves from both conventional companies and traditional charities lead to problems with identity and legitimacy.

The meaning of "hybrid organization" varies

As outlined in the previous chapters, social entrepreneurs aim to make a profit and create social change, to reap the benefits of both business and charity. In keeping with recent research on social enterprise and social companies, I consider social companies as a type of hybrid organization. The literature suggests that hybrid organizations face challenges establishing legitimacy, gaining resources, defining their boundaries, and reconciling interorganizational tensions (Zuckerman and Kim 2003; Hannan, Polos, and Carrol 2007; Battilana and Dorado 2012; Battilana and Lee 2014). Despite growing scholarly interest in hybrid organizations, the literature lacks clarity on what counts as hybridity. Some studies focus on institutional ambiguity (Townsend and Hart 2008; Tracey,

Phillips, and Jarvis 2011), examining organizations operating in fields with conflicting institutional logics (Pache and Santos 2013; Ashforth and Reingen 2014; Besharov and Smith 2014; Battilana et al. 2015). Others define hybrid organizations as those with ambiguous identities (Pontikes 2012; Glynn and Navis 2013; Gehmen and Grimes 2016, Paolella and Durand 2016). Still others operationalize hybridity as category spanning (Friedland and Alford 1991). Each of these approaches is conceptually distinct, and each provides a useful lens through which to view social companies. In the following section, I will review the literature on each type of hybridity, apply it to our case of social companies, and make predictions based on previous research.

Social companies are governed by multiple institutional logics

It can be useful to think about early social entrepreneurs, like Blake Mycoskie of TOMS and Yvon Chouinard of Patagonia, as institutional entrepreneurs, individuals who mobilize resources to change institutional rules, to destroy an existing institution, or to create a new one (DiMaggio and Powell 1983; DiMaggio 1988). These early social entrepreneurs paved the way for future social companies by introducing new operating models and challenging established institutions. TOMS Shoes, for example, created an entirely new model of giving. Rather than creating a charity that relied on donations to provide shoes to the poor, Mycoskie founded the first buy-one-give-one shoe company. Decades earlier, Yvon Chouinard of Patagonia revolutionized the corporate workplace environment by offering generous maternity and paternity leave, flexible schedules, an onsite daycare, and even daily surf breaks. And Patagonia is recognized as an environmental pioneer for its innovative use of recycled and plant-based materials and commitment to an ethical supply chain. Both entrepreneurs created a new type of organization, one that combines the revenue-generating model of a business with the social conscience of a charity. These companies continue to operate in environments characterized by "institutional ambiguity," or the presence of conflicting values and norms that create uncertainty for organizational decision makers. (Townsend and Hart 2008; Tracey et al. 2011).

Social companies are neither charities nor profit-centric organizations. Rather, they combine the institutional logics of two distinct sectors (Battilana and Lee 2014).

Institutional logics are the patterned goals and legitimate means of pursuing them within a given sector (Jay 2013; Patvardhan and Corley 2015; Wry and York 2017). An organization governed by a single institutional logic possesses a cohesive template for action, a clear blueprint for decision-making. Hybrid organizations face the "double challenge of having to survive as new ventures while striking a delicate balance between the…logics they combined so as to avoid 'mission drift'" (Battilana and Dorado 2012: 1419). Social companies like TOMS Shoes and Warby Parker combine financial goals with a humanitarian ones. Financial goals, on the one hand, include maximizing profits by becoming efficient, cutting production costs, and selling more units. Humanitarian or social goals, on the other, include reducing negative externalities, treating all workers well, and donating to charities (Di Domenico et al. 2010).

"Social enterprises exemplify hybrid organizing, in which rival institutional logics, shared meaning systems that confer legitimacy on particular goals and practices, are integrated into an organization." (Wry and York 2017: 437). In commercial organizations, the ultimate objective is to maximize profits and returns for shareholders, and social or environmental initiatives are valuable only as a means toward that end. Conversely, within social welfare organizations, products and services are merely a mechanism of responding to a social problem; economic resources are a means to the social or environmental end (Hai and Daft 2016). Hybrid organizations integrate the goals of social and commercial organizations. This hybrid approach is characterized by Whole Foods founder John Mackay in a debate with economist Milton Friedman: "Just as people cannot live without eating, so a business cannot live without profits. But most people don't live to eat, and neither must a businesses live just to make profits." (Friedman, Mackay, and Rogers 2005).

Jay (2013) examines this performance paradox in his study of public-private hybrid organizations designed to tackle the problems of climate change. These hybrids exist to fight climate change, but must maintain profitability to have a social impact. Jay (2013) demonstrates that the outcomes of organizational actions are "ambiguous and paradoxical: they are successes when viewed through the lens of a public service logic but failures seen through the lens of a client service business logic" (p. 138). This begs the question: What counts as success? Social companies must contend with conflicting,

but paradoxically mutually reinforcing, goals. Financial successes often come at the expense of social values, and vice versa, but at the same time, financial success is needed to survive as an organization, to create social good. *Figure 3*[72] displays the goals, means, and norms that constitute commercial and social welfare logics discussed in this chapter.

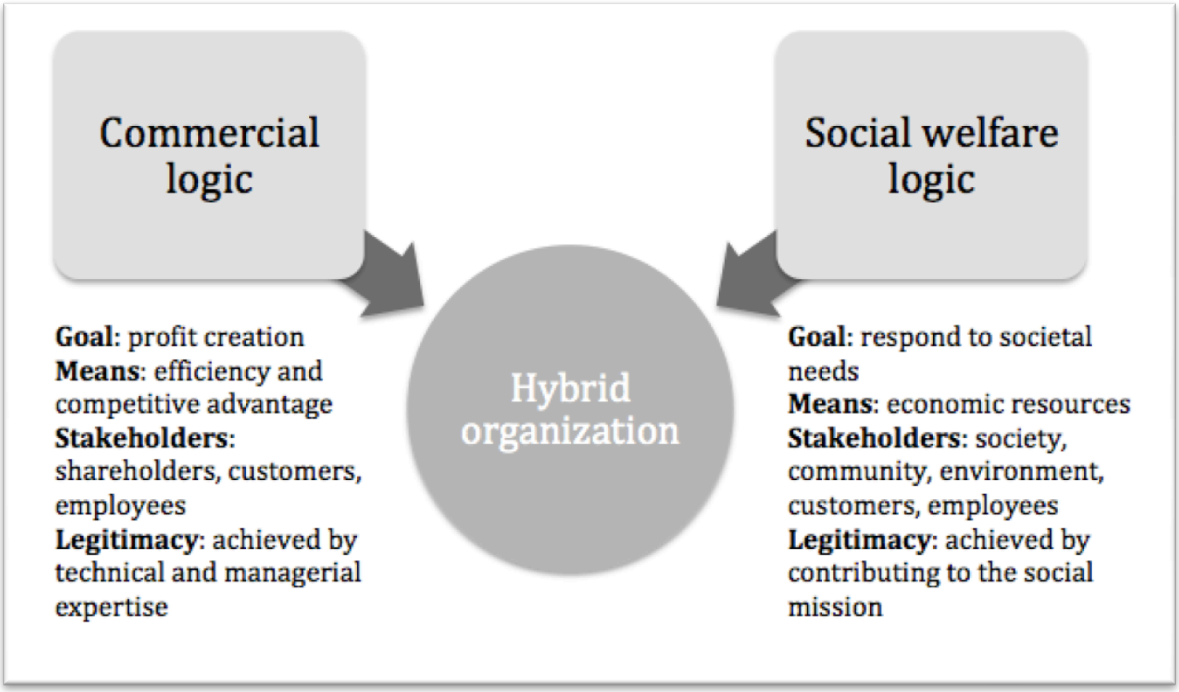


Figure 3: Multiple logics in social companies

Hybrid organizations governed by multiple logics face a unique set of problems. There is no ready to wear model for these companies, so over time, most hybrid organizations either fail or become dominated by a single mission (Scott and Meyer 1991; Battilana and Dorado 2010), a phenomenon known as "mission drift" (Ebrahim, Battilana, and Mair 2014). Although social enterprises are designed to meet social needs, the realities of adapting to a capitalist system may lead to cost reduction strategies that render these organizations indistinguishable from conventional companies (Amin, Cameron, and Hudson 2002). Or conversely, the social mission might bankrupt the company. Thus the literature suggests that social entrepreneurs will feel torn between the norms and goals of the fields they combine, that they will express uncertainty over

[72] Adapted from Figure 1 in Hai and Daft's (2016) article on hybrid organizations

whether and under what conditions to pursue each set of goals (Battilana and Dorado 2010; Jay 2013; Hai and Daft 2016; Wry and York 2017) (first prediction, *Table 4*).

Current research offers divergent conclusions about the effects of logic multiplicity within organizations. "While some scholars associate multiple logics in organizations with contestation and conflict…others describe coexistence or logic blending" (Besharov and Smith 2014: 364). But the implications of logic blending, Besharov and Smith (2014) argue, depend on how logics are embodied within an organization. They describe two critical dimensions of heterogeneity in logic blending: compatibility and centrality. Compatibility refers to the extent to which multiple logics imply consistent organizational actions, while centrality refers to the degree to which multiple logics are treated as equally relevant to organizational functioning. Organizations will experience extensive internal conflict when multiple logics have high centrality – meaning they are seen as equally important to the core functioning of an organization – and low compatibility – meaning that the goals of multiple logics are inconsistent. The centrality of multiple logics may vary within social companies, but social and financial goals are inherently incompatible. Treating supply chain workers well costs more money. Sustainable materials are typically more expensive. Supporting social programs cuts into profits. Thus we would expect some internal conflict to arise as the result of logic multiplicity, but entrepreneurs may be able to mitigate this tension by creating an internal hierarchy, where one set of goals is prioritized over the other. This leads us to our second prediction (*Table 4*): that entrepreneurs will cope with the tension between conflicting goals by decreasing logic centrality, or designating one set of goals as primary and the other as secondary.

Social companies have hybrid identities

Another body of research defines hybridity not in terms of institutional logics, but in terms of organizational identity. Drawing from Whetten (2006), Patvardhan and Corley (2013) define an organizational identity as "those features of an organization that in the eyes of its members are *central* to the organization's character or 'self-image,' make the organization *distinctive* from other similar organizations, and are viewed as having *continuity* over time" (pp. 125). Whetten (2006) argues that an attribute must satisfy all

three of these criteria to be considered an identity. By adopting multiple missions, social companies take on a hybrid identity, a self-concept that integrates commercial and social values. Consistent with Whetten's (2006) criteria, this blend of social and commercial characteristics is central to social companies' self image, makes them distinctive from their competitors, and is stable over time.

Identity theory accepts that actors can hold multiple identities associated with various roles (Stryker 2008). Albert and Whetten (1985) define hybrid-identity organizations as those "whose identity is composed of two or more types that would not normally be expected to go together" (p. 95). Typically, this includes a more utilitarian value system guided by information and a more normative value system guided by ideology (Albert and Whetten 1985: 107). Albert and Whetten (1985) argue that the conflicts arising from each identity facet are sometimes manifest, but usually latent. Each facet has a counterbalancing force, helping to stabilize the hybrid organization over time. Similarly, Ashforth and Reingen (2014) argue that organizations with a hybrid identity must preserve both elements of the underlying tension. Organizations take on a hybrid identity when the dual mission is a defining feature of the organization, and members of the organization "need to keep that duality in play over time rather than 'resolve' it once and for all" (Ashforth and Reingen 2014: 476). Albert and Adams (2002) define "sustainable hybrids" as those with seemingly conflicting identities that become counterbalancing over time. Within sustainable hybrids, multiple identities are perceived as inviolate, indispensible, and incompatible. In other words, the underlying identities cannot be compromised, cannot be eliminated, and inevitably lead to conflict (Albert and Adams 2002: 35). And yet both Albert and Adams (2002) and Ashfoth and Reingen (2014) argue that hybrid organizations must keep both elements of their hybrid identity in play and that conflict can be a necessary and beneficial part of hybrid organizations.

Dickinson-Delaporte, Beverland, and Lindgreen (2010) argue that when organizations act commercially to pursue social agendas, their reputations can suffer, as attempts to appeal to multiple stakeholders create tension and decrease perceived authenticity. In an analysis of Trappist beer brands, they find that ambiguous message strategies can improve a company's reputation. Rather than cultivating a single corporate

image, hybrid organizations can craft an ambiguous identity that incorporates multiple messages. This approach has also been called "strategic ambiguity," or "those instances where individuals use ambiguity purposefully to accomplish their goals" (Eisenberg 1984: 230). Organizational identities are often intentionally ambiguous to "allow divergent interpretations to coexist and…diverse groups to work together" (Eisenberg and Witten 1987: 422). Ambiguous messages allow "multiple and even contradictory interpretations to coexist thereby minimizing stakeholder conflict" (Dickinson-Delaporte et al. 2010: 1869).

Jäger and Schröer (2014) suggest that hybrids would be more aptly called "integrated identity organizations," to distinguish them from multiple or dual purpose organizations where multiple missions coexist independently. Hybrids, they argue, "act at the interface of markets and societies…systematically integrating both identities" (Jäger and Schröer 2014: 1285). In their analysis of family businesses, which combine the values of the family and the market, the private and the public, Boers and Nordqvist (2012) suggest the concept of a "meta-identity," which represents a higher-level identity than either family or business (p. 255-256). This meta-identity represents the interactions between these sometimes-competing components and controls the lower level identities. So, for example, the "social company" identity dictates how these organizations operate in their functions as a company (where they source their materials, how they pay their workers, what sorts of light bulbs they choose) and their functions as a social organization (how they finance their mission and how they measure impact).

Together, the literature on hybrid organization identities (also called strategic ambiguity, integrated identities, and meta-identities) leads us to predict that social companies will balance and blend the social and commercial elements of their identity rather than trying to resolve the conflict (third prediction *Table 4*). Social entrepreneurs will describe their organizations as social companies (or some variant of that terminology) and will vacillate between social and commercial missions at various times during the life of their organizations. On the face of it, this prediction contradicts the prediction from the literature on multiple logics – that social companies will prioritize one set of goals over the other (second prediction, *Table 4*) – by suggesting that social companies will integrate both elements of the underlying duality into an overarching

hybrid identity. But in reality, the two predictions complement one another. Albert and Adams (2002) and Ashfoth and Reingen (2014) argue that hybrid organizations keep the duality alive by vacillating between the two sets of goals, suggesting that any apparent values hierarchy may be a temporary configuration in a continual balancing act between a hybrid's components.

Social companies span categories

Another way organizations may be classified as hybrids is by spanning categories or genres. Organizational categories are the "meaningful conceptual systems" that group organizations according to shared attributes (Navis and Glynn 2010: 440), and category spanning "refers to organizations' involvement in several activities that comprise distinct cognitive sets" (Paolella and Durand 2016: 330). In our case, social companies bridge the categories "business" and "charity," borrowing elements from each. Becoming a member of a single category enables an organization to clearly define aspects of its identity (Glynn and Navis 2013) and establish similarities with other member organizations (Gehmen and Grimes 2016). Whereas institutional logics are inward facing, providing a cohesive set of norms, goals, and strategies for action, categories are outward facing, offering audiences and stakeholders a better understanding of an organization. Failure to conform to category expectations has consequences. For example, if a movie belongs in the category "horror," or "comedy," audiences know what to expect, but a movie that spans categories, that is a member of both "horror" and "comedy" genres, is confusing and potentially off-putting to audiences. Indeed, hybrid films receive lower critical reviews, audience ratings, and box office revenues than their single-category counterparts (Hsu et al. 2009). Similarly, diners and critics rank hybrid restaurants (e.g.: French/Thai fusion) lower than single-category restaurants (e.g.: French) (Rao et al. 2005; Kovács and Hannan 2010). These findings extend to organizations as well. Firms that fail to conform to predetermined industry categories are often penalized or ignored because industry analysts have trouble evaluating them against their peers (Zuckerman 1999).

Gehmen and Grimes (2016) argue that while categories allow organizations to fit in with other members, they also offer a means for distinctiveness or standing out from

nonmembers, which makes category spanning particularly problematic. Organizations that span two categories are unlikely to exhibit the prototypical features of either. As a result, audiences will perceive them as illegitimate when they compare them to category expectations (Hannan, Polos, and Carroll 2007). These categorical misfits are difficult for audiences to understand and for critics to describe. For-profit companies exist to make money, while charities exist to solve problems. Social companies do both. As a result, they tend to confuse customers and critics, who are accustomed to traditional charities or traditional for-profits.

Kovács and Hannan (2015) elaborate on the consequences of category spanning, arguing that the punishment for hybridity depends on how distant and contrasting the constituent categories are. "The less similar are the spanned genres, the more confusing is the identity of the object" (Kovács and Hannan 2015: 278). Some boundaries, like the boundary between nonprofit and for-profit, are both binary and rigid. Carroll and Swaminathan (2000) illuminate how microbrews came to be defined by consumers, beer experts, and formal critics as the antithesis of commercial breweries. These binary categorical boundaries became strong enough that audiences sanctioned producers attempting to straddle categories. In many ways, the same is true of the boundary between business and charity. Charities are denounced for behaving like businesses - for paying executives market rates or for spending money on advertizing campaigns (Baron and Szymanska 2011; Caviola 2014). Meanwhile, companies are expected to pursue profits, not a social mission (Dobbin and Zorn 2005; Pearlstein 2013; Shin 2013).

But more recent research suggests that category spanning can be a competitive advantage in some contexts. Paolella and Durand (2016) argue that customers, clients, and other stakeholders have no unconditional preference for organizations occupying a single, clear category. Pontikes (2012) distinguishes two types of audiences: market-takers and market-makers. Market-takers are consumers who use market labels to find and evaluate organizations. Market-makers are investors and entrepreneurs who seek to redefine markets by developing new niches. While market-takers find ambiguous labels unclear and confusing, market-makers actually prefer ambiguous organizations, because it allows for flexibility.

Combined, this line of research suggests that stakeholders will have trouble making sense of social companies and that social entrepreneurs will struggle to establish legitimacy. This effect will be mediated by audience type; category spanning will be less confusing and offputting for investors than for customers (forth and fifth predictions, *Table 4*).

Predictions

To date, no studies have explored all three types of hybridity. Although all of these concepts are related, it is important to distinguish between holding conflicting logics, ambiguous identities, and membership in multiple categories. Each of these forms of hybridity carries a unique set of consequences. Hybrids may combine multiple institutional logics, meaning they have more than one clear set of norms or strategies of action. As a result, they will prioritize more than one mission or end goal, which complicates organizational decision-making and agenda setting. They may take on an ambiguous identity in an attempt to make sense of their multiple goals. And finally, they may span categories or genres, confusing customers and stakeholders. Previous research has focused on only one form of hybridity, but in this chapter, I address all three, using data from interviews with 73[73] social entrepreneurs. The table below outlines the types of hybridity, the risks associated with each, and predictions about social companies derived from the literature.

It is worth noting that because my sample consists of hybrid organizations, I am likely to find organizations that are combining logics, blending identities, and spanning categories and unlikely to find organizations that have resolved these tensions. This is because the latter would either have become entirely profit seeking or entirely charitable and would no longer be eligible for my sample. In other words, my design has led me to focus on the blenders and balancers. Although my data will not allow me to test each

[73] In the analyses throughout this chapter and the next, the sample size is 73: the 61 B Corps and benefit corporations as well as the 12 for-profit social enterprises in my nonrandom sample. (I interviewed 15 social enterprises as a control group, but three of these organizations were nonprofits, which I excluded from these analyses, because they do not experience the same tension between mission and profit as for-profit social enterprises.)

prediction definitively, I will use each prediction to structure my analysis of the cases presented below.

Table 4: Types of Hybridity and Predictions			
Type of hybridity	*Definition*	*Risk*	*Predictions*
Logics	Socially appropriate patterned goals and legitimate means of pursuing them	Conflict between goals Mission drift	1. Social entrepreneurs will describe decisions as a competition between social and financial goals. 2. Entrepreneurs will mitigate this tension by creating an internal hierarchy, where one set of goals is prioritized over the other
Identity	The features of an organization that appear central to the organization's character or self-image and that are different from other similar organizations	Reputation	3. Social companies will blend or partition the social and commercial elements of their identity rather than seeking to resolve the tensions between them
Categories	Rules about market boundaries that communicate what sorts of organizations, fall within those boundaries	Loss of legitimacy Stakeholder confusion	4. Stakeholders will have trouble making sense of social companies. 5. Customers will be more concerned with a company's hybrid identity than investors.

Social companies balance competing goals

Social companies lack a clear set of norms and values, and as a result, social entrepreneurs seem unsure of when to behave like a businessperson and when to behave like a philanthropist. When asked to describe the greatest challenge facing their companies, 35 respondents (48 percent of the sample) talked about balancing mission and profit, weighing social good against financial cost. This was overwhelmingly the most common response, followed by general struggles of managing a startup (nine respondents), finding talent (five respondents), dealing with the recession (four respondents), and securing investors (four respondents). Several subjects compared

themselves to their industry peers, arguing that social companies are more constrained in their decision-making. For example, Kimberly Parker, founder of ethical women's boutique Sisters of Nature, explained:

> The struggle for us is that we want to have beautiful clothes. We also need them to be eco friendly and responsibly manufactured. Those things don't often go together, so we have to make hard choices. Is it okay if it's made in China if they use organic cotton? Or what if it's fair trade but the material they use will never ever break down? We make those tough decisions, weighing the financial cost and social cost and environmental cost. My friends who own other boutiques – a lot of times, I'm jealous of them. They can just go to market and pick out whatever products are most beautiful. We have to ask hard questions and make value-based decisions."[74]

Parker talked about the difficulty of finding inventory that aligns with her social and financial values. She described the tradeoffs she had to make, sometimes dropping socially and environmentally responsible wholesalers because the margins were too narrow, other times dropping products that sold well but did not live up to her moral standards. As predicted (first prediction, *Table 4*), social entrepreneurs describe these decisions as competition between their social and financial goals.

As Jay (2013) suggests, some decisions are a success when viewed through the lens of a social logic but a failure when viewed through the lens of a financial logic – and vice versa. Parker went on to tell me, "of course, we face other challenges that aren't unique to a social boutique. The recession is hard, ecommerce poses a threat, but the tradeoff – that's not something my competitors have to deal with." Parker saw this challenge as an intrinsic part of running a social business. Social entrepreneurs must pick and choose when to prioritize mission and when to prioritize profit. In an anonymous interview with the founder of a textile manufacturing company, one subject explained:

> Of course, the challenge is – we want to implement all the water-saving, energy-reducing innovations that we learn about, but we'd spend way more money than we make. We have to really prioritize. This year, we're working on waterless dyes. Maybe next year will be something else, but we have to take baby steps if we want to stay in business.[75]

[74] Interview with Kimberly Parker, September 15, 2015
[75] Anonymous interview, February 17, 2017

This subject selected one expensive innovation at a time, which allowed her to continually improve her environmental performance without threatening her bottom line. This became part of an overall strategy of balancing both organizational goals without letting one systematically dominate the other. Robyn Kumabe, founder of the social consulting company B Cause, described a similar tradeoff, not in sourcing or manufacturing, but in choosing clients.

> By prioritizing social good, you're always running into problems with the bottom line. Organizations can't pay as much when they are cause-driven, so you have to balance clients that can pay with clients that align with your mission, and that can be tricky.[76]

In this balancing act, Kumabe wavered between choosing clients who can pay and clients who are value fits. Rarely does a single client satisfy both requirements. Kumabe has to prioritize her most lucrative clients more often than she would like, but this tension is built into her business strategy, in which she pursues two distinct groups to create a clientele that is both socially responsible and financially sustainable.

This constant switching back and forth between value systems is a defining feature of social companies. Mark Slagle from Good Spread talked about "managing the compromise," of trying to find a healthy middle ground "between doing some good and going broke."[77] James Woulfe, a lawyer who works with social entrepreneurs, described their biggest challenge this way:

> The biggest challenge I see is with economies of scale. You have organizations that, to be financially sustainable, their supply chain isn't going to be environmentally sustainable, so there's a tradeoff. Or they're working with businesses with a great track record of treating their employees well but they just have to give up that contract because that's the only way to get their costs down. So you're trading off between the financial and the social responsibility. A lot of times the idea of being socially responsible is aspirational as opposed to something that is practiced day in and day out because it's difficult from a practical level to operate in a world where everything is locally or sustainably sourced.[78]

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[76] Interview with Robin Kumabe, August 9, 2016
[77] Interview with Mark Slagle, March 31, 2016
[78] Interview with James Woulfe, October 12, 2016

Woulfe summed up the most common challenge voiced by social entrepreneurs, the element of sacrifice. In their every day decisions, entrepreneurs feel they have to sacrifice profits to honor their mission, or conversely that they must sacrifice their values to maintain profitability. Even among respondents who named other issues as their greatest challenges, there was often an underlying element of goal-balancing. For example, Beth Palm of BAM told me that finding talent was her biggest challenge:

> As far as challenges, there's the typical things that social entrepreneurs will say like access to capital and marketing, but for us finding the right people is probably the biggest challenge overall. That's not unique to social enterprise necessarily, but it's really hard to find the right type of person who can keep the social side in mind and have the skills to run a business. You need to find the head and the heart, not letting the mission overrun the business, but without the business, the social enterprise wouldn't exist.[79]

At the heart of Palm's problem is the desire to marry her social and financial goals in hiring decisions. But just as Robin Kumabe strove to find hybrid clients and Kimberly Parker attempted to find hybrid products, Palm struggled to find hybrid employees.

This tension permeates social entrepreneurs' personal lives too. Profit is not just about sustaining a business; it is also about sustaining the entrepreneur her- or himself. Lara Pearson from Brand Geek described these overarching competing goals:

> Even now, I want to do so much good and give my money away, but at the end of the day I also want to buy a Tesla and own a home again. So how much time, energy, and money can I give away to nonprofits and starving social entrepreneurs versus what do I need to achieve my personal goals?[80]

So how do entrepreneurs decide how much money to give away and how much to save for a Tesla? As shown above, entrepreneurs can rarely find hybrid clients, manufacturers, or employees. Instead, they seem to alternate goals, prioritizing one set of values one day, and another set the next. Robb Schurr created WaldenHyde, a market research, brand strategy, and creative agency that services socially responsible companies. He told me:

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[79] Interview with Beth Palm, February 24, 2017
[80] Interview with Lara Pearson, July 26, 2016

> We struggle with the competing goals. It depends on the day. If we've got slow pay clients, I slip into thinking about the financials…I get confused a lot. It is a really difficult thing… It is complicated and it's confusing, but at the end of the day, trying to find the balance between those two things. We don't want to sell a website; we want to sell a new, more responsible way of operating. That's where the social good comes in. [81]

Seen through the lens of institutional ambiguity, Schurr described a contest between multiple logics, between financial and social goals, which, like a pendulum, swings back and forth over time. Ultimately, he found a compromise to describe his overarching goals: his company *sells* "a new, more responsible way of operating." This statement includes financial rhetoric ("sell") and social welfare rhetoric ("responsible"). But in his day-to-day life, the financial and social goals were not so neatly unified. Rather, his overall hybrid strategy depended on a constant switching back and forth between two value sets.

Some companies change over time, shifting from one dominant focus to another. When viewed as a snapshot in time, these companies seem to have established a hierarchy, with social welfare as the dominant goal and profit as the peripheral goal or vice versa. But in reality, the hierarchy evolves day-to-day, month-to-month, year-to-year, with each goal acting as a check on the other. In *Table 4* (second prediction), we predicted that social entrepreneurs will mitigate tension by creating an internal values hierarchy, where one set of goals is prioritized over the other. And yet, these hierarchies are fluid rather than fixed. For example, Sarona Asset Management began as a private investment company that evolved into a nonprofit economic development institute. The nonprofit hired Gerhard Pries to help with their lagging investments. Mr. Pries created a subsidiary of the nonprofit and "spun it out" into an independent financial management company again, one that "targets strong financial returns for our investors and positive ethical, social, and environmental outcomes."[82] Pries described the nonprofit this way:

> They were, admittedly, social first, finance second. So they were doing deals that they wanted to do because of the social imperative, which were bad financial deals. We can't do that anymore. It has to be strong financially and it has to make this world a better place.[83]

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[81] Interview with Rob Schurr, July 25, 2016
[82] Interview with Gerhard Pries, July 5, 2016
[83] Interview with Gerhard Pries, July 5, 2016

It is not enough to just focus on the "social imperative;" an investment has to offer both social and financial value. After sixty years in business, Sarona continues to seek a balance between its two bottom lines. Without a clear template for organizational behavior or a system of guiding norms and values, social entrepreneurs experiment with their own models, oscillating between moral hierarchies in an attempt to strike a balance between financial and social goals.

These temporary hierarchies take shape, are dismantled then reassembled. Respondents talked about their transitions from one set of priorities to another. Servane Mouazan created Ogunte, a network for female social entrepreneurs that connects them to mentors and funders. She struggled with the desire to provide pro bono work and the need to sustain her income. A few years ago, she cut all of her pro bono work, telling me that she had to become business first: "ultimately, if you're not comfortable making money, provide your time for free for a social cause, but don't pretend you're a social business."[84] Social entrepreneurs recounted stories of starting their business full of passion for their mission, only to realize that they would need to make compromises to remain financially successful. Shawn Seipler of Clean the World explained that if he could do everything over again, he would "pay more attention to the financial stuff so we wouldn't go broke early on."[85] The mission is important; it is often the driving force behind the company, but entrepreneurs should be "smart business people first, because the more dollars you make, the more impact you can drive. We drive impact through financial strength and financial wherewithal."[86] Even Paul Millman, a self-proclaimed "60s era hippie socialist" whose career goals include "explaining to the Chinese government what the real meaning of socialism is" warned that:

> You cannot be a socially responsible company if you don't survive as a company. I've been given a soapbox that I would never have expected to get not just because we have survived, but because we are successful. [87]

[84] Interview with Servane Mouazan, August 8, 2016
[85] Interview with Shawn Seipler, August 3, 2016
[86] Interview with Shawn Seipler, August 3, 2016
[87] Interview with Paul Millman, August 3, 2016

This message was repeated over and over throughout my interviews: you cannot be a social business unless you are a successful business.

Those who argued for greater attention to financial goals were often reacting to a negative event, a jolt that shook up their values system. Shawn Seipler, for example, bankrupted his business before adopting a more pragmatic, financial focus. After recounting a similar story of financial trouble, Robb Shurr told me, "It [our value system] changes every 6 months. We used to call ourselves sustainable and we don't even talk about sustainable anymore." In our interview, he echoed Seipler and Millman's suggestion that entrepreneurs should focus primarily on financials.

> The idealism that started the company probably has been one of our greatest attributes and at the same time has held us back as a company more than anything as well. I shouldn't say that. It defined us, but I would have spent more time being a good businessperson, understanding what that meant, instead of an idealist who is out trying to change the world. It's not that I wouldn't still have done that, but I would have focused more on the business part of it. I never really ran a real company of my own. [88]

These hierarchies are unstable, constantly evolving. Within my sample, 41 percent of respondents described social entrepreneurship as a business first, emphasizing the benefits of a market-driven organization ("scale," "sustainable," "efficient"). This seems to suggest that, as predicted, an internal hierarchy emerges within social companies, with financial norms and goals as the central driving force and social ones as peripheral. But as outlined above, this position – that social business should be business first – tends to be a temporary one. As they describe it, social entrepreneurs' desire to create their companies was borne out of their social mission. "Being a good businessperson" is a means to an end, not an end in and of itself.

Even still, another subset of my sample (22 percent) described social entrepreneurship as social first and seemed deeply hostile to commercial norms and goals. They contrasted their organizations with big business, multinational corporations, and capitalist norms. This discourse draws from the methods and rhetoric of social movements and the social sector. These entrepreneurs talked about "a revolution," "advocacy," and "a movement," positioning social companies as a driver of social

[88] Interview with Rob Schurr, July 25, 2016

change. For instance, Kevin Mercer of RainGrid called himself "the world's worst businessperson," because even though "we can't sell this thing [rainwater catchment systems] to save our lives," he continues to advocate for more sustainable storm water management. "I've got business advisors from the private sector who look at me going 'if no one is buying your product, then you don't have a market.' And I'm like 'I will just have to create a market.'"[89]

As predicted (first prediction, *Table 4)*, social entrepreneurs describe their daily decisions as a competition between social and financial goals. Furthermore, they do seem to mitigate this tension by creating internal values hierarchies (second prediction, *Table 4*), but these hierarchies are constantly in flux. Social companies occupy different positions along a spectrum from purely social to purely commercial. The same organization will move back and forth over time, reacting to external shocks and internal struggles. Pinch and Sunley (2015) found that social entrepreneurs deal with their hybridity in different ways. Some, like Paul Millman of Chroma and Shawn Seipler of Rain Grid, espouse a commercial view, arguing that social enterprises should behave like – and compete with – mainstream firms. At the other extreme are those, like Kevin Mercer of Rain Grid, who attest that social enterprise is fundamentally at odds with the rules governing the commercial sector. Most social entrepreneurs occupy an intermediate position in which they attempt to reconcile competing social and financial goals. Creating fluid, temporary values hierarchies allows social entrepreneurs to tinker with different strategies, working toward a better balance of mission and profit.

Social entrepreneurs frame themselves as problem-solvers

This balancing act between commercial and social objectives is tied to identity as well. As social entrepreneurs struggle to carve out an identity for their organizations, they waver between the language of the market, focused on efficiency and profits, and the language of the social sector, centered on responsibility and impact. The concept of identity implies a differentiation or separation from something else (Patvardhan and Corley 2013), and social entrepreneurs draw clear boundaries around their organizations. On one hand, social entrepreneurs distinguish their organizations from traditional

[89] Interview with Kevin Mercer, July 25, 2016

charities, which they perceive as inefficient and dependent. On the other hand, they distance themselves from conventional companies by describing themselves as "reluctant entrepreneurs"[90] determined to solve a social problem. The last section explored the kinds of internal strategies social companies use to balance multiple goals. This section analyzes the images and identities these social companies project, how social entrepreneurs describe their organizations to external audiences.

Origin stories are crucial to the collective identities of organizations (Downing 2005; Brown 2006). A social entrepreneur's identity becomes entangled with the identity of his or her organization as they are coproduced through narrative and storytelling (Downing 2005). Origins stories also become critical marketing materials, told and retold in interviews, social media campaigns, and on company websites. Some of the social entrepreneurs in this study came from business backgrounds, others from nonprofits, but nearly all told a version of the same origin story: faced with a problem or dilemma, they reluctantly – and without adequate training or experience – created a business to provide the solution. For example, Bethany Tran worked in marketing for years before visiting the slum of La Limonada in Guatemala. Rather than create another nonprofit, which she saw as more of a band-aid than a systematic solution, Tran decided to create a company to bring employment to the area. But she had no experience outside of marketing.

> So I didn't have any kind of background in business management or economic development or international business or any of the things that I should know how to do. So it's like "oh it's fine! I'll just figure it out, it's great."… I have a lot of friends in this industry now. It's a small industry, and for the most part, we have no fashion or business background, so we're all like "let's figure it out, hey an MBA would be really helpful right now, but fine, let's do it!" [91]

Mark Slagle told a similar story, although he had even less business experience than Tran. After working at Mana, a nonprofit that provides peanut butter-filled therapeutic food packets to children at risk of severe acute malnutrition, Slagle came up with the idea for Good Spread, a company that donates Mana packets for each jar of peanut butter sold. But he had no desire to build it himself.

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[90] Interview with Bethany Tran, June 7, 2016
[91] Interview with Bethany Tran, June 7, 2016

> Well, we really wanted someone else to do it. We took the idea to him [the CEO of Mana] and tried to get him to create a consumer-facing product. He didn't want to do it, but suggested we do it. We were like, 'no, this is something for some Harvard or Vanderbilt guy to do." We both kind of went our separate ways, but kept thinking about Mana, kept thinking about this idea. Once we decided to go after it, we started an Indiegogo campaign. We didn't have the money, and we didn't have a rich uncle or families with money or any way of meeting investors. [92]

This self-deprecating narrative was present in the majority of interviews. Founders downplayed their own experience and described themselves as motivated, not by a business proposition, but by a desire to solve a problem. This recurring narrative highlights the social goal and puts it at the center of the company's origin story and identity. By positioning their business as a solution to a problem, entrepreneurs distance their organizations from conventional companies, which are ostensibly born out of a desire for profits. It allows them to create an identity that is part commercial, part social: a company created to solve a problem.

It is clear that this story is part of a well-rehearsed public relations pitch, one that appeals to entrepreneurs by setting them apart from other companies. It occurs over and over, even when the narrative logic makes little sense. Take the case of Will Anderson, founder of Salemtown Board Co. Anderson described himself as unqualified but motivated by a social problem. After completing seminary school and moving into a low-income neighborhood, he came to see small business as "the best mechanism of economic rehabilitation" for those trapped in the cycle of generational poverty.

> All I knew was that I wanted to work with at-risk youth, those who were liable to fall into gang activity. So I started out looking for a flexible job where I could be home early and spend time with the guys in the community, but I just couldn't find that job. I created Salemtown because I couldn't find a job that I wanted. I knew nothing about business. I was broke, and a friend gave me $300 in seed money. I only now even have the terminology and jargon to describe it. [93]

According to Anderson's story, a former seminary student created a skateboarding company because he wanted a flexible job working with men in his community. The logic is unsound. Why not become a youth pastor or social worker? Wendy Strgar, the

[92] Interview with Mark Slagle, March 31, 2016
[93] Interview with Will Anderson, March 29, 2016

founder of the personal lubricant company Good Clean Love told a similar story. "I wasn't one of those entrepreneurs who had a degree, a business degree or a fixed plan of how this was all going to happen. I started it because I was trying to solve my own sexual problems."[94] Again, it is unclear how starting a company was a solution to Strgar's problems. Surely, it would have been easier to find a therapist or see a doctor.

The point is that we should not accept these stories as accurate representations of reality but as constructed and practiced narratives, as expressions of an organizational identity. In reality, if all Anderson wanted was a "flexible job" where he could "be home early and spent time with the community," there were simpler solutions than starting a skateboard company. Undoubtedly creating a personal care line was not the most efficient way to solve Stgrar's sexual problems. People do not, as a matter of course, create companies to deal with their personal problems. And yet, this narrative tells us a lot about the sorts of accounts social entrepreneurs and their customers find appealing and legitimate. It is a narrative that allows companies to weave its commercial and social goals into a coherent identity.

We might expect this narrative from startups, new organizations touting their origin stories because they lack the brand recognition of larger corporations. And yet, even large, successful companies rely on this scrappy, problem-solving underdog narrative. The founders of New Belgium Brewing Co. were a married couple: Jess Lebesch, an electrical engineer, and Kim Jordan, a social worker. But "Jess was always a tinker, he was always messing around with something."[95] Lebesch loved beer, but all he could find in the 1980s were lagers and yellow beers.

> He'd heard lore of Belgian beers and he loved biking, so he went to Belgium and combined his two callings and biked around Belgium and met all the right people, and he decided while he was there that he wanted to start a brewery. They started in the basement, he got some yeast strains from Belgium, and before they bottled their first beer, they went camping and wrote down their core values and beliefs. [96]

This recurrent narrative frames business as the solution to a variety of problems, big and small – from severe acute malnutrition to a scarcity of good beers. Social companies, by

[94] Interview with Wendy Strgar, October 10, 2016
[95] Interview with Katie Wallace, June 14, 2016
[96] Interview with Katie Wallace, June 14, 2016

definition, use the market to address a social or environmental problem, so it is easy to see why social entrepreneurs might frame their motivations this way. By emphasizing this problem solving narrative, social companies integrate their specific missions into their organizational identities.

Social entrepreneurs portray nonprofits as unsustainable

Social entrepreneurs' emphasis on solving social problems begs the question: why not start a nonprofit? After all, charities have only one goal and one category, making agenda setting easier and eliminating the problem of category-spanning. And there are benefits to operating as a nonprofit, like tax breaks, fundraising, and legitimacy. But while the problem-solving component, the social mission, is an important part of social companies' identity, it is only one part. Social entrepreneurs also align themselves with the commercial realm, distancing themselves from nonprofits.

Even as social entrepreneurs strive to create an integrated organizational identity, framing their companies as problem-solvers, they push back against traditional charities, portraying their own companies as more innovative and sustainable than nonprofits. The concept of identity implies differentiation or separation from something else, in this case, both conventional companies and charities (Patvardhan and Corley 2013). Despite all their talk about solving social problems, the entrepreneurs in this study depicted charity and aid organizations as a quick fix rather than as a mechanism for addressing the systemic, root causes of a problem. For instance, Anda Greeney, founder of Al Mokha Coffee, argued, "The reality is that a nonprofit is not going to save a country from poverty. Nonprofits are creating solutions for the final five or ten percent, solutions for those people that capitalism leaves out." Instead, "to create change in the world, the solution is not to give away money. It's to create job opportunities for those who don't have them."[97]

The market, according to social entrepreneurs, is capable of producing more change than charity can. More specifically, social companies can produce maximum change by combining the efficiency of the market with the social mission of charities. Market efficiency and profit are not goals in and of themselves, but are a means of

[97] Interview with Anda Greeney, June 29, 2016

achieving the ultimate goal. Farron Levy ran a small nonprofit before creating True Impact. She told me:

> With a private company, you're more likely to have a greater impact. I mean, if you can make a market for what you're doing, I think you can have a greater impact than just at a philanthropic level…It can be sustainable and more stabilizing, and there can be some positive ripple effects for expanding markets for more social goods. [98]

Creating a market also means creating a sustainable revenue stream, eliminating the need to "go door to door every quarter begging for money."[99] In distancing themselves from traditional nonprofits, social entrepreneurs depict their organizations as efficient and self-sufficient, as productive drivers of social change. These characteristics of market organizations – productivity, efficiency, scalability – become a part of social companies' identities.

The fruits of all this market efficiency, the profits, are funneled back into the social mission. Jeff Gilbert of Green City Growers argued that a for-profit structure allows the company to do nonprofit work while also maintaining a steady revenue stream.

> You can't be charitable without being profitable first. There are so many non-profits who are doing great work, but we have a stability that they usually don't. We can work with Boys and Girls Club or the YMCA and offset those costs with our sliding scale. We just have a cash flow that allows us to invest in equipment and pay employees better.[100]

This is not simply rhetorical. On a practical level, nonprofits are not set up to attract investors, and they pose problems for scaling up and attracting the best talent. Tom Willits, the founder of MRW, created a positive news nonprofit that "got a lot of buzz and raised a lot of money" but "in the end collapsed because of the revenue model."[101] The implication of Willits' story is that no matter how noble their mission, charities are constrained by their organizational form, their dependence on donors. Social companies offer a solution that combines the mission of a charity with the revenue stream of a company.

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[98] Interview with Farron Levy, August 8, 2016
[99] Anonymous interview, February 24, 2017
[100] Interview with Jeff Gilbert, June 1, 2016
[101] Interview with Tom Willits, July 12, 2016

Ultimately, entrepreneurs want to make money; they want to "do well by doing good,"[102] and that means turning a profit. Kevin Mercer spent years working in the government and charity sectors.

> We chose to be a business. For years we worked for social environmental entrepreneurs, took our message out to the street, and we struggled all the time to make enough money to do what we were doing. We were constantly poor, constantly applying for money, having a hard time to be able to hire people on a consistent basis. It truly sucked. It was like being a monk, taking a vow of poverty. [103]

Kevin Mercer is the same entrepreneur who described himself as "the world's worst businessperson," and yet in this quote, he also differentiates himself from "monks taking a vow of poverty."[104] Mercer portrays himself as neither a businessperson nor a monk; instead, he solves an environmental problem in an innovative, sustainable, and lucrative way. Similarly, his company is neither purely social nor purely commercial; it takes on aspects of each identity. Tiffany Darst of Sacred Money Studios echoed these sentiments when she told me, "we don't buy into the notion of noble poverty. Profits and doing great things don't have to be in opposition. We can do well doing this kind of business."[105] Here we see the integration of the two identities, the synthesis of social and financial goals. Mission and profit are tied together in social companies, which "do well by doing good."[106]

Language matters, particularly for identity formation. The words "scale"/"scalable" and "efficiency"/"efficient"/"efficiently" are used frequently (70[107] and 33 times,[108] respectively) in reference to the for-profit model, but this market rhetoric is intertwined with a social rhetoric (e.g.: "our business model allows us to deliver soap to those villages more efficiently than your typical charity").[109] The market is framed as a tool to drive greater social good. Operating as a for-profit is a means to a

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[102] Anonymous interview, June 20, 2016
[103] Interview with Kevin Mercer, July 25, 2016
[104] Interview with Kevin Mercer, July 25, 2016
[105] Interview with Tiffany Darst, June 23, 2016
[106] Interview with Jay Coen Gilbert, August 26, 2016
[107] "Scale" was used sixty-one times, and "scalable" used nine times
[108] "Efficiency" was used sixteen times, "efficient" thirteen times, and "efficiently" four times
[109] Interview with Shawn Seipler, August 3, 2016

social end, integrating both social and financial goals. As Jäger and Schröer (2014) argue, hybrids "act at the interface of markets and societies…systematically integrating both identities" (pp. 1285). In describing their organizations, social entrepreneurs align themselves with a social welfare identity by framing their organizations as a reaction to a problem, using words like "community" (used 241 times), "impact" (used 217 times), and "mission" (used 164 times) but they also claim parts of a market identity by using words like "profit" (179 times) and "market" (161 times). These two identity components are not adopted piecemeal, but rather are woven together into an integrated identity, as predicted in *Table 4* (prediction 3).

Entrepreneurs stress that the for-profit realm is filled with powerful organizations. "Business is an important sector. They dominate what happens in the world,"[110] and as a result, business holds the greatest opportunity for change.

> Rightly or wrongly the biggest force on the planet was the for-profit business sector. I realized we need to engage them, and there's no way they're going to roll up their sleeves and get involved if there was nothing in it for them… So my claim to fame is how to justify on the business case how to do more for the environment than what you're doing. [111]

Social companies use the market as a medium to drive change. Markets are valuable and powerful, but – according to social entrepreneurs – they are also fundamentally flawed. The previous two sections have shown that social entrepreneurs distance themselves from both conventional corporations and traditional charities, defining their work in a new way altogether. As predicted (third prediction, *Table 4)*, social companies blend the social and commercial elements of their identity instead of attempting to resolve the tensions between them. Social companies, as founders describe them, use the market as a tool for social good; profits are a means to a social end. Rather than holding two distinct identities, social companies take on a new, blended organizational identity, which requires a delicate balancing act. Put another way, social companies are not part company, part charity. They have an integrated identity, as organizations that use the market to solve social problems. They are more than the sum of their parts, and this leads to the problem discussed in the next section: category spanning.

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[110] Interview with Adam Goldfarb, August 18, 2016
[111] Interview with Bob Willard, June 17, 2016

Category spanning sends mixed signals

Social entrepreneurs see social business as a way to combine the benefits of charity and corporations, but attempts by social entrepreneurs to distance themselves from both conventional companies and traditional charities lead to problems with legitimacy. Many social entrepreneurs have tried for years to articulate their company's mission and structure to outsiders, but because social companies "fall into a gray area between business and charity,"[112] potential customers, funders, and supporters have trouble making sense of them (Blanding 2013). For example, when the market crashed in 2008, James Woulfe from ReSET "saw business being vilified and CEO's being vilified and the idea of the corporate class being seen as, for lack of better terms, evil, as fundamentally flawed…where does that leave us?"[113] Woulfe felt that companies could create shareholder value while also maintaining a mission, but customers could not understand the dual mission, and he struggled to articulate it.

> People had no idea what was going on. Some people thought it was socialism and others thought it was a nonprofit. They didn't understand the multiple bottom line…That's just the way we do business. There wasn't a name for it, but that's just what we do. [114]

Wolfe lacked a clear category for his company, which made it hard for him to communicate his vision to stakeholders. This sentiment was a common thread throughout my interviews, with 77 percent of subjects expressing concern over how potential customers and clients categorized or identified their company.

Because customers have differential expectations about the outputs of companies and charities, social entrepreneurs walk a tightrope trying to describe their product. According to the founder of a natural and eco-friendly foods company:

> It's hard, because we don't have much time to get our story across to customers. We want to convey the mission and the quality of our product, but those two things don't usually go hand-in-hand, so we end up going back and forth. Here are our environmental initiatives, but – no, no! – the [product] still tastes good. We're working toward zero waste, but no! – it's

[112] Interview with Chris Grewe, October 18, 2016
[113] Interview with James Woulfe, October 12, 2016
[114] Interview with James Woulfe, October 12, 2016

> not going to cost an arm and a leg. It's a lot of back and forth, and we have to fit it all on the front of our packaging.[115]

Despite all their identity work, social companies tend to confuse stakeholders, who are accustomed to traditional charities or traditional for-profits. Customers and investors want to support an organization they can understand, but they have trouble categorizing a mission-focused for-profit company. They think of mission and profit as conflicting. As one subject put it, "our clients tend to think if you're solving a social problem, you shouldn't be making money off it. If you want to turn a profit, lose the expensive mission component."[116] Jacob Malthouse of Big Room described his frustration over stakeholders who expect his company to conform to clear-cut categories:

> We are constantly asked the question "are you a for-profit or a nonprofit?"…In a way, they're essentially asking "are you Bernie Sanders or Donald Trump" and goddamn you old people, stop putting us in boxes! How are we going to change the world if we are put in these boxes?[117]

But "boxes," or cognitive categories, are how people make sense of the world. A category serves as shorthand that quickly communicates qualities of the organization, product, or service to potential customers. Conversely, category spanning creates confusion for customers, especially when entrepreneurs lack a name or a cohesive identity for their organizational form.

So customers struggle to make sense of social companies, but what about investors? On the face of it, category spanning seems to be more of a problem for customers than for investors, but there is a caveat. Of the 27 respondents who had experience with outside investors (and were willing to talk about it), 9 (33 percent) recounted their frustrations with investors, while 18 (67 percent) described sympathetic investors who understood their mission and were not confused by their unique blend of social and financial goals. But all 18 clarified that they work with a small subset of socially conscious investors who seek financial returns but who also want to fund socially or environmentally responsible projects. In a sense, these investors also span categories. They are part donor, part investor. Barman (2016) outlines the emergence of

[115] Interview with anonymous respondent, June 30, 2016
[116] Interview with anonymous respondent, August 5, 2016
[117] Interview with Jacob Malthouse, July 25, 2016

social impact investing, whereby investors operate under the assumption that morals and markets are mutually complementary, reframing the dichotomy between the market and charity. These are the investors social entrepreneurs seek out. According to Michelle Archuleta of Doctor Speak, "we need investors who align with our passion. We might not be attractive to all investors, but who we are and what we do, we need to have a particular kind of investors."[118] Of the 18 entrepreneurs who reported positive experiences with investors, all either worked with impact investors or used crowdfunding campaigns.

Impact investing is still a niche strategy. Even entrepreneurs who successfully raised capital lamented the shortage of mission-aligned investors. Rana DiOrio of Little Pickle Press described the situation this way:

> The access to capital is different for a social mission company. That's changing. There's more impact investors and conscious capitalists and more family offices that want to align their finances with their values. But it's a significant subset of the giant world of capital that's available for the next Uber…. Social companies are still largely misunderstood in the investment community. They think we're triple bottom line bleeding heart liberal hippie beatniks who don't understand that money makes the world go 'round. In fact, I'm just off a meeting with my banker where we were talking about how this is going to be a different pitch to conscious capitalist than it is to mainstream investors.[119]

Here we see DiOrio draw a line between investors who "understand" social mission companies and those who do not. This distinction runs throughout my interviews; nearly every time[120] subjects mentioned investors, they drew a hard line between impact investors (also called mission-aligned investors, socially conscious investors, and social investors) and conventional investment groups. So contrary to the predictions drawn from Pontikes' (2012) work on market-makers and market-takers, mainstream investors do not seem more receptive to category-spanning than customers. Rather, conventional investors remain skeptical of social companies, treating them like "bleeding heart liberal

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[118] Interview with Michelle Archuleta, August 4, 2016
[119] Interview with Rana DiOrio, August 4, 2016
[120] Forty-one out of the forty-six times a quote was coded "investor" (89 percent of the time)

hippie beatnicks" because of their social missions. It seems that social companies are more valuable to niche impact investing groups, which also span categories.

Furthermore, nine respondents reported facing resistance from more traditional investors, who had more trouble understanding their dual mission. Mark Slagle, the founder of Good Spread, recounted his experience with investors:

> We did have some investors come at early stages. There was this one guy, stereotypical investor, kind of pushy. He wanted to give us money but also wanted to change a lot of things about our product and packaging. We just figured – if our mission is compromised, then why should we even do this? Just to be a regular peanut butter company? So we passed. Then when we first got our first order from Harris Teeter, we went to a kind of Shark Tank like place. Just scary old white men in business suits, you know. And that's really not our element. And it was like, the company that came in before us was a tech company. They loved our story, and we actually had some sales under our belt, some money made. The tech company had nothing, just a business plan. But then when we put up our long-term projections, the tech company had all these dollar signs and we had lives saved. When it came to us, it was just like…crickets. I'll never forget, one of the guys asked us 'Is it social enterprise with a capital S or a capital E?' And it was a terrible meeting, but I just thought, why can't it be both? And we still feel that way. We try to do both.[121]

This quote paints a picture of investors who only care about the financial bottom line, whose calculations do not include social impact. The "Shark Tank like" investors needed social enterprise to have either a capital "s" or a capital "e," to clearly fit into *either* the social or enterprise category, not both. Ultimately, Good Spread was unable to raise seed money the conventional way. Instead, Slagle launched a crowdfunding campaign on Indiegogo and embarked on a grassroots tour of college campuses across the US, hosting demonstrations and recruiting "Good Spread Ambassadors." These events and ambassadors spread awareness about he problem of severe acute malnutrition and drove donations to the crowdfunding site.

Even Gerhard Pries, CEO of responsible investment firm Sarona Asset Management asserted that investors "generally make investment decisions based on risk versus return versus liquidity, and to add a values component to that – 'Are we doing the

[121] Interview with Mark Slagle, March 31, 2016

right thing? Are we making the world a better place?' That's a stretch for them."[122] Making the world a better place is a job for philanthropists and donors, whereas analyzing risk and return is a job for investors. Together, these findings suggest that category spanning is confusing for both market-makers and market-takers. Category spanning seems appealing to those investors and stakeholders who already sit in the space between philanthropy and business, but for mainstream investors and financial groups, category-spanning remains a deterrent.

Altogether, these findings lend support for Prediction 4 (*Table 4)*, that stakeholders will have trouble making sense of social companies. There is no support for Prediction 5, that investors will be accepting of – and in some cases will even prefer – category spanning. Rather, category spanning appeals only to a small group of hybrid investors.

Conclusion

In short, this chapter demonstrates that conflicting goals make it difficult to create a clear, concise organizational identity, which leads to problems of legitimacy. Social companies balance two goals; the social mission is the impetus for the organization, but profit is necessary to sustain it. But customers and investors want to support an organization they can understand, and they have trouble categorizing a mission-focused for-profit company. They think of mission and profit as conflicting: if you're solving a social problem, you shouldn't be making money off it. If you want to turn a profit, lose the expensive mission component. This leads to problems with legitimacy. Social companies behave neither like for-profits nor like non-profits, which confuses and deters important stakeholders. In telling their origin stories and describing their companies, social entrepreneurs distance themselves from both traditional for-profits and nonprofits, claiming a new niche, where mission and profit are intertwined.

Of course, all businesspeople live with constraints. Companies could make more money if they stole supplies from warehouses, illegally dumped waste, or violated moral norms. But for the most part, legal restrictions prevent this behavior. Social entrepreneurs are not unique in dealing with moral constraints on their decision-making,

[122] Interview with Gerhard Pries, July 5, 2016

but they *voluntarily* introduce multiple organizational goals with distinct blueprints for action. This multiple bottom line makes it difficult to make decisions, because there are rarely clear tradeoff functions between the utility of different stakeholders.

In this chapter, I have brought together three strands of the literature on hybrid organizations. I have shown that social companies fit all three definitions of hybrids: they pursue multiple goals, hold conflicting identities, and span categories. And these companies demonstrate the problems associated with each type of hybridity. My interview data confirmed the first two predictions. Social entrepreneurs describe their decisions as a competition between social and financial goals, and they mitigate this tension by creating moral hierarchies. But these hierarchies are temporary and fluid rather than fixed and rigid. My findings support the third prediction, that social companies blend the social and commercial elements of their identity, rather than attempting to resolve the tension between these identity components. Finally, I have shown that both customers and investors have trouble making sense of social companies' category spanning, confirming the fourth prediction but contradicting the fifth.

As I will show in the next chapter, B Corp certification and benefit corporation status solve two of the problems discussed in this chapter – lack of a clear identity and category spanning. Both organizational forms provide models for socially conscious companies that walk the line between business and charity. In Chapter 5, I will demonstrate the way B Lab provides legitimacy through the establishment of new organizational forms.

CHAPTER 5
Rationalizing B's: Why do Social Entrepreneurs Certify or Incorporate?

The previous chapter outlined the types of hybridity and demonstrated the challenges associated with each. Although organization scholars tend to focus on just one type of challenge, all three elements of hybridity - multiple goals, integrated identities, and category spanning - are conceptually and empirically linked. When organizations pursue goals from multiple sectors, they appear to span categories. Entrepreneurs weave together a narrative, trying to make sense of their multiple category membership by crafting an integrated identity. And the problems associated with each type of hybridity are linked too. The presence of multiple goals inevitably leads to tradeoffs and difficulties with agenda setting. Organizations alternate between making decisions based on social outcomes and financial returns, making their category spanning glaringly obvious to key stakeholders, who find it difficult to understand or support them.

As hybrid organizations, social companies lack three things: a template for organizational decision making that ensures the company will uphold social or environmental goals; legitimacy and verification for their social claims; and a coherent identity that takes into account multiple stakeholders. B Lab provides all three through B Corp certification, and to some extent, benefit corporation status. Legitimation is a complicated process, one that involves entrepreneurial organizations, resource providers, the media, and potential customers in constructing a category's meaning, forming organizational identities, and shaping perceptions about the validity of the business model (Navis and Glynn 2010). Social entrepreneurs argue that B Corp certification affords their companies a sense of legitimacy, a new identity, an expanded social network, and improved recruiting and employee retention. Although few companies market their certification, becoming a B Corp allows companies to respond to accusations of greenwashing. By creating a bounded in-group with clear dividing lines, B Corp certification differentiates social companies from their conventional counterparts. Because benefit corporations are not subject to the same assessment and audit process as B Corps, incorporating as a benefit corporation does not seem to offer the same array of rewards as certification does. It is worth noting that in this chapter, I

cannot demonstrate the causal effects of certification or incorporation on organizational outcomes, like network size, employee retention, and sales. Without detailed microdata, I can only report entrepreneurs' *perceptions* of change and cannot make arguments about causality.

In the following sections, I will illustrate the ways B Lab helps companies overcome the problems associated with hybridity and will explore the additional benefits of becoming a B Corp or benefit corporation.

B Lab enables credible commitments

Because they pursue two goals, social companies operating in competitive markets are liable to compromise their social and environmental missions for the sake of increased profits. As outlined in the previous chapters, social companies tend to vacillate between prioritizing social and financial goals, which can project an inconsistent image to stakeholders. In some cases, it makes customers feel tricked, leading to even greater consumer skepticism. For example, Horizon Organic, the largest organic dairy producer in the United States, was hit hard by the recession of 2008, as fewer consumers were willing to pay a price premium for organic goods. In 2009, Horizon's parent company, Dean Foods announced the launch of Horizon's "all natural" line of milk products. Whereas "Organic" is an U.S. Department of Agriculture regulated claim, there are no regulations on the term "natural," which allows for the use of pesticides, herbicides, antibiotics, and genetically modified feeds. Critics accused Horizon of using its brand to deceive customers who mistakenly believe that "natural" is the same as organic, to sell conventional milk with the "aura of health" (Fooducate 2009). Dawn Brighid, the spokesperson for a food and sustainability non-profit, Sustainable Table, spoke out against Dean Foods:

> The move feels sneaky. The average mom won't know about the change, and most people are still unclear about the difference between 'natural' and 'organic.' With milk prices as high as they are, people will be happy to see a lower price point, but I'm afraid they won't understand what they are getting. (Eng 2009)

This deception, this watering down of green labels, offered an opportunity for profits but at the expense of Horizon's core values.

Mark Kastel is the cofounder of Cornucopia Institute, a non-profit organic industry watchdog group. Despite his stake in Dean Foods (Dean Foods gifted a donation of stock at Cornucopia's founding), Kastel criticized the move:

> We obviously have an investment in Dean and we have nothing against profits. It just makes me mad when I see a company that attempts to profiteer at the expense of these hardworking farmers who have built the organic industry. I fear they are going to blur the lines between natural and organic and I think someone needs to educate the public. (Eng 2009)

Horizon pulled its natural line after backlash from customers, but the anecdote serves as a cautionary tale of what can happen to a company's mission in times of financial turmoil. This is an example of "mission drift," a phenomenon whereby hybrid organizations come to be dominated by a financial logic (Ebrahim, Battilana, and Mair 2014; Battilana and Dorado 2010). At the heart of the problem with multiple missions is that social entrepreneurs want to prioritize their mission but know they must be profitable to survive. Ultimately, though, the mission "is the reason we exist – not profits. If we are going to compromise on anything, it better be the financial piece."[123] B Corp certification and benefit corporation legislation help to solve the problem of multiple missions by ensuring that companies prioritize their social goals and that they do not drift too far toward profit-seeking.

The temptation to prioritize profits is strong. After all, social companies are *for-profit* organizations, and they need to make money to survive. But social entrepreneurs underscore the importance of protecting their missions – not just from shareholders (see Chapter 3), but also from future owners, executives, and even themselves. When entrepreneurs incorporate their companies as a benefit corporations, when they write their social and environmental mission into their articles of incorporation, they are making a credible commitment. Credible commitments are constraints on self-interested choice that bind an actor to a particular set of actions, especially a set of actions that might not seem so appealing in the future (Schelling 2006). In theory, benefit corporation status requires companies to pursue general and specific public benefit. Although there are few enforcement mechanisms (see Chapter 2), benefit corporation status represents a credible commitment under one of the following conditions: (1) if a

[123] Interview with anonymous respondent, December 4, 2016

private or public company has shareholders[124] or (2) if social entrepreneurs are unaware that the law has no teeth. The majority of companies in my sample fall into one of these categories.[125] Despite the enforcement problems outlined in Chapter 2, benefit corporation status carries the weight of law, at least ostensibly, and signals that companies can be trusted to fulfill their promises. So for example, if Horizon Organics had been a benefit corporation, directors may have found it more difficult to compromise the company's organic standards. In fact, shareholders could sue the Horizon for neglecting its environmental goals, its commitment to organic farmers and to providing wholesome organic foods to families.[126] In this way, benefit corporation status acts as a check on the impulse to stray too far toward financial goals.

The question of how organizations find commitment devices that encourage others to trust them is central to organizational economics and macro-organizational theory. Ingram (1996) characterizes the commitment problem in the following way: "There are common circumstances where an actor…would like to eliminate an action from the set of potential actions that will be available to it at some future time. If possible, the actor would commit now to *not* choosing some action in the future" (p. 85). Commitment devices ensure that a party follows through on a promise by making it costly to not follow through. Guarantees and contracts are two forms of commitment devices that ensure quality under conditions of uncertainty (Akerlof 1970), but an organizational form can serve as an alternative type of credible commitment. The state often acts as a third-party enforcer of promises (Cook, Hardin, and Levi 2005), and that is the intended purpose of benefit corporation legislation. Benefit corporations write a company's mission into law, which creates the perception of immutability and strict enforcement. For example, Christopher Brechlin of the benefit corporation Blueprint for Impact knew he wanted to create his own company but he "didn't want it to be just any business entity. I wanted it to be something where the social good aspect of it was

[124] These shareholders can bring Benefit Enforcement Proceedings against benefit corporations that fail to pursue their stated mission.
[125] 88% or 21 out of 24 benefit corporations
[126] If Horizon had been a benefit corporation as well as a subsidiary of Dean Foods, shareholders of Dean Foods could bring about Benefit Enforcement Proceedings.

cemented into the architecture of the business itself."[127] Most entrepreneurs seem largely unaware of the problems with enforcement discussed in Chapter 2; they tend to believe that benefit corporations are held to a higher, stricter legal standard than their C Corp counterparts.[128]

Non-state third-party actors, like B Lab, can also uphold and enforce commitment devices. B Corps serve as commitment devices by raising the reputational cost of abandoning social goals. Anna Noyons pursued B Corp certification for Peerby because she "wanted to ensure our social direction and make sure that it was really in the DNA of the company and something that we would not be easily distracted from."[129] She went on to tell me that it would "look bad" for them to lose their B Corp status. Even though B Corp certification is temporary, it is a symbolic commitment, and entrepreneurs expect that stakeholders will notice and punish them for failing to meet B Corp requirements.

This highlights an important distinction between types of commitment devices. Commitment devices can be credible in either a motivational or in an imperative sense (Shepsle 1991). A commitment is motivationally credible if the gains from deviation fall below the gains from compliance. Motivational commitments do not rule out deviations; they simply introduce additional costs for defections, making them less profitable and therefore less likely. B Corp certification functions this way. Once companies make a commitment to "using business as a force for good"[130] and sign the B Corp "declaration of interdependence,"[131] organizations risk sullying their reputations if their practices fall short of B Corp's standards. Conversely, a commitment is imperatively credible if actors have no freedom to act otherwise because their compliance is coerced. Elster (1979) illustrates imperative commitment devices with classic example of Ulysses and the Sirens. Ulysses, afraid that he would fall prey to the Sirens' call, shackles himself to his ship's mast, preventing him from following their songs to his death. This is the intention of benefit corporation legislation; entrepreneurs, worried that future leaders might

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[127] Interview with Christopher Brechlin, July 7, 2016
[128] When asked about the enforcement of benefit corporation legislation, only four social entrepreneurs mentioned the difficulties outlined in chapter 1.
[129] Interview with Anna Noyons, July 6, 2016
[130] B Corporation slogan, https://www.bcorporation.net/what-are-b-corps/why-b-corps-matter
[131] https://www.bcorporation.net/what-are-b-corps/the-b-corp-declaration

succumb to selfish tendencies, voluntarily opt into a contract that constrains organizational behavior. Of course, as I argue in Chapter 2, benefit corporations are not nearly as constrained in practice as entrepreneurs believe.

Despite the temporary nature of B Corp certification and the enforcement problems with benefit corporation legislation, entrepreneurs stress the importance of incorporation and certification for protecting their legacy, for guaranteeing the centrality of the company's mission far into the future.

> The biggest benefit is the legacy conversation. Meryl [the former owner] left a huge legacy when she sold the company to the employees rather than to a third party. I get to have the reigns now. I won't be the CEO forever, but I want to leave a legacy on what kind of company we want to be. The biggest thing for me is being a company that values all our stakeholders. So if and when we make an exit, we don't have to take the highest bid. This is just the kind of company we are.[132]

Shannon Adkins described B Corp certification as creating a "lasting legacy," which is ironic, since certification is inherently temporary. Amy Hall, Director of Social Consciousness at Eileen Fisher made a similar claim.

> We have often felt like what will happen when Eileen is no longer in the picture? The future leadership of the company – what will they want of us? Will that person stay true to the core values that we have formed ourselves around? So becoming a B Corp helped kind of put a stake in the ground around the fact that these aren't just fleeting ideas. These are important to us and we are going to stick with them.[133]

Fashion line Eileen Fisher is both a benefit corporation and a B Corp, but Hall described the certification, not legal structure, as the "stake in the ground." Similarly Katie Wallace of New Belgium Brewing depicted B Corp certification as a way for the former owner's "values to become integrated in the business model in a way that would last beyond any one person's time."[134] Despite her desire to preserve the company's mission, Wallace had no intention of reincorporating New Belgium as a benefit corporation. Like Wallace, many entrepreneurs described the voluntary, symbolic stake in the ground, B Corp

[132] Interview with Shannon Adkins, June 14, 2016
[133] Interview with Amy Hall, June 6, 2016
[134] Interview with Katie Wallace, June 14, 2016

certification, as more powerful than the binding legal one, benefit corporation status. In reality, B Corp certification is a motivational – not imperative – commitment, one that simple and straightforward to opt out of, even if it incurs a reputational penalty. Still, the narrative of "protecting our values"[135] was a common justification for certification.

But for Christopher Jacobs of Solutions for Progress, benefit corporation is even "more valuable" than B Corp certification.

> The motivation for being a B Corp was to be able to put things on websites, to say to people "I understand what you're saying and we've had this validation." The thing in the end that made the biggest difference, though, was when the commonwealth of Penn became the 12th state to create a category of benefit corporation…that meant that Solutions for Progress would be locked into the mission forever.[136]

For Jacobs, both B Corp certification and benefit corporation status are valuable. The certification provides an initial sense of legitimacy by having third party validation, and benefit corporation status is the credible commitment that will maintain his legacy into the future. It is worth noting yet again that benefit corporation status is not truly permanent. Benefit corporations can be converted to LLCs or C Corps with a 2/3 vote by the board of directors, but social entrepreneurs describe the legal status as permanent and binding. Subjects acknowledged that this sense of permanence might turn off potential investors, because it makes the company's mission "virtually off-limits."

> The benefit [of being a benefit corporation] is – and this can also be a downfall – but it's to get investors who align with our passion. We might not be attractive to all investors, but for who we are and what we do, we need to have a particular kind of investors.[137]

Phil Neumann of Mainstem Malt agreed. He met with a potential investor who was "a bit inflamed about the socialism aspect" of benefit corporations. "Not everyone is going

[135] Interview with anonymous respondent, December 4, 2016
[136] Interview with Christopher Jacobs, September 5, 2016
[137] Interview with Michelle Archuleta, August 4, 2016

to see unicorns and rainbows in this concept and staunch capitalists are going to be a bit upset about it."[138]

> I knew I was going to have investors, I was going to give up a sizeable chunk of the business to investors, and I understood that this was an easier thing to do from the get-go and have everyone signed up from the beginning than to take that turn down the line when you have to have a vote, so I wanted to make that clear from the get-go.[139]

Benefit corporations serve as credible commitments in two ways. First becoming a benefit corporation signals a company's commitment to its mission and therefore weeds out potential investors who might disapprove of an entrepreneur's social or environmental initiatives. Second, it serves as an imperative credible commitment, tying a company to its stated mission by writing it into the organization's founding documents. This prevents future investors from steering the company away from its social or environmental goals. B Corp certification, on the other hand, serves as a motivational commitment device, conveying legitimacy on certified organizations but threatening reputational damage if a company fails to recertify.

Actors have credibility if others believe they will do what they commit to do. Organizations build up a reputation of credibility through a history of repeated compliance, and this reputation functions as a form of capital (North 1993; Dixit 1996). Companies can engineer this credibility when reputation is low or lacking – when an organization or industry is new or changing – through the use of commitment devices (Kydland and Prescott 1977: 487). This is the role of B Corp and benefit corporations; social companies make a commitment to honoring their social values, which sends a message to skeptical consumers, boosts companies' reputations, and creates the perception of legitimacy.

B Corp certification validates and legitimizes social companies

Commitment devices solve the problem of multiple missions by making it costly for companies to succumb to mission drift. And while commitment devices alter stakeholders' expectations of companies, they do not help audiences make sense of

[138] Interview with Phil Neumann, September 7, 2016
[139] Interview with Phil Neumann, September 7, 2016

social companies, of their multiple, conflicting goals. To solve that problem, social companies require validation, a way of explaining multiple category membership and demonstrating commitment to a mission (Downing 2005; Brown 2006). Category spanning is confusing to customers who expect companies to behave like profit-maximizers. The first step toward legitimacy is making multiple goals compatible, verifying that companies can be simultaneously social and commercial. The social entrepreneurs in this study emphasize the need to substantiate their social or environmental claims, to prove that they can be good for the environment, for workers, and for society despite their profit imperative. "Certification with a management standard can act as a signal of superior but unobservable attributes and thus provide a competitive benefit" (Terlaak and King 2006: 579-580). The mission of social companies is often invisible to customers, who cannot know whether a product is truly made out of recyclable materials or whether workers are actually paid a living wage. Certification allows organizations to communicate their desirable attributes to audiences who cannot directly observe them. According to one CEO, certification "gives us credit for the things we were already doing" and "shows customers that we walk our talk."[140]

In the previous chapter, I argued that social companies struggle to demonstrate their values to employees, investors, stakeholders, potential clients, and customers. Because B Corps must pass a rigorous third party social and environmental assessment, the B Corp seal of approval validates companies' efforts and substantiates their social and environmental performance. Bethany Tran, the founder of Root Collective, described potential customers who are wary of her business model. Her shoe company creates jobs for slum dwellers in Guatemala, but many are quick to accuse her of using the poor as a marketing ploy. After Root Collective was featured in a prominent online lifestyle magazine, Tran watched the enthusiasm – and the criticism – unfold in the comments section. "We were 3 or 4 months old, and we got the first..'oh, look, another pretender, using the poor for marketing.'" Tran pointed to that moment as the initial impetus for B Corp certification.

> My hope for certification is that we could combat [that criticism] and it has been beneficial. When I tell people what we're doing and they start

[140] Interview with anonymous respondent, December 4, 2016

> giving me the side eye, I'm able to be like 'no, look at this, this is legit.' So it [B Corp] has been helpful just to say that somebody else says we're doing okay.[141]

B Corp certification reassures skeptical customers that a for-profit company can create positive social change. By validating companies' social efforts, B Corp certification reframes the relationship between social and financial goals, making them compatible rather than conflicting.

> As far as the B Corp, I had ways of talking about our mission, but was always looking for some third party way to validate that just because we're for-profit doesn't mean we can't prioritize our mission, success for our customers, being excellent to our employees, the public good, the environment. The B Corp structure gave us an amazing way to tell that story and because they provide an array of third party reviews. It shows that you're doing what you say you're doing, and having them validate that we are who we say we are, that was powerful.[142]

Here, we see David Young push back against stakeholders who fail to understand his category spanning. B Corp offers validation that his company, VIF, can pursue multiple goals simultaneously. This was a common theme among social entrepreneurs, one that we will revisit in a later section on greenwashing. By assessing companies' social and environmental practices, B Lab vouches for certified B Corps, assuring skeptical stakeholders that social companies truly are both social and commercial.

In the above quotes, we see that entrepreneurs treat B Corp certification as a consumer-facing strategy for boosting reputation and legitimacy. Ebrahim et al. (2014) argue that "the creation of new legal statuses marks the will to recognize social enterprises as distinct organizations that are neither typical for-profits nor typical nonprofits" and that "this legal recognition provides greater legitimacy to the blended social and commercial objectives of social enterprises in the eyes of both staff and external stakeholders" (p. 86). But in the case of B Lab, B Corp certification seems to be even more valuable a marker of legitimacy than benefit corporation status. Twenty-four subjects explicitly stated that having a third-party vouch for them enhanced their reputation or validated their social mission. Of these 24 subjects, 18 are B Corps, 3 are

[141] Interview with Bethany Tran, June 7, 2016
[142] Interview with David Young, June 16, 2016

benefit corporations, and 3 are both. Otherwise, there are no apparent differences between entrepreneurs – or their companies – who reported an increase in legitimacy.[143] It seems that the B Corp serves as a valuable marker of legitimacy in a way that benefit corporation status does not. As Phil Neuman, founder of Mainstem Malt, argued:

> It seems to me like certification was the key to any sort of legitimacy, outward legitimacy. I couldn't see flashing my articles of incorporation or my operating agreements and showing that it's in our DNA. It seems like the certification is the key.[144]

And this makes sense, because B Corps are assessed and certified to have met quantitative third-party standards. Conversely, benefit corporation is a legal form, one without a consistent definition or an enforced set of standards. Even when consumers are not familiar with B Corps or when social companies do not actively advertize their B Corp status, the certification logo is a literal stamp of approval, one that companies can print on their packaging and display on their websites. B Corp certification provides legitimacy by validating that for-profit companies genuinely pursue social or environmental goals.

B Lab creates a new category and identity

Social entrepreneurs harness the power of the market to tackle a range of issues, from storm water pollution in cities to severe acute malnutrition in developing countries. By creating a new organizational identity, the titles "B Corp" and "benefit corporation," become new categories in and of themselves, categories that allow for both social and commercial goals. B Lab takes this diverse set of organizations – with a variety of missions, sizes, and business models – and turns them into a new, coherent category: certified B Corps or benefit corporations. These categories have their own set of expectations that blend characteristics of companies and social organizations.

"B Corp" offers a common identifier, one that customers and stakeholders can easily grasp. Recall from the last chapter the remarks of Jacob Malthouse, founder of Big Room, the company that owns the .eco domain registry and manages the Ecolabel

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[143] There are no differences between groups in terms of company size, industry, product/service provider, and indirect/direct benefit companies (see introduction).
[144] Interview with Phil Neuman, September 6 2016

Index. Malthouse expressed his frustration over stakeholders trying to categorize Big Room as a for-profit or a nonprofit:

> The benefit of certification is that we are constantly asked the question "are you a for-profit or a nonprofit?" I was just asked that on a radio interview and it's like "yeah we're for-profit" and he's like "oh…okay." In a way, they're essentially asking "are you Bernie Sanders or Donald Trump" and goddamn you old people, stop putting us in boxes! How are we going to change the world if we are put in these boxes? *And B Corp certification provides the answer to that. It's not an either-or. It's a "yes and."* It should be a normal way of doing capitalism, but it's not yet.[145]

Malthouse' story is illustrative of my subjects' experiences. Social entrepreneurs fail to articulate how their values and business model work together when they cannot fit their business model into a predetermined "box." B Corp certification serves as a new category altogether; it creates an entirely new box, a "yes-and," which addresses the problem of category spanning for entrepreneurs.

> Oftentimes, people have no clue what benefit corporation means, but they'd say "explain this benefit corporation stuff to me" so I'm now initiating the conversation about triple bottom line and certification through B Lab rather than being reactive to "why the hell are you a private sector company?"[146]

For Christopher Jacobs, the category "benefit corporation" offered a template for talking about his mission and explaining his category spanning. Like Malthouse, Jacobs could stop answering the question "why are you for-profit?" because his new organizational identity encompassed both social and financial characteristics.

Companies' goals may not be changing, but their identity is. Katie Wallace said of B Corp standards: "it was what we were already doing, they just gave us a shared identity with other businesses that were doing it too."[147] B Corp certification provides a common language, a way of articulating a company's ethos that many entrepreneurs were lacking. Lara Pearson, an intellectual property lawyer stated:

> B Corp provided a community, but more importantly I felt like it clearly and concisely conveyed my soulfulness. When people say to me like 'what do you mean you're environmentally and socially conscious, like how can

[145] Interview with Jacob Malthouse, July 25, 2016, emphasis added
[146] Interview with Christopher Jacobs, September 5, 2016
[147] Interview with Katie Wallace, June 14, 2016

> a law firm be soulful?' Now I can say, 'I'm a B Corp, I took a test about my practices and I became certified and here are the links to prove it.' It was a lot easier than spending thirty minutes telling people what all I do.[148]

B Corp as a category allows members to be both social and commercial, to be "soulful" and efficient. And the category contains its own identity, one that saves entrepreneurs the trouble of "spending thirty minutes" telling their story. Because the titles B Corp and benefit corporation so quickly and simply convey social companies' business model, it becomes "part of our story…of our identity and our brand."[149]

Twelve subjects (out of the sample of 61 B Corps and benefit corporations)[150] discussed B Lab's role in creating a new market category. Six are B Corps, four are benefit corporation, and two are both. B Corps and benefit corporations seem to perform slightly different functions, though. The founders of B Corps discussed the role of certification in "telling their story" or "conveying their soulfulness." There is a narrative quality to B Corp certification; it gives entrepreneurs a new language for talking about their companies. The founders of benefit corporations were more likely to talk about "a new category" or "new rules for doing business."[151] Because benefit corporation is a legal designation, it operates more as a category than an identity. There are no common norms or guidelines designating what it means to be a benefit corporation. Benefit corporation status carries no narrative or language for identity-building; it is simply another legal structure, a new category.

B Corp certification counteracts greenwashing

Another way that B Corp certification legitimizes companies is by combating suspicions of greenwashing and goodwashing. Greenwashing is a marketing phenomenon that encompasses a "range of communications that mislead people into adopting overly positive beliefs about an organization's environmental performance" (Lyon and Montgomery 2015: 224), while goodwashing campaigns mislead consumers about a

[148] Interview with Lara Pearson, July 26, 2016
[149] Interview with Christopher Grewe, October 18, 2016
[150] 37 are certified B Corps, 14 are benefit corporations, and 10 are both
[151] Interview with anonymous respondent, October 12, 2016

company's social performance. Executives know that consumers are interested in responsible, sustainable products, and it is easier to make claims about sustainability than to actually implement sustainable practices. Meyer and Rowan (1977) suggest that because conformity to social norms is advantageous for firms, there is an incentive for organizations to "decouple" the structural façade they present to their stakeholders from their internal activities, to make claims that do not line up with their practices. Environmental and social claims abound, as evidenced by catchy marketing terms like "green," "responsible," "ethical" and "eco," but consumers are becoming suspicious of these labels (TerraChoice 2009; Hoffman 2013; Lyon and Montgomery 2013). In creating a new identity for social companies, B Lab allows social entrepreneurs to set themselves apart from conventional companies and to distance themselves from corporations with misleading marketing campaigns (Patvardhan and Corley 2013).

Greenwashing works by exploiting cognitive categories, consumer understandings of what "green" or "responsible" means. Work on the emergence of product categories helps us understand how producers and consumers deem products ethical or not. Hsu and Grodal (2015) suggest that as category understandings become taken-for-granted, consumers scrutinize features of the products less and less. For example, as the categories "green" and "eco-friendly" become more common, we collectively agree on a meaning for those categories (e.g. recyclable, made out of sustainable materials, low-energy). Rather than fact-checking producers, we assume that "green" products conform to our mental definition. When consumers stop scrutinizing these labels, producers who use less expensive category-inconsistent methods can still claim membership in that category and benefit from increased profitability. Hsu and Grodal (2015) describe how producers of light cigarettes intentionally diverted attention from nicotine levels to tar levels so that they could increase the nicotine levels. They suggest:

> This kind of widespread manipulation of shared categorical understandings takes place in a variety of markets where adherence to core category membership criteria imposes either considerable cost or difficulties in production, or decreased appeal along key competitive dimensions. We expect, for example, that categories such as "low fat" and "low sugar" became increasingly taken-for-granted shortcuts for the notion of "healthy" food, firms increasingly manipulated underlying

> product characteristics to make them more palatable (for example, adding additional sugar, salt or fat to products that claim membership in these categories and adjusting reported serving sizes to mask the increase). (Hsu and Grodal 2015: 37).

This category manipulation has been noted in studies of organic produce (Lee 2009), nontoxic beauty products (Guo et al. 2012), and energy saving appliances (Bonini and Oppenheim 2008).

Are the processes described by Hsu and Grodal (2015) unfolding for environmentally friendly and socially responsible products as well? Their work suggests that as the meaning of "green" becomes more taken-for-granted, consumers will scrutinize producers' green claims less and less. And indeed, most shoppers do not dedicate the time or energy necessary to check producers' claims, and for the most part, they cannot (TerraChoice 2009; Hoffman 2013; Lyon & Montgomery 2013). The production process is so opaque that it may be nearly impossible for consumers to research the wages and working conditions of the farmers who produce their fair trade coffee. As a result, it is difficult for consumers to know which companies are "greenwashing" and "goodwashing" and which are truly responsible. This allows producers to cut corners in production without consumers noticing. Hsu and Grodal (2015: 7) find that "consumers came to rely on the light cigarette label as a cognitive shortcut denoting health and safety." To an extent, the same is true of green products; people tend to associate the green or eco-friendly label with purity, health, environmental sustainability, and safety (Grunert, Hieke, and Wills 2014).

Although cases of greenwashing and goodwashing abound, consumers are not as accepting of these labeling tactics as they were of the light cigarette label. "As corporate green claims have mushroomed… consumers have grown increasingly skeptical about their authenticity" (Lyon and Montgomery 2015: 223). In the age of social media, companies face financial and reputational risks for making misleading claims. For example, the Polaris Institute, a social and environmental think tank, awarded Coca-Cola a "greenwashing award" for its unverifiable claims about water conservation (Lyon and Montgomery 2012). SC Johnson settled a lawsuit over the "Greenlist" logo, an image the company put on cleaning products that met its own internal standards for less-harmful ingredients. Individuals in California and Wisconsin sued SC Johnson for using the label

on Windex, arguing that the logo implied that the product was made of environmentally friendly ingredients and had been independently vetted by a third party, neither of which was true (Hoffman 2013). Socially and environmentally irresponsible firms are also held accountable on social media, where they are subject to "tweetjacking" by concerned consumers (Lyon and Montgomery 2013).

Furthermore, studies of consumer behavior indicate that when consumers suspect a firm's green claims are unsubstantiated, they perceive their products as lower quality and are less likely to purchase them (Chang 2011; Parguel, Benoît-Moreau, and Larceneau 2011; Pancer and McShane 2013). Chang (2011) finds that when a firm expends high levels of effort to persuade consumers of a green claim, the claims are rated as less believable and consumers form more negative evaluations than when firms expend low or no effort. Pancer and McShane (2013) demonstrate that when the packaging portrays a product as environmentally friendly without substantial evidence, consumers' perception of quality is diminished. As a result of what they call the "greenwashing discount," consumers are less likely to purchase these items (Pancer and McShane 2013). The social entrepreneurs in this study recognize the penalties for greenwashing: "We don't want to be in the goodwashing or greenwashing business. It's dangerous and it's not good for your brand."[152] The increased media attention to human rights abuses (Meiers 2014; Chandran 2016) and widespread greenwashing (Chang 2011; Parquel et al. 2011; Hoffman 2013; Lyon and Montgomery 2013; Pancer and McShane 2013) have led to skepticism and a general mistrust of corporations (Lam 2015; Edelman 2017).

As conscious consumers tire of greenwashing, they increasingly seek out "brands with a backbone" (Murray 2012: 44). In my interviews, eighteen subjects discussed their frustrations with greenwashing at length, and all eighteen suggested that they pursued B Corp certification to prevent accusations of greenwashing. None of the entrepreneurs in my sample suggested that benefit corporation status could distinguish their companies from greenwashers. Because B Corp certification relies on a seemingly objective, quantitative assessment, it legitimizes companies' claims and marks the boundary between social companies and all other firms. B Corp certification, with its rigorous

[152] Interview with Rob Holzer, July 14, 2016

assessment and minimum score requirement, stands in stark contrast to unregulated, unsubstantiated greenwashing claims. Consumers seem skeptical of companies' claims, as "corporate talk around sustainability is 'cheap' (i.e. largely unregulated), leading to an oversupply of supposedly sustainable goods" (Rasche 2014: 14). It has become so common for companies to tout their "responsibility" that the concept has lost its meaning. Terms like "mission-driven," "social enterprise," "CSR,"[153] and "triple bottom line" have no clear definitions.

> This whole space of CSR and social enterprise is more nebulous. When you're a B Corp, it's more concrete. Entrepreneurs get a clearer identity in the marketplace as opposed to these wishy-washy terms that mean different things to different people.[154]

Unlike "green" or "responsible," the meaning of B Corp is concrete; it applies only to companies that conform to a specific set of standards. In their search for legitimacy and a clear identity, entrepreneurs draw boundaries between social companies and conventional ones, between B Corps and everyone else.

Gehmen and Grimes (2017) argue that while categories allow organizations to fit in with other members, they also offer a means for distinctiveness or standing out from nonmembers. Janelle Isaacson of Living Room Realty described B Corp certification as a way of "distinguishing ourselves in a market where there's so much greenwashing, so many pretenders."[155] Certification is appealing to entrepreneurs because it is more than marketing, more than a catchy tagline; it seems objective and verified. Marc Vettori of the shoe company Dansko outlined his reasoning for B Corp certification:

> At that time [when we were considering certification], there was tons of greenwashing going on everywhere. Oil companies had green commercials. Coca Cola talked about CSR. The first thing that made people excited about being a B Corp was that it means that you're really doing the things you're saying you're doing. It's a third party saying that.[156]

Certification signals virtue in a market saturated with ethical claims. Because B Corp certification is granted by B Lab, a third-party nonprofit organization, it seems more

[153] Corporate social responsibility
[154] Interview with James Woulfe, October 12, 2016
[155] Interview with Jenelle Isaacson, October 16, 2016
[156] Interview with Marc Vettori, September 6, 2016

legitimate than producers' own claims, especially at a time when oil and soda companies market themselves as green. And the assessment ensures that companies are truly acting on their sustainability missions.

And although incorporating as a benefit corporation draws a *legal* boundary between social companies and conventional ones, none of the respondents suggested that benefit corporation status could convince skeptical consumers or ward off accusations of greenwashing. Both B Corp and benefit corporation serve as new identities for social companies, but only B Corps have been rigorously assessed and certified by a third party. Through this assessment, B Corp's practices are verified and legitimized in a way that benefit corporations are not.

B Corp certification is a reactive, not proactive, advertizing tool

Entrepreneurs may express concerns over greenwashing, but that does not stop them from marketing their social missions. For most of the entrepreneurs in my sample, sustainability and responsibility are critical to their identity, their brand, and their strategy. They tell their origin stories loudly and often, and post Instagram and Facebook videos about their responsible and sustainable practices. But B Corp certification is different; it seems to be more of a reactive tool than a proactive marketing strategy. Social companies put the B Corp logo on their websites and their product packaging, but there is no marketing around it – no videos and no social media posts. Social companies tend to advertise their sustainability, but not their B Corp status.

While B Corp certification helps entrepreneurs ward off accusations of greenwashing and *react* to stakeholder concerns over category spanning, few subjects felt they could leverage their certification as a proactive advertising tool. Entrepreneurs vaguely alluded to B Corp certification "aligning with our brand and identity" or "enhancing our brand," and most used the logo on their packaging or website. Ultimately, though, "it's not like B Corp logo is the driving force behind shoppers' decisions."[157] Shawn Berry from Lift Economy argued that:

> I don't think we are at the place where consumers are looking for B Corps or thinking 'I'm not going to buy that, because they're not a B Corp.' I

[157] Interview with anonymous respondent, December 4, 2016

> think it's positive if they're aware of it or they look at the back of a label and see the B, but I don't think it's adding much or even on par with the organic label.[158]

Consumers do not actively seek out certified companies, but certification does help validate companies' existing social marketing. Paul Millman from Chroma told me:

> So for me it really was a marketing vehicle and we took the questions seriously and answered the questions with data that was very, very real, but ultimately we became certified because we needed to respond to customers who were asking about our social and environmental impact.[159]

Millman's conception of "marketing" here is a reactive rather than proactive strategy. Chroma only became a B Corp *after* customers began asking about their mission. Rather than becoming a B Corp and proactively promoting their certification, Chroma became a B Corp in an attempt to respond to customers' questions.

Nine subjects stated that they *could* use B Corp certification in their marketing but chose not to. For them, certification played a different role altogether.

> In other organizations, I can see sitting in the boardroom saying "hey mister marketing, how can we use this for our advantage to position our company?" That's not even a discussion here. [B Corp certification is] more about this seems like the right thing to do. It seems like a way to create scorecard for the things we believe in and to determine how we are doing in general and also in comparison with other organizations.[160]

Despite subjects' insistence that certification keeps them focused on their mission, helps customers understand their story, and verifies their social claims, few used certification to market their product. Ultimately B Corp creates a sense of identity and a bounded community of likeminded entrepreneurs, but it is not a selling point.

Only six subjects (13 percent of B Corps) reported that B Corp certification brought in new customers, but no subjects made the same claim about becoming a benefit corporation. Of these B Corps, five are service providers and one is a product producer, but *all* sell business to business rather than directly to consumers. Shawn Berry of Lift Economy described it this way: "It's like, 'I'm a certified B Corp consultant, I'd be happy to work with your B Corp.' So they already get it and we're on

[158] Interview with Shawn Berry, September 5, 2016
[159] Interview with Paul Millman, August 3, 2016
[160] Interview with Marc Vettori, September 6, 2016

the same page mission-wise."[161] This suggests that it is not customers who value the B Corp logo, but other likeminded businesses. Shoppers may not seek out B Corp products in a grocery or department store, but companies looking for a lawyer or accountant will reach out to fellow B Corps. In this way, B Corp certification is valuable more for its network than for its marketing.

The B Hive Network connects social entrepreneurs

B Lab facilitates an expansive network of like-minded companies through a global online platform, local chapters and meet-ups, and an annual B Corp retreat. These benefits are available primarily to B Corps and not to benefit corporations. While benefit corporations may plan their own meet-ups and networking groups, B Lab does not sponsor any events specifically for benefit corporations. Within my sample, 16 subjects listed the network as an advantage of becoming a B Corp, but only one mentioned networking with other benefit corporations. B Lab's largest networking tool, called the B Hive, was created specifically for certified B Corps to allow executives and employees to connect and share best practices. This tool is practically useful for entrepreneurs who sell goods or services business-to-business, who use the network to search for potential clients. For example, Give Something Back Office Supplies sells office furniture, promotional materials, paper supplies, and tech tools to B Corps across the country. But it is just as useful for direct-to-consumer companies looking for suppliers and service providers, as B Corps offer exclusive discounts on their products and services to fellow B Corps. Jacob Malthouse, cofounder of the tech company Big Room, described it this way:

> If we're going to buy office supplies or if we're going to cater an event, we buy it from a B Corp. It's our first call. If we are looking for something, then we look on the B Corp site first to see if there's anybody there. It's still not a critical mass to say we only buy from B Corps but we always try. Also, we expect it's going to be a good place to find humans. We look for contractors and service providers on the B Hive, because it's going to result in a better workplace.[162]

[161] Interview with Shawn Berry, September 5, 2016
[162] Interview with Jacob Malthouse, July 25, 2016

The B Hive provides a database of product and service providers with similar values. It means that, as one anonymous subject put it, "when we hire a B Corp marketing firm, we don't have to start at square one and teach them what we're about. They already get it."[163] This bounded in-group is a result of identity and category formation. They "already get it," because social entrepreneurs assume that other B Corps share the same value system.

The network is beneficial in other ways too. Although B Lab sponsors formal networking events, most entrepreneurs cited their informal interactions as the most impactful.

> It's mainly just calling each other up. We do get together every year formally, but we also have the internal website called the B Hive. We can put out questions and hold hands with other companies throughout this process. It's a really collaborative environment.[164]

This allows social entrepreneurs to learn from one another and trade best practices in an informal, personal way. For example, Kristin Carlson of Green Mountain Energy told me that when she wanted to work on customer relations, she "got on the phone and had a meeting with Patagonia's CEO. We wouldn't have gotten that meeting if we weren't a B Corp."[165] Because B Corp constitutes a strong organizational identity, it also fosters a sense of in-group loyalty, creates mutual respect, and encourages the exchange of ideas. This bounded network, in which entrepreneurs buy and sell from each other and reach out to one another for advice, is evidence of a new organizational category, one with a clear dividing line between insiders and outsiders.

The network also holds entrepreneurs accountable, raising the bar in terms of their competition. Much of the value of the B Lab network is just in "being connected to all these other companies. We don't compare ourselves to our competitors. We compare ourselves to the best companies in the world."[166] Jacob Malthouse of Big Room was skeptical of the network at first, afraid that it

[163] Interview with anonymous respondent, December 4, 2016
[164] Interview with Katie Wallace, June 14, 2016
[165] Interview with Kristin Carlson, June 14, 2016
[166] Interview with anonymous respondent, June 30, 2016

would be "a big group of people patting themselves on the back," but he told me that his fellow entrepreneurs surprised him.

> What has been unexpected and welcome is now that there are lots of B Corps in Canada and a really cool professional network emerging around it, which really feels like our people, so that's been neat to see happen. I think those peer groups are actually pretty interesting in terms of potentially preventing mission drift. Once you become part of those groups, there is a business advantage to being a part of them and a – not a peer pressure – but you want to be a part of that group and that means you have to stay true to what you believe in. [167]

This network serves as a support system for social companies, new and old, and provides a sense of community and belonging. Robb Schurr from Walden Hyde described feeling "so alone in our niche," because there were few brand agencies that prioritized sustainability. B Corp changed that, though. "So we kind of felt alone; we were looking for a community of likeminded people and we definitely found it."[168] This network helps to reaffirm B Corps' shared identity. Greenwood, Suddaby, and Hinings (2002) argue that regulatory agencies and professional associations enable the formation and diffusion of shared meanings and understandings among organizations within a field. Professional associations "allow organizations within the same community to interact, and it is from these interactions that understandings of reasonable conduct and the behavioral dues of membership emerge" (Greenwood et al. 2002: 61). Kristin Carlson of Green Mountain Power described how the B Corp community fosters healthy competition, a drive for continual improvement, through the perpetuation of shared norms and values:

> We didn't expect the benefits of the connections. We didn't expect people to reach out to us and welcome us into the B Corp community. You look at your neighbor's yard and it's a little greener and you think "oh I want to be a little better" and we can learn from them.[169]

The mutual respect among B Corps encourages emulation and collective progress.

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[167] Interview with Jacob Malthouse, July 25, 2016
[168] Interview with Rob Schurr, July 25, 2016
[169] Interview with Kristin Carlson, June 14, 2016

And "even though the network is filled with competitors – at least ostensibly," according to Bethany Tran of Root Collective, it is a "really supportive environment,"[170] even among entrepreneurs in similar industries. For example, Root Collective partnered with Elegantees, another ethical clothing company, to create a special edition t-shirt made by survivors of sex trafficking in Nepal. The shirt was sold on both companies' websites and profits benefited anti-trafficking efforts. Similarly, in 2015, Ben & Jerry's collaborated with New Belgium Brewery to create a Salted Caramel Brownie Brown Ale and coordinating ice cream. The proceeds of both the beer and the ice cream went to Protect our Winters, a nonprofit dedicated to raising climate change awareness. The collaboration was so successful that the companies teamed up again in 2016 to release their Chocolate Chip Cookie Dough Ale, benefitting the same charity. In press releases about the partnership, the companies highlighted their common B Corp status (Ben and Jerry's 2016). B Lab connects likeminded social entrepreneurs, opening doors for partnerships and collaborations among companies operating in similar markets.

B Corp attracts like-minded employees

Certification not only connects entrepreneurs with likeminded peers; it also helps companies appeal to likeminded job seekers. The management literature suggests that corporate social responsibility (CSR) efforts like donating to charity, company-wide volunteering days, and sustainability programs, appeal to employees (Greening and Turbin 2000; Kotler and Lee 2005; Bhattacharya, Sen, and Korschun 2008). Social entrepreneurs argue that B Corp certification signals a company's commitment to employee wellbeing and as a result, attracts potential employees.

> You want to attract top talent and retain top talent, so that's a good reason to be a certified B Corp. Otherwise, your hiring pool can look at you as a company and say 'you look like shit for workers, why would you work there?'[171]

To become a B Corp, companies must pass an assessment that examines their human resources practices. During the assessment, companies get a higher score for giving employees paid time off for volunteering, allowing flexible schedules, adopting work-

[170] Interview with Bethany Tran, June 7, 2016
[171] Interview with Shawn Berry, September 5, 2016

from-home policies, providing an on-site bike room, and offering generous parental leave. A certified B Corp has been vetted by B Lab and proven to be good for workers. But B Corps offer more to potential employees than generous benefits. Yale, Columbia, and NYU all forgive the student loans of MBA graduates who go on to work for B Corps.

B Corps and benefit corporations are also attractive to potential employees because of their other responsibility and sustainability efforts. CSR has been shown to strengthen brand positioning, improve corporate image, attract and retain talent, and appeal to investors (Kotler and Lee 2005; Bhattacharya et al. 2008). The more extensive a company's CSR efforts, the greater the likelihood that job seekers will pursue them, interview, and accept an offer with them (Greening and Turban 2000). CSR also increases existing employees' commitment to a firm (Turker 2009). By promoting responsibility and sustainability and by encouraging employee participation in CSR efforts, companies deepen relationships with both recruits and existing employees. Furthermore, B Lab facilitates the recruitment by offering a free hiring platform called B Work, where companies can post jobs and track applicants. To be sure, some employees may select against B Corps, but those who select in will be those who are dedicated to the company's values. B Corp certification improves the quality of the worker/company match in the same way that it recruits appropriate investors, as I discussed in Chapter 4.

There are deeper reasons why B Corp certification and benefit corporation status might help companies attract and retain quality talent. First, social identity theory suggests that an individual's self concept is shaped by membership in social organizations, including one's employer. Employees' adopt some aspects of their employers' image (Ashforth and Mael 1989; Dutton, Dukerich, and Harquail 1994). For example, when Port Authority took measures to address the problem of homeless people sleeping in their bathrooms, employees' self-image was affected by those actions. Essentially, employees see themselves as extensions of the company for which they work, and they feel poorly about themselves when their company's actions seem immoral or unfair (Dutton and Dukerich 1991). Conversely, when companies engage in prosocial behavior, employees benefit from an enhanced self-concept. Both B Corp certification and benefit corporation status send a signal about organizational values and

practices. They serve as shorthand for an organization's social commitments and goals.

Even though, like B Corp certification, benefit corporation status creates a new identity and signals virtue in a crowded market, only B Corps seem to enjoy improvements in recruiting and retention. Out of the thirteen subjects who discussed recruiting and employee retention, none operate benefit corporations. Either talented employees value B Corp certification more than benefit corporation status or they are simply more familiar with the B Corp logo than with benefit corporation statutes. After all, B Lab created its certification system years before drafting sample benefit corporation legislation. And even now, only 32 states have passed benefit corporation statutes. Ultimately, certification seems to serve as a symbol of an organization's social commitments in a way that makes B Corps stand out to employees.

This is apparent throughout my interviews with social entrepreneurs. For Future State, a consulting and staffing company, "recruiting was the biggest change" after becoming a B Corp. "We did not have an easy time recruiting top talent and certainly not young talent. We were almost exclusively 40-something women with children" but now Future State has so many prospects that they "coordinate weekly WebEx's to communicate who we are and what we're doing." Their last one had twenty people. "Every other week we have a speed dating-like system for people to meet with our employees. I'd say four out of five people say they're interested in working for us because we're a B Corp."[172] Green Canopy has attracted employees "that came to us directly because we are a B Corp. They found us on the B Corp website."[173] Mike Humphries from Waldron of HR argued that in growing markets like Seattle, "workforce attraction is everything. Competition for workers is fierce. People are constantly moving around and getting recruited away." But Millennials "feel strongly about social impact" [174] and a company's social impact can be a deciding factor for potential recruits.

Even entrepreneurs who were not hiring noticed the change. Steve Scheuth at First Affirmative told me that although they "don't have any openings for some of these incredibly smart young people who want to work" there, "it is gratifying to get those

[172] Interview with Shannon Adkins, June 14, 2016
[173] Interview with Krystal Meiners, June 17, 2016
[174] Interview with Mike Humphries, June 29, 2016

calls and to meet some of these people and it's really, really amazing, especially if you contrast it with the situation 10 years ago."[175] Even though the boost in interest did not benefit Scheuth professionally, he saw it as evidence of a larger cultural shift, a growing interest in sustainable business.

Does it pay to be a B?

Despite the reputational aspects of B Corp and benefit corporation status, the network, and the recruiting benefits, the question still remains: do these organizational forms create any financial benefits? Entrepreneurs admitted that they rarely use their B Corp certification in advertising materials,[176] and they do not receive any tax benefits from benefit corporation status. In general, evidence suggests that socially responsible companies are not more profitable than their conventional counterparts, but they are not less so either (Vogel 2005). This does not mean that there is no value in responsibility. Instead, the relationship between virtue and profit is more nuanced. Waddock and Graves (1997) found a positive relationship between corporate social performance (CSP) and financial performance, and the relationship appears to be reciprocal. Past financial performance is positively associated with CSP, and CSP is positively associated with future financial performance. This suggests that firms with more available resources will invest them in improvements to their social performance. In a review of the scholarly literature on corporate social responsibility, Vogel (2005) concludes that sustainability and responsibility seem to pay off when they are core features of a brand's identity, when they differentiate a company from its competition. And this is true of social companies; their mission is central to their organizational identity, and social entrepreneurs work hard to differentiate themselves from their peers.

But no subjects reported an increase in sales as a result of certification. Considering the amount of time and energy required to become certified, we would expect B Corps to be practically useful, to create clear financial benefit. Instead, certification allows entrepreneurs to draw a boundary between themselves and

[175] Interview with Steve Scheuth, August 1, 2016

[176] When asked, only 9 respondents said they could use certification or benefit corporation status as a marketing tool

conventional companies and to foster a community of likeminded people. B Corp certification is valuable to entrepreneurs primarily because it "aligns with our mission" or because "we were already doing it all anyway, so we might as well get it verified."[177] Although some subjects mentioned tangible rewards – better employees, more exposure – most agreed with Matt Sabelman from Adventure Medics, who told me "I guess there is no real benefit, if you're talking about financial rewards. It was something I did for myself."[178] This idea – that certification is something entrepreneurs do because it "aligns" with their values or because it is somehow inherently "the right thing to do'[179] – gets at the underlying role of B Lab: the creation of a bounded group built around a specific value system. B Lab perpetuates the notion that social and financial goals are compatible, that business should be "a force for good."[180] Through certification, B Lab has built a distinct in-group filled with likeminded companies supporting each other in the pursuit of the triple bottom line. This group comes with a clear organizational identity and a sense of legitimacy that solve many of the problems associated with hybridity.

B Corp certification helps social companies in a number of ways. First it engenders trust through commitment devices. It signals to customers and stakeholders that companies are committed to their social and environmental goals. This motivational commitment device makes it costly for organizations to abandon their original missions. Second, certification offers validation and legitimacy to companies' social and environmental claims. It also provides a common identity for organizations by laying out the guidelines for membership. It draws boundaries around B Corps, operating as a reactive marketing tool to distinguish them from greenwashers. B Lab fosters a supportive network among social companies, one that facilitates mutual respect, idea sharing, and a sense of belonging. Finally, B Corps are attractive to employees, who want to work for a company that is socially responsible. Benefit corporation status offers fewer advantages. It acts as an imperative commitment device and creates a new

[177] Interview with Jeff Mackler, July 12, 2016
[178] Interview with Matt Sabelman, October 11, 2016
[179] Interview with Lara Pearson, July 26, 2016
[180] B Lab's trademarked slogan

industry category. *Table 5* summarizes the findings from this chapter, and *Figure 4* displays the quantitative findings derived from my interviews.

Table 5: Benefits of B Lab			
Benefit	*Does B Corp help?*	*Does benefit corporation help?*	*Quote*
Commitment device	It serves as a motivational commitment device, conveying legitimacy on certified organizations and threatening reputational damage if a company fails to recertify.	It serves as an imperative credible commitment, by writing a company's mission into its founding documents. Benefit corporations are then susceptible to lawsuits for failing to create positive social value.	"Becoming a B Corp helped kind of put a stake in the ground around the fact that these aren't just fleeting ideas. These are important to us and we are going to stick with them."[181] "When Pennsylvania became the 12th state to create a category of benefit corporation…that meant that Solutions for Progress would be locked into the mission forever.[182]
Validation and legitimacy	Because B Corps must pass a rigorous third party social and environmental assessment, the B Corp seal of approval validates company's efforts and substantiates their social and environmental performance.	Because benefit corporation is a legal form, one without a consistent definition or an enforced set of standards, it does not seem to provide the same level of legitimacy as B Corp certification.	"The B Corp structure gave us an amazing way to tell that story and because they provide an array of third party reviews. It shows that you're doing what you say you're doing, and having them validate that we are who we say we are, that was powerful."[183]

[181] Interview with Amy Hall, June 6, 2016
[182] Interview with Christopher Jacobs, September 5, 2016
[183] Interview with David Young, June 16, 2016

Benefit	*Does B Corp help?*	*Does benefit corporation help?*	*Quote*
New category and identity	B Corp certification provides a coherent organizational identity by providing a common set of standards for certified companies. The process of assessment and certification draws a bright line between B Corps and everyone else, creating an in-group with common features and common goals.	Benefit corporation serves as a new industry category, one without a distinct identity, but with clear legal boundaries.	"We are constantly asked the question 'are you a for-profit or a nonprofit?…and B Corp certification provides the answer to that. It's not an either-or. It's a 'yes and.'"[184] "It [certification] was what we were already doing, they just gave us a shared identity with other businesses that were doing it."[185]
Counteract greenwashing	Because B Corp certification is granted by B Lab, a third-party nonprofit organization, it seems more legitimate than producers' own claims. It therefore sets social companies apart from other companies claiming to be "green" or "responsible."	None of the entrepreneurs in my sample suggested that benefit corporation status could distinguish their companies from greenwashers.	"At that time [when we were considering certification], there was tons of greenwashing going on everywhere. Oil companies had green commercials. Coca Cola talked about CSR. The first thing that made people excited about being a B Corp was that it means that you're really doing the things you're saying you're doing. It's a third party saying that."[186]

[184] Interview with Jacob Malthouse, July 25, 2016
[185] Interview with Katie Wallace, June 14, 2016
[186] Interview with Marc Vettori, September 6, 2016

Benefit	*Does B Corp help?*	*Does benefit corporation help?*	*Quote*
Marketing	Certification seems to be more of a reactive move than a proactive marketing strategy. Social companies tend to advertise their sustainability, but not their B Corp status.	No subjects suggested that benefit corporation status helped with marketing.	"I don't think we are at the place where consumers are looking for B Corps or thinking 'I'm not going to buy that, because they're not a B Corp.'"[187]
Networking	B Lab facilitates an expansive network for certified B Corps through a global online platform, local chapters and meet-ups, and an annual B Corp retreat.	There seems to be no formal or informal network for benefit corporations.	"It's mainly just calling each other up. We do get together every year formally, but we also have the internal website called the B Hive. We can put out questions and hold hands with other companies throughout this process. It's a really collaborative environment."[188]
Recruiting	Certification signals a company's commitment to employees and enhances existing employees' self-concepts by aligning them with a responsible organization.	No subjects suggested that benefit corporation status helped with recruiting or retention.	"You want to attract top talent and retain top talent, so that's a good reason to be a certified B Corp. Otherwise, your hiring pool can look at you as a company and say 'you look like shit for workers, why would you work there?'"[189]

[187] Interview with Shawn Berry, September 5, 2016
[188] Interview with Katie Wallace, June 14, 2016
[189] Interview with Shawn Berry, September 5, 2016

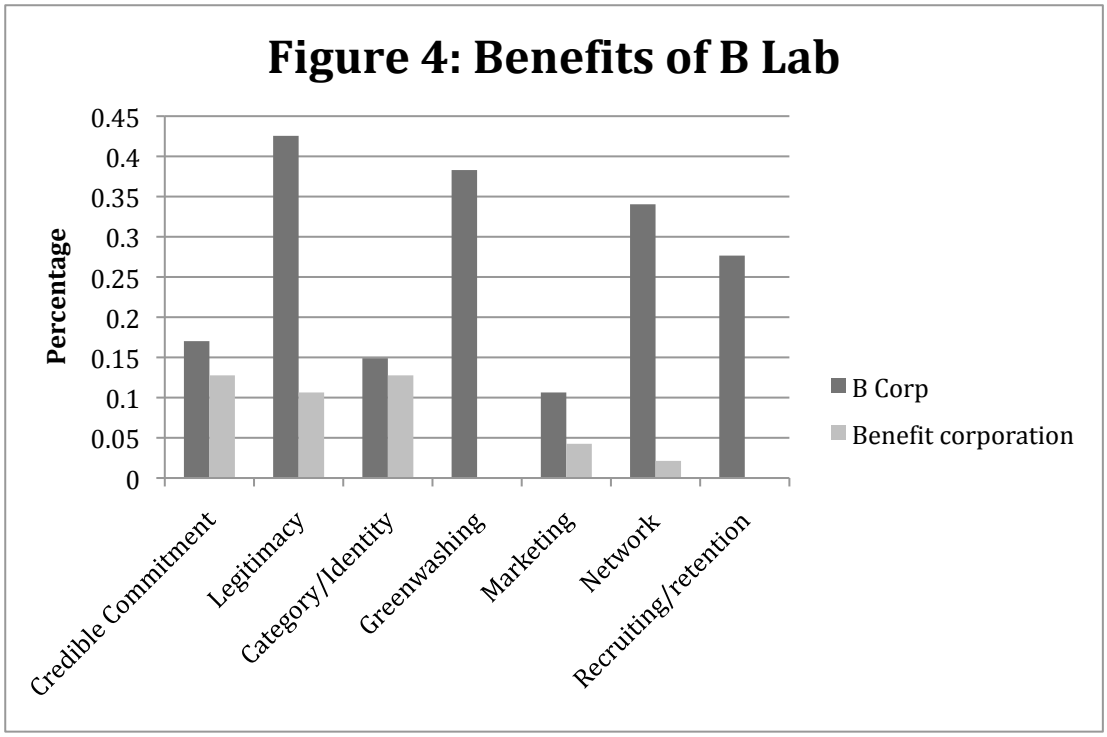


Figure 4: Benefits of B Lab

Figure 4 displays the percentage of B Corp founders and benefit corporation founders who discuss each type of advantage. In my interviews, I never asked directly about these specific benefits; rather, I asked entrepreneurs: "How has your company changed since incorporation/certification?" and "In what ways has incorporation/certification helped your organization?"[190] As we can see, B Corp certification seems more valuable than benefit corporation status, and it is most widely valued for its ability to confer a sense of legitimacy, combat greenwashing, facilitate a network, and aid in recruiting and retention.

There are several reasons why benefit corporation status might offer fewer advantages to companies than B Corp certification does. First, benefit corporations are newer, so they may not be as easily recognizable to customers and other stakeholders as B Corp certification. Second, the meaning of benefit corporation is less clear, in part

[190] In three of my interviews, I phrased the question: "In what ways has B Lab helped your organization?" All three of these companies were B Corps and not benefit corporations. The difference in phrasing did not seem to affect subjects' responses, as their answers were consistent with those of other B Corp founders.

because legislation varies from state to state. But even if legislation was consistent, without a designated third party auditor or guidelines for practice, benefit corporation status is nothing more than a legal designation, akin to C Corp or LLC. Whether a company is a C Corp or LLC makes little difference to customers, but whether it is Fair Trade or Rainforest Alliance certified communicates something about the company's practices. Seeing the B Corp logo allows customers to assume that the organization is socially responsible and environmentally friendly. Conversely, knowing that a company is a benefit corporation tells us only that a company is not required to maximize shareholder value, which – as I demonstrated in Chapter 3 – is not a legal requirement anyway.

In the next chapter, I focus solely on B Corps. B Corp resolves the problems associated with hybridity, but it shapes companies in other ways as well. In Chapter 6, I will examine the unintended consequences of B Corp certification. I will explore the process of B Impact Assessment and demonstrate the ways that measuring a company's practices can also alter them.

CHAPTER 6
Mission Expansion: How Certification Shapes Organizational Practices

As outlined in the previous chapter, B Corp certification is not intended to be a mechanism for organizational change. Rather, it provides legitimacy, verification, and a supportive network. Entrepreneurs, even those who have not pursued B Corp certification, asserted that "the certifications don't really reinforce responsible practices." Instead, "you adopt those practices and therefore you qualify for a certification. They're just a label for what you're already doing."[191] But certification has unintended consequences, and the most striking arises from the measurement itself, the B Impact Assessment. The B Impact Assessment, the tool used to determine whether a company qualifies for B Corp certification, functions as an "educational tool," "a roadmap," and "a guide" [192] for entrepreneurs. It shapes corporate behavior by illuminating some practices and obscuring others.

Take for example Dansko, a 100 percent employee owned shoe company in Pennsylvania founded by married couple Mary Cabot and Peter Kjellerup in 1990. From early on, communal values, sustainability, and a commitment to employees have been central to Dansko's mission. Dansko's president, Jim Fox, went to college with B Lab founders Jay Coen Gilbert and Bart Houlahan. When Gilbert and Houlahan laid out their plans for B Corp certification, Fox and Dansko's founders felt that it was the right fit. Dansko became one of the first certified B Corps in 2007, but the first time through the assessment, the company barely met the minimum B Impact score of 80 points. The company already offered employees time off for volunteering and gave 100 percent of profits from their West Grove store to charity. In fact, Dansko excelled in the governance and employees sections of the assessment, but there was room for improvement in the environment and community sections. Dansko's executives flagged areas of the assessment where the company could make the greatest gains, focusing on the environment section. Today, their central office and warehouse are LEED-certified, featuring a vegetated roof, rain water collection system, solar panels, recycled flooring, and an on-site gym (Mayer 2008). Dansko's score went from an 80 in 2007 to a 109 in

[191] Interview with Virginia Joplin, June 28, 2016
[192] Interview with Keith Maki, September 7, 2016

2012, the year they completed construction of their new office and warehouse. Because of the B Impact Assessment, which highlighted opportunities for improvement, Dansko became a more sustainable company.[193]

In this chapter, I report the ways companies change after becoming certified B Corps. Do companies alter their practices to conform to the B Impact Assessment's measures? If so, what might be driving this behavior?[194]

The B Impact Assessment is subjective

B Corp Certification has unintended consequences, and the most striking arises from the measurement itself, the B Impact Assessment. The assessment is a series of questions covering five areas: governance, workers, community, customers, and the environment. No company can become certified unless it scores a minimum of 80 points on its Impact Assessment. B Lab cofounder Jay Coen Gilbert told me that 80 points was chosen as the cutoff, because "to achieve 80 points, a company must show excellence in at least one area – like the environment – and proficiency in all the others."[195] And this comprehensiveness is important for guarding against the sin of the hidden tradeoff, according to advocates of B Corp certification. The FAQ on the B Impact Assessment website reads:

> History repeatedly teaches the business world that there are often unintended, negative consequences of focusing on a single objective. This principle is just as relevant amongst social enterprises. It is not uncommon to observe businesses that bank to the poor but pay below market wages to their employees or install solar panels that were made using toxic metals; often the positive impact created on one constituent comes at the expense of another.[196]

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[193] Interview with Marc Vettori, September 6, 2016

[194] In this chapter, I focus solely on B Corp certification, because 100 percent of certified B Corps have completed the B Impact Assessment in the past 2 years. While benefit corporations are legally required to complete an annual report, few companies comply, and even those do not all use the B Impact Assessment. In fact, fewer than ten percent of companies actually complete and report a third party assessment.

[195] Interview with Jay Coen Gilbert, August 26, 2016

[196] http://bimpactassessment.net/how-it-works/frequently-asked-questions/the-standards

The purpose of the B Impact Assessment is to cast a wide net, to measure a variety of practices and certify companies that are generally socially and environmentally responsible, not just excellent in one narrow domain.

The B Impact Assessment was built on this idea, that businesses needed a certification system that assessed the entire company, not just one set of practices, like farming techniques (USDA Organic), workers wages (Fair Trade), or a building's sustainability (LEED). To build such an assessment, the founders relied on a diverse set of resources. In 2006, Houlahan, Gilbert, and Kassoy created an Excel spreadsheet that contained the first version of what would become the B Impact Assessment. The initial assessment was modeled off a number of existing tools: best practice guides from practitioners, existing CSR measures, and other certifications - like Fair Trade, USDA Organic, and 1% for the planet. Specifically, the founders drew on *Values-Driven Business*, a book by Ben & Jerry's cofounder Ben Cohen and Social Venture Network chair Mal Warwick. They extracted Ben & Jerry's best practices and codified them. They also utilized WISER – World Index for Social and Environmental Responsibility, a sustainability knowledge center created by Natural Capital Institute. The Natural Capital Institute researches principles and practices related to social justice and environmental restoration. WISER is a user-generated online community where NGOs, funders, social entrepreneurs, academics, and activists share best practices and industry specific information about social and environmental issues. It serves as a comprehensive database of companies with a track record of responsible practices. The founders of B Lab also drew from the Global Reporting Initiatives (GRI), an international independent standards organization founded in 1997 by two American environmental non-profits, Tellus and Ceres. The GRI standardizes and quantifies the environmental, social, and governance costs and benefits of companies' practices. GRI's primary focus has been to convince governments and stock exchanges to require more organizations to produce sustainability reports. The GRI is the most widely used sustainability standards, with 92 percent of the world's largest 250 corporations reporting on their sustainability performance.[197]

[197] https://www.globalreporting.org/Information/about-gri/Pages/default.aspx

The GRI, WISER, and the other tools used as a model for the B Impact Assessment provide standards and guidelines for how to report impact metrics, but they do not provide a judgment or score of a company's level or impact, nor do they audit responses or certify organizations. For example, the GRI defines how best to report a company's carbon emissions so that carbon reports can be compared from company to company, but it doesn't provide verification that the company reported emissions correctly, nor does it offer suggestions for how to reduce emissions. To create the first version of the assessment, Houlahan, Gilbert, and Kassoy compiled best practices from each of these resources, along with the guidelines for Fair Trade, USDA Organic, and 1% for the Planet, into a single Excel spreadsheet. They consolidated these best practices and assigned numerical values – or points – to each. Initially, only 80 companies were certified, and B Lab solicited their feedback on the B Impact standards.[198]

The unique histories and perspectives of B Lab's founders shaped the B Impact Assessment and B Corp requirements. For example, as a private equity investor, Andrew Kassoy saw that investors were interested in socially responsible investing, but were discouraged by screening systems that were inherently negative. Typical socially responsible investing (SRI) criteria describe only what is off-limits, like tobacco or defense companies. Kassoy's perspective prompted the creation of a positive assessment, one that rewards companies for good behaviors rather than punishing them for bad ones. Companies taking the B Impact Assessment cannot lose points for any of their answers; they can only gain them. Similarly, Bart Houlahan and Jay Coen Gilbert brought their own biases from their experience at AND1. The leadership at AND1 sold the company to American Sporting Goods because they felt they had an obligation to their shareholders to sell to the highest bidder.[199] Gilbet and Houlahan brought their vigilance and distrust of shareholders to B Lab, where they created a legal framework designed to support companies' social and environmental missions through a sale, to reject the absolute power of shareholders. B Corp certification requires companies to rewrite their governing documents, including a clause stating that the purpose of the company includes creating a

[198] Interiew with Jay Coen Gilbert, August 26, 2016
[199] Interview with Jay Coen Gilbert, August 26, 2016

material positive impact on society and the environment. The founding documents must also include the phrase:

> In discharging his or her duties, and in determining what is in the best interests of the Company, a Director shall not be required to regard any interest, or the interests of any particular group affected by such action, including the shareholders, as a dominant or controlling interest or factor.[200]

B Lab requires companies to rewrite their founding documents this way because of Gilbert and Houlahan's specific experience at AND1.

In 2007, B Lab created its independent Standards Advisory Council (SAC) to advise on the evolution of B Corp certification standards. The SAC is comprised of experts and industry leaders from impact investing, sustainable enterprise, government, and academia. Council members include Clara Barby, the head of an impact investing consultancy, Cathy Clark, Professor of Social Entrepreneurship at Duke, Debra Dunn, Director of the Skoll Foundation, a nonprofit that provides grants to social enterprises, Kelly McCarthy, the Senior Manager for the Impact Reporting and Investment Standards (IRIS), Watanan Petersik, Director of Lien Centre for Social Innovation in Singapore, and Rob Schneider, the Senior Alliance Manager for U.S. Agency for International Development. The SAC is an independent group, not a fiduciary body, that makes recommendations to the B Lab Board of Directors. These recommendations require a supermajority vote of the Board of Directors to overturn. B Lab also relies on ad hoc committees called Industry Working Groups, made up of industry leaders that advise the SAC on the development of industry specific addenda, like Higher Education, Health and Safety, Financial Services, and Green Building, among others. All recommendations from the working groups require a two-thirds majority vote from the SAC to overturn. This tiered system is designed to allow industry experts to shape the B Impact Assessment without too much resistance from those at the top.

B Lab is called a lab intentionally, because it constantly updates its standards based on best practices. A new version of the B Impact Assessment is released once every two years. The assessment questions are different for each industry, and B Lab is

[200] https://www.bcorporation.net/become-a-b-corp/how-to-become-a-b-corp/legal-roadmap/corporation-legal-roadmap

constantly adding new industry-specific criteria. In 2010, version 2.0 launched with the addition of real estate, design/build, and financial service industry subcategories. Version 3.0 launched in 2012 with the addition of the emerging markets assessment and a Spanish translation. In 2014, Version 4.0 added additional tools for global companies in developed markets, the impact business model section, and a financial services addendum for emerging markets. Version 5.0, released in 2016, created a new platform and featured a higher education addendum (B the Change 2017). Today, the assessment is tailored to a company's geography (developed versus emerging markets), sector (service, wholesale/retail, manufacturing, agriculture), and employee size (number of full-time equivalent employees on the company's payroll).

When problems or concerns inevitably arise, B Lab creates a Working Group to address them. For example, some of the staff at B Lab had concerns with certifying for-profit higher education institutions. The standard B Impact Assessment awards extra points to organizations for providing education and for serving disadvantaged stakeholders. According to B Lab founder Bart Houlahan:

> Our assessment tool, in some circumstances, particularly around product impact of a company, can at times be relatively blunt…When you look at an industry like for-profit education, there's a pretty big concern. They are almost exclusively serving these underrepresented groups, and there's real questions around the actual quality of the service that's being provided. And so that blunt tool just didn't really work. (Hamermesh et al. 2017: 336)

For-profit higher education institutes were scoring a lot of points, but it was unclear whether they were doing any good. To address these concerns, B Lab put a moratorium on certifying for-profit higher education institutes and began an 18-month process of developing an education addendum for the assessment. B Lab pulled together a Working Group, which included the president of a community college, the head of academic innovation at Capella University, a policy advisor to the US Department of Education, and an education researcher and professor, among others. They alpha and beta tested the resulting addendum with a public comment period before incorporating it into B Impact Assessment. The resulting higher education Impact Assessment includes measures of student outcomes, like graduate employment levels, the rate of student loan repayment, and the achievement of economic independence, with an emphasis on the outcomes of

traditionally underrepresented groups. It also measures and scores student services like counseling and advising, retention rates (by race), scholarships, criteria for program decisions, and net price.

This process is characteristic of B Lab's emphasis on continual improvement, transparency, and objectivity. The Impact Assessment is public and free for anyone to take. Furthermore, no companies are turned away automatically, regardless of industry or product category. For instance, a coal or tobacco company could – if it scored 80 points and adopted the legal standard – still become a certified B Corp. Theoretically, the Standards Advisory Council (SAC) could reject a company if it found the product destructive or if there were particularly objectionable practices, like slave labor, but these decisions are made democratically by the SAC, an independent body, and not by B Lab. To date, no qualifying companies have been denied B Corp certification by the SAC.

Today, the assessment has five sections – environment, workers, customers, community, governance – which make up an overall score. The environment section evaluates a company's environmental performance through its facilities and, where applicable, its supply chain and transportation/distribution channels. It also measures whether a company's products respond to an environmental issue (e.g. through the provision of renewable energy, waste reduction, land/wildlife conservation, etc.). The workers section assesses the company's relationship with its workforce. It includes questions about compensation, benefits, training, corporate culture, job flexibility, and health and safety practices. The customers section is a bit of a misnomer; it measures whether a company sells products or services with public benefit and whether those products or services are targeted toward an underserved population. In essence, it asks whether the company is solving a social or environmental problem through the distribution of its products or services. The community section surveys the company's impact on its community through supplier relations, diversity, and community service. The governance section evaluates a company's accountability and transparency. *Figure 5* displays sample questions from the B Impact Assessment.

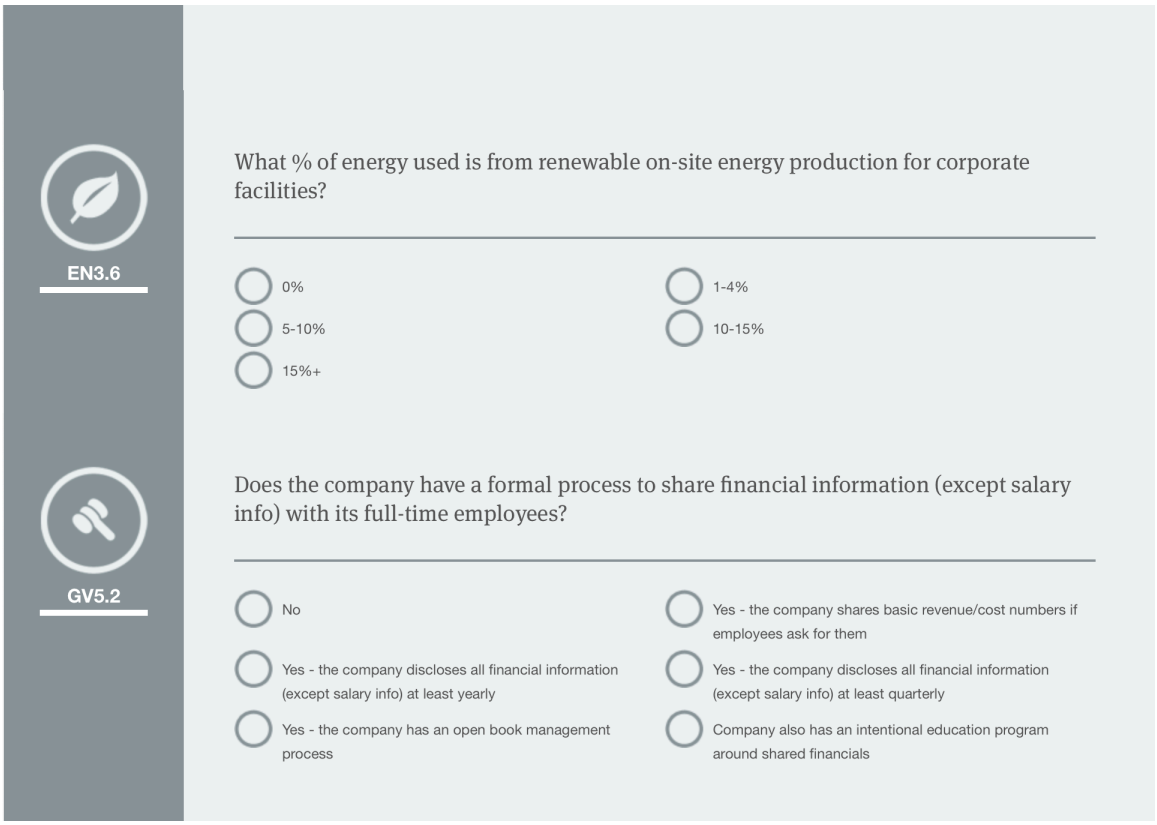
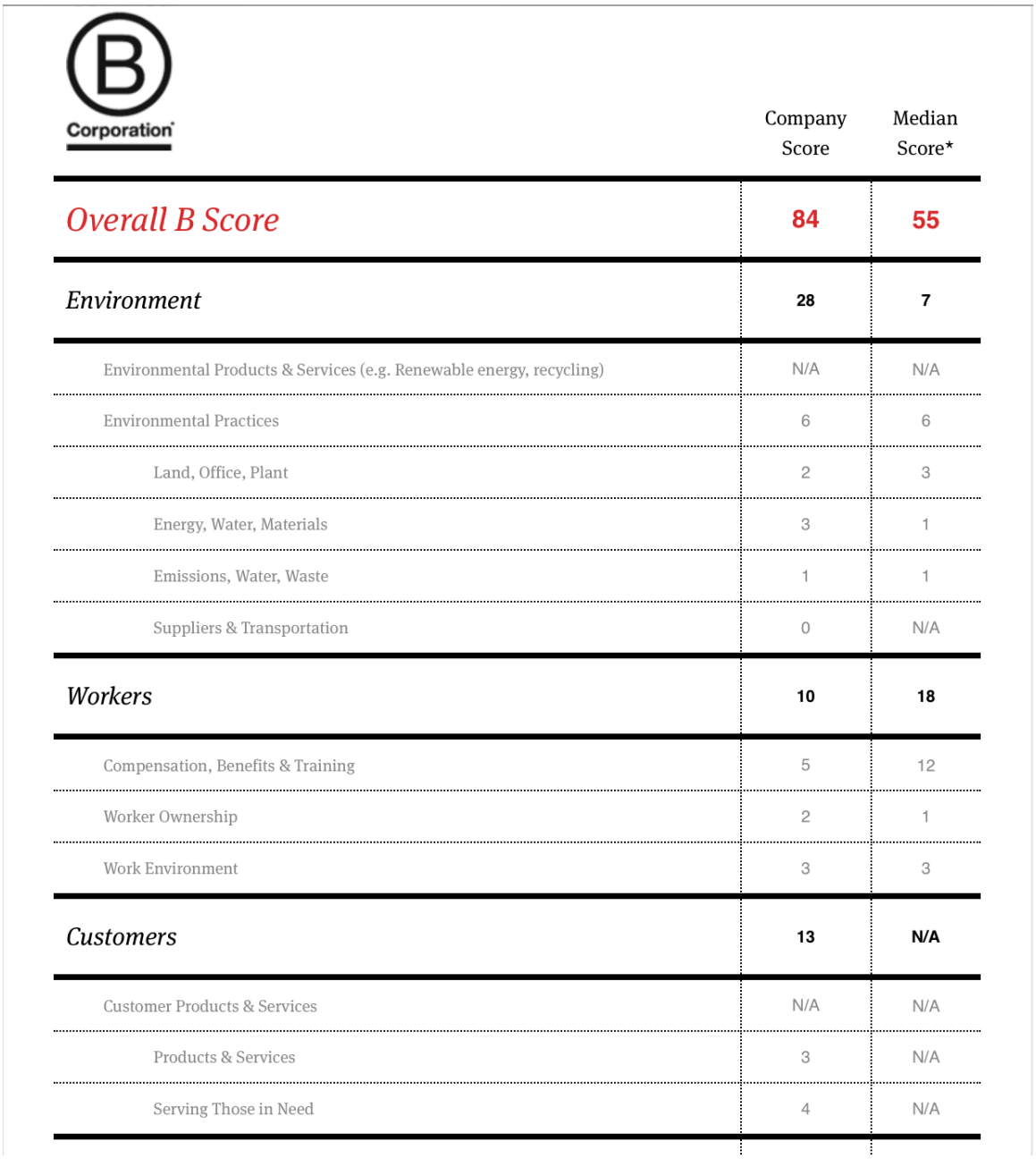


Figure 5: Sample Questions

After taking the B Impact Assessment, B Lab generates an Impact Report, summarizing the company's performance across all five sections of the assessment. The report does not provide specific information about a company's practices. Instead, it displays a company's score in a particular domain, like "Worker Ownership" or "Emissions, Water, Waste," alongside the average score for all companies taking the B Impact Assessment. The B Corp website hosts current and past Impact Reports for all certified companies, but few B Corps post the report on their own websites. Certified companies are not required to present their Impact Report or assessment score to any stakeholders. Rather, directors often use it as an internal guide for future social or environmental improvements. *Figure 6* displays a portion of the Impact Report for Clean the World.



	Company Score	Median Score*
Overall B Score	**84**	**55**
Environment	**28**	**7**
Environmental Products & Services (e.g. Renewable energy, recycling)	N/A	N/A
Environmental Practices	6	6
Land, Office, Plant	2	3
Energy, Water, Materials	3	1
Emissions, Water, Waste	1	1
Suppliers & Transportation	0	N/A
Workers	**10**	**18**
Compensation, Benefits & Training	5	12
Worker Ownership	2	1
Work Environment	3	3
Customers	**13**	**N/A**
Customer Products & Services	N/A	N/A
Products & Services	3	N/A
Serving Those in Need	4	N/A

Figure 6: Sample Portion of an Impact Report

Both the B Impact Assessment and the Impact Reports change every two years as a result of recommendations from the SAC and Working Groups. Because B Corps must also recertify every two years, the assessment will be different each time a company takes it. Jay Coen Gilbert told me that "a perfect company would score 200 points. Of course, there are no perfect companies."[201] But 200 points would look different with every

[201] Interview with Jay Coen Gilbert, August 26, 2016

version of the assessment, so the "perfect" company varies from year to year and from one industry to the next. This highlights the subjective nature of the B Impact Assessment, despite the founders' best attempts to democratize and standardize the process. The standards are constantly evolving to account for emerging fields, new practices, and changing attitudes about social responsibility. Although the assessment is subjective, enforcement is strict. B Lab holds companies accountable, ensuring that their assessment responses are accurate. B Lab audits a portion of every B Impact Assessment, and each year B Lab randomly audits the entire assessment for ten percent of certified companies. On top of that, B Lab also has a public complaint mechanism, which allows stakeholders to reach out to them with concerns about certified companies.

Assessment requires commensuration

The B Impact Assessment is a powerful tool for quantifying a company's social impact, recording its sustainability efforts, benchmarking its progress, and setting goals for the future. It helps managers, executives, and stakeholders gauge their standing relative their peers and prioritize their social and environmental goals. But to do so, the Impact Assessment renders qualitatively different phenomenon – like in-office composting systems, diversity training, fair wages, and local sourcing – quantitatively comparable by attaching a score to certain practices. Espeland and Stevens (1998) define commensuration as "the transformation of different qualities into a common metric" (p. 314). Prices, college rankings, and cost-benefit analyses are all examples of commensuration. Likewise, the B Impact Assessment translates qualitative information into a numerical score. This act of quantification is critical to the perceived validity and credibility of B Corp certification. Numbers carry more weight than other forms of information, because they are precise, and precision creates the illusion of objectivity (Espeland and Vannebo 2007). But the B Impact Assessment is a social product, one that allows entrepreneurs to set boundaries between true social companies and conventional companies by screening out underperforming organizations. The process of creating an assessment involves deciding "who and what really counts" (Hall, Millo, and Barman 2015: 907).

Social impact assessments have been around for years, the earliest of which was the "Social Return on Investment" (SROI) accounting methodology, which incorporates "stakeholders' voices into the firm's accounting and reporting systems" and quantifies the value a firm creates for stakeholders (Hall et al. 2015: 908). Reporting systems like SROI and the B Impact assessment inform managers' views about who relevant stakeholders are and how they should be treated. The SROI methodology assigns a monetary value to social outcomes, whereas the B Impact Assessment assigns a score. Both methods produce a numerical value that represents an organization's social value. Like the SROI, the B Impact assessment is a product of the creators' "epistemic beliefs – their cognitive understandings of the type of knowledge that is valid or acceptable to use in organizational practice – and the organization's material conditions – the amount and type of resources, technical and material, at the managers' disposal" (Hall et al. 2015: 928). Accounting and reporting systems like the B Impact Assessment do not simply compile neutral facts about organizations; rather, they make visible certain activities and shape patterns of organizational behavior (Chapman, Cooper, and Miller 2009; Miller and Power 2013).

The B Impact Assessment is neither objective nor value-neutral. It prioritizes some social or environmental goals over others. For example, the assessment rewards companies for sourcing locally, even though many social enterprises were designed to create jobs in the Global South. The Root Collective, a footwear and accessories company, loses points for sourcing and manufacturing in Guatemala, even though the company's core mission is to provide jobs to those living in the slums of La Limonada, Guatemala. Founder Bethany Tran argued that B Lab's requirements are based on a narrow, western set of values.

> In communities like La Limonada you have kids 8, 9, 10 years old on the streets by themselves because the abuse at home was so severe that they had to leave. So they're street kids that are very young and I have nieces and nephews that age. It is just horrific and mind blowing to know that these kids are living on the streets by themselves. So for us, we are a certified B Corporation and that means we shouldn't have child labor in our supply chain, which seems on the surface like a good thing, and it is a good thing. But you take that 10 year old kid who needs to support himself now and the gangs in Guatemala come after the street kids, because those kids want a family who loves them, they want somebody to take care of

> them, so these kids get swept up in the gangs because they can't get a job. You have businesses like mine where it's like "what do I want to do with that kid?" Would I rather give up my certification to give him a job and have people not understand why it's important for this kid to have a job then be accused of having child labor in your supply chain. It's really been in the last 6 months where I've heard more stories where it's like these certifications are great, but the world has gone from black and white to a lovely shade of gray where these issues don't make sense the way they did originally.[202]

Environmental and social performance (ESG) is an inherently complex and artificial social construct that can be measured and interpreted in a variety of ways (Delmas, Etzion, and Nairn-Birch. 2013). Companies and their practices are not inherently good or bad, moral or immoral. Instead, social companies prioritize different outcomes, different values systems. Through one lens, child labor is inherently wrong. Through another, it provides a job to a child who would otherwise fall into gang activity. Through one lens, companies should source as locally as possible to reduce their carbon emissions. Through another, companies should create jobs in the global south to spur economic development. These perspectives represent different value systems, neither of which is intrinsically morally superior, but the B Impact Assessment assigns scores to these practices, manufacturing a values hierarchy with a clear ranking system.

Friedman (1970) famously argued that it is amoral for companies to prioritize anything but shareholder value, because maximizing profits will cause a trickle-down effect that will increase prosperity for all. Charity partnerships, sustainability initiatives, and generous employee benefits prevent companies from creating as much wealth as possible. Conversely, environmentalists argue that corporations should be held accountable for their waste and energy use. They advocate for government regulations and incentives to make companies more sustainable. Localists emphasize the importance of using local suppliers and sourcing as close to home as possible. Those interested in economic development suggest that we should create well-paying jobs in developing nations. Many of these moral demands conflict with one another, because defining a "good" business is not as simple as tallying up an assessment score. Furthermore, there is a qualitative distinction between "doing good" (e.g. creating jobs for vulnerable

[202] Interview with Bethany Tran, June 7, 2016

populations) and "avoiding harm" (e.g. using less plastic or toxic materials in the production process) (Delmas et al. 2013). These distinct aspects of social performance represent positive and negative social actions. Instead of assigning points for "doing good" and taking away points for "doing harm," the B Impact Assessment assigns points for both doing good and for *avoiding* harm. Ultimately, the B Impact Assessment relies on a specific, socially constructed notion of corporate morality, one that is constantly changing and often contested.

Assessment shapes organizational goals through commensuration

The primary goal of the B Impact Assessment is to provide a cutoff for certification, to draw a boundary between eligible and ineligible companies. But the assessment is not just descriptive; it is also prescriptive. Quantification remakes what it measures (Espeland and Stevens 2008). Assessments direct our attention, acting like a spotlight that illuminates some practices but obscures others. Distributing information on a particular set of outcomes creates the perception that those are the most important (March and Simon 1993). For example, when companies take the B Impact Assessment, they must track and record a number of their practices, like recycling, relationships with local suppliers, and diversity in the workforce. For larger companies, over a dozen people are involved in taking the B Impact Assessment, and the assessment circulates throughout the company. By highlighting, quantifying, and measuring specific practices, B Lab sends the message that those activities are important and worthwhile. As a result, those activities become new priorities.

In their study of rankings and evaluations, Espeland and Sauder (2007) define reactivity as "the idea that people change their behavior in reaction to being evaluated, observed, or measured" (p. 1). They distinguish between two mechanisms of reactivity. First, self-fulfilling prophecies are "processes by which reactions to social measures confirm the expectations or predictions that are embedded in measures or which increase the validity of the measure by encouraging behavior that conforms to it" (Espeland and Sauder 2007: 11). Self-fulfilling prophecies shape reactivity when external audiences react to rankings in ways that encourage organizational change, when rankings are used to make funding decisions, and when organizational actors make decisions that conform

to the rankings criteria. The second mechanism, commensuration, influences what actors attend to by reducing and simplifying information and by creating precise, quantitative relationships between organizations.

> Where self-fulfilling prophecies operate primarily by changing behavior in relation to altered expectations, commensuration works mainly by transforming cognition; it changes the locus and form of attention, both creating and obscuring relations among entities (Espeland and Sauder 2007: 16).

B Corp certification elicits reactivity primarily through commensuration, by calling attention to particular phenomena and refocusing social entrepreneurs' perceptions of their own practices. To a lesser extent, the self-fulfilling prophecy triggers reactivity by changing social entrepreneurs' reference point. Rather than comparing themselves to their industry peers, they compare themselves to other B Corps, creating pressure to "keep up" by constantly improving.

When an organization's rank or score is linked to desired resources, assessment can lead to goal displacement through the self-fulfilling prophecy (Warner and Havens 1968; Espeland and Sauder 2007). Goal displacement occurs when an organization substitutes a goal it was created to serve for a different goal (Merton 1976). For example, in many schools, teachers' performance is measured via students' reading and math scores. Schools with higher scores receive more funding. As a result, the goal of increasing test scores may supersede other teaching goals, like improving problem-solving and critical thinking. "Few organizations have sufficient resources to meet all their goals simultaneously; when one goal is given preference in an incentive system, some goal displacement is likely to occur" (Bohte and Meier 2000: 176). When rating and scoring systems are tied to external rewards, like funding or prestige, organizations are motivated to game the system, to change their organizational behavior in a way that will increase their ratings. This process is driven by Espeland and Sauder's (2007) self-fulfilling prophecy, whereby organizations bring their behavior in line with assessment criteria to secure external funding or garner support from customers and clients. But in the case of B Corps, companies only need to score 80 points on the assessment, and there are no added benefits to scoring 90 or 100 or 150 points. As long as companies hit the 80-point mark, they are certified for the next two years. Furthermore, B Impact scores are

not widely published. Interested customers and investors can look them up online, but they are not displayed alongside the B Corp logo on companies' packaging or promotional materials. Ultimately, there are few rewards – financial or reputational – associated with a higher score, so we would not expect to see goal displacement. Rather, we would expect entrepreneurs to adjust their practices just enough to score 80 points.

But when social companies are evaluated and scored, they *do* adjust their practices to conform to the assessment's measures. Their behavior is not representative of goal displacement in the classic sense. Instead, companies exhibit what I call mission expansion, whereby assessment leads to the broadening – not necessarily the replacement – of organizational goals. Through mission expansion, companies become more generally socially responsible and their goals become more diverse. Absent financial or reputational incentives for this shift, it seems the second mechanism, commensuration, triggers organizational change. In the following sections, I will illuminate the ways assessment and certification creates a shift in corporate goals and initiatives, outlining four mechanisms of commensuration that drive mission expansion.

Assessment begets action

The most obvious role of the assessment is to measure an organization's social and environmental impact, but it also highlights potential areas for improvement. Completing the assessment takes hours and often involves collaboration between departments like Human Resources, Accounting, and Logistics. Bob Willard of Sustainability Advantage described the assessment process this way:

> The value of going through the assessment is the way in which it engages the employees and suppliers in an energizing exercise. You learn a ton, because for every question, there's an information icon to find out how you can do better on each thing.[203]

This first mechanism of commensuration, *education*, simply brings an issue or set of practices to entrepreneurs' attention. The assessment is fundamentally an educational tool; as social entrepreneurs take the assessment, they encounter pop-ups and interactive features with more information about each set of practices. For example Shawn Seipler

[203] Interview with Bob Willard, June 17, 2016

from Clean the World had never thought about whether the factories he contracts with conserve water or energy until he encountered a question about it on the B Impact Assessment. After the assessment, he began asking questions of his suppliers and offering suggestions to help them conserve water. The mere act of suggestion is enough to change entrepreneurs' perception of their own practices. Through education, social entrepreneurs re-orient their value systems around the B Impact Assessment. At a fundamental level, social entrepreneurs create their companies to "do the right thing,"[204] and their perception of "the right thing" evolves over time. When they are exposed to new value systems, like that of B Lab, their worldview expands and they create a new set of priorities. B Lab's value system encompasses environmental preservation, workers' rights, community involvement, transparency and accountability, and customer service. Entrepreneurs adopt this moral hierarchy based on the information they absorb during the B Impact Assessment.

The second mechanism, *agenda setting*, goes a step further than education, to suggestion. After completing the assessment, entrepreneurs receive a document called "Improve Your Score" based on their responses to the questionnaire. The document offers practical, personalized suggestions for improving a company's B Impact Score, sorted by difficulty of task. Lara Pearson, the founder of an intellectual property law firm, used Improve Your Score to set goals for the coming years. "So we have – Difficult: ask your landlord to install solar panels. Easy: ask your landlord to install a more energy efficient thermostat."[205] Pearson worked through these suggestions, starting with the easiest, and in a matter of two years, she improved her score by fifteen points. Through agenda setting, the educational information provided in the assessment is organized and sorted into an approachable action plan. Because it is ordered from easiest to hardest, Improve Your Score feels simple and convenient, and it saves social entrepreneurs time by mapping out a plan for them.

Even in the absence of rewards, these practical suggestions encourage managers and executives to make changes they would not otherwise consider.

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[204] Interview with Mark Slagle, March 31, 2016
[205] Interview with Lara Pearson, July 22, 2016

> It's helpful to go through the assessment, and we found some things that we were like "oh we can do that" – just things we can miss. It helped identify gaps, as a roadmap to being a socially responsible business… Social and environmental stuff is hard to quantify, and this made it more concrete and helped consistently track our progress over time.[206]

In this quote, Katie Wallace, Sustainability Director for New Belgium Brewery, illustrated the first three mechanisms of commensuration. First, the assessment identifies gaps, educates organizational actors about environmental or social initiatives they had not considered – "just things we can miss." Second, Wallace emphasized the assessment's role as an agenda-setting instrument, as a "roadmap to being socially responsible." Finally, Wallace hinted at the third mechanism, *monitoring*. Entrepreneurs use the B Impact Assessment as a tool to "track our progress over time," to motivate continual improvement. All three of these mechanisms are driven by commensuration, by making "hard to quantify" social and environmental phenomenon "more concrete." The act of measuring and quantifying a company's impact does more than just "let us know where we stand;"[207] it begets action. It is performative.

The Impact Assessment works as a monitoring device, because B Corps must recertify every two years. This means retaking the entire assessment and receiving a new score. Although there are no rewards for scoring higher than 80 points on follow-up assessments, increasing the future score becomes a new goal in and of itself, because companies use the assessment to track their progress.

> Now we're going through the process of recertifying and getting a new score. Right now we're doing everything we can to get a better score. We had never looked at our business through that lens, of striving for constant improvement.[208]

After taking their first assessment, Kristin Carlson and her colleagues at Green Mountain Power realized that they lost points because, despite being a green energy provider, their office building was not particularly sustainable. She told me that she had always thought about their impact in terms of the energy they supplied, not the energy they used. "We'd

[206] Interview with Katie Wallace, June 13, 2016
[207] Interview with Katie Wallace, June 13, 2016
[208] Interview with Kristin Carlson, June 13, 2016

never thought about looking at the efficiency of our building."[209] In reality, the energy they consume is merely a drop in the bucket of the energy they supply, but it was a large component of the assessment, and as a result, it became their focus too. By quantifying Green Mountain Power's office recycling protocol, water usage, and choice of light bulbs, the assessment triggered a shift in the company's practices. It educated Carlson and her colleagues about areas for improvement, provided an agenda, and motivated them to improve year after year. As a result, Green Mountain began to widen their focus to include the Impact Assessment's quantifiable, measureable goals.

Finally, the B Impact Assessment drives change through a fourth mechanism, *comparison*. Although the average consumer may not understand or care about an assessment score, the score is relevant in the community of B Corps and is used for bragging rights. At their annual B Corp retreat, B Lab presents "Best for the World" awards to the companies the required minimum. Throughout my interviews, I heard over and over that "you manage what you measure"[210] and that "if we have awareness of an issue, we're going to improve it,"[211] but the assessment is about more than just education, more than just awareness. Social entrepreneurs use their score as a way to benchmark their achievements and set CSR goals. They compare their scores to those of other B Corps. The result is that companies switch to energy efficient light bulbs, sponsor volunteer days, prioritize diversity in hiring, and seek out more responsible manufacturers – all of which improve their scores. But the assessment may not prompt entrepreneurs to examine or strengthen their core mission.

Assessment leads to mission expansion

The Impact Assessment is designed to measure broad, generic social and environmental practices, but certified B Corps pursue a variety of specific missions, from preventing water pollution in American cities to treating severe acute malnutrition in developing nations. The assessment often fails to capture the core mission of social companies, though. Instead, it measures, and ultimately encourages, a wide range of best practices –

[209] Interview with Kristin Carlson, June 13, 2016
[210] Interview with Tim Chambers, July 26, 2016
[211] Interview with Mike Humphries, June 29, 2016

from employee engagement and local sourcing to green energy and paying factory workers a living wage. As a result, companies experience *mission expansion*: quantification causes managerial attention to broaden from a set of focused, core goals to a wide array of related objectives. Mission expansion is distinct from goal displacement in a number of ways. First, mission expansion is not a product of an external incentive or reward; it is not just a form of the "self-fulfilling prophecy" (Sauder and Espeland 2007). Second, mission expansion does not involve the abandonment of core goals, but simply the addition of new, related goals. Finally, goal displacement is often thought of as inherently negative (Scott, 1967; Warner and Havens 1968), but mission expansion can be a useful mechanism through which organizations grow their impact. In the case of B Corps, mission expansion prompts companies to adopt a wide range of environmentally friendly and socially responsible practices, but it does not encourage them to deepen their initial goals. These changes make a company more socially and environmentally responsible in a broad, but shallow way.

What I mean by shallow is that these organizational changes are often symbolic rather than substantive. Mark Vettori from Dansko talked about the "easy changes" his company made as a result of the assessment.

> One of the questions was "do you have a documented policy for allowing your employees to vote?" Of course if someone wanted to run out to vote, we would allow them to do that. It was just a matter of documenting some of those policies.[212]

These changes are not inconsequential. They are particularly important during periods of growth, but they remain, as Vettori described them, "easy changes." By formalizing policies on volunteering, vacation days, or sick leave, companies can gain a few extra points. When Tim Chambers certified Epven, they "went from a 2-page set of instructions to around a 25-page manual of standard operating procedures." This involved some changes to policy, like offering better benefits to consultants, but it was also a matter of institutionalizing existing practices. Adjustments like these are common. Tom Willits runs both a nonprofit and MRW, a certified B Corp that provides web-design services to social entrepreneurs. Despite thirty years of experience with socially

[212] Interview with Mark Vettori, Sept 6, 2016

conscious business practices, Willits noticed portions of the assessment where MRW scored relatively low. For one, MRW did not offer employees paid time off to volunteer. Offsite volunteering is not central to MRW's focus as a web design firm, but it was quickly incorporated into the employee benefits package because the B Impact Assessment drew attention to it, and it raised the company's B Impact Score.

The effects of mission expansion vary from company to company, though. Recall from the Introduction the distinction between direct and indirect benefit companies. Direct benefit companies are organizations that provide a solution to environmental or social problems through the distribution of goods and services (Di Domenico, Haugh, and Tracey 2010). Rain Grid, which manufactures storm water catchment systems to prevent run-off pollution and create more sustainable utility systems, or American Prison Data Systems (APDS), which provides educational tools to incarcerated people, would fall into this category. Each of these ventures was created primarily to address a pressing social or environmental issue. Indirect benefit companies, on the other hand, provide conventional goods or services. You can think of these companies as refashioned versions of traditional firms. The benefit here stems from superior production practices, employee benefits, an emphasis on sustainability, and/or charitable donations. For example, New Belgium Brewery diverts 99 percent of their waste from landfills and is working to reduce its greenhouse gas emissions by 25 percent. The company sponsors volunteer work for employees and donated nearly a million dollars to charity in 2016. Although New Belgium is a leader in sustainable brewing, the company is not solving a social problem. Instead, it manufactures a commodity in a more environmentally sound way.

Mission expansion affects direct and indirect benefit companies differently. For indirect benefit companies, there is no core mission. Indirect benefit companies were not created to solve a specific social or environmental problem. Returning to the example of New Belgium Brewery, the founders had no plans solve severe acute malnutrition or to provide toiletries to impoverished villages. They simply "loved Belgian beers, so they decided to start a brewery."[213] They built their company on the "beliefs of environmental stewardship and having fun,"[214] and that spirit is reflected in their sustainability

[213] Interview with Katie Wallace, June 14, 2016
[214] Interview with Katie Wallace, June 14, 2016

initiatives and focus on employee wellbeing. Rather than distracting them from their primary mission, the B Impact Assessment exposes them to gaps in their environmental and social initiatives, pushing them to become an even more responsible brewery.

Conversely, direct benefit companies start out hyper focused on one or two issues. For example, Clean the World takes leftover hotel toiletries, combines them, and distributes the new product to villages with high rates of deaths by diarrheal disease. Shawn Seipler created Clean the World to fulfill both an environmental and a social purpose: to reduce landfill waste through toiletry reuse and to save lives by preventing the spread of disease. Although Clean the World "went broke and lost everything," Seipler eagerly pursued B Corp certification. The assessment prompted him to zoom out, to take a second look at some of Clean the World's other practices.

> There were employee policies that we had to take a look at. Our initial employee handbook, we received from another corporation and we made adjustments off it. Now we had to look through those policies and ask whether they were conducive to the work environment. Are we taking steps against discriminatory procedures and processes? We did a lot to adjust. There was a lot internally regarding sustainability. Recycling. Then who do we partner with? We have manufacturing recycling plants globally, some operated by others. We had to go ensure that they were safe and fair. Those were some things we had to do and it was great. It was a great process to dive into all those elements and areas and to say – okay even though we are so confident that our company is in business to save lives, there are some areas we need to look at internally.[215]

Clean the World was understaffed and underfunded, so Seipler did not have much time to rework the employee handbook or audit his factories. But he did anyway, even though he had already exceeded the 80-point minimum score for certification. Initially, the focus for Seipler had been on getting the company up and running, on sending soap to those who needed it, and on educating the recipients of his soap on the benefits of hygiene to prevent disease. Certification prompted him to concentrate on a wider range of social and environmental issues: his employee handbook and office recycling protocol.

Managerial attention is finite, and the time Seipler spent boosting his score was time that could have been spent on activities more central to the company's mission. The story of Clean the World illustrates that the changes prompted by certification, while

[215] Interview with Shawn Seipler, Aug. 3, 2016

positive, may not make a large dent in a direct benefit company's impact and are often irrelevant to its core mission. These changes are broad, but not deep. For example, a company like Good Spread might have trouble passing the assessment. Good Spread is not a certified B Corp; it is a peanut butter company that, for every jar sold, donates emergency nutritional relief packets to children with severe acute malnutrition. Good Spread's mission is simple – "to save lives"[216] – but they do not prioritize local sourcing, organic ingredients, or environmentally friendly production practices. They have a focused, deeply social mission, but not a broad adherence to social and environmental sustainability. And this is a conscious decision. Using organic or GMO-free peanuts could drive up the price of their peanut butter, potentially decreasing their total sales, which in turn would reduce their capacity to give. In Good Spread's case, conforming to B Lab's model of morality could result in mission expansion, whereby they become more generally responsible, but not more effective at reaching their goals.

The assessment is beneficial for indirect benefit companies, those looking to improve their CSR efforts. But for direct benefit companies, the B Impact Assessment focuses less on the main objective, the core mission, and more on the smaller, often overlooked aspects of running a business.

> The assessment is more geared toward business practices inside a building. Our impact is incredibly small on the planet based on what we do in the building, but it's large in terms of what we do with our product globally. We don't get much benefit accrued to our company in the assessment. It's more about "do you compost or do you recycle" but that's just a fly on an elephant's behind in terms of our impact.[217]

Servane Mouazan created Ogunte, a company that provides an eco-system for female entrepreneurs that connects businesswomen with resources and mentors. She found that the assessment overlooked her larger social impact, highlighting instead "the nitty gritty," things like "do you work in a building that is leaking from all parts?"[218] And yet, most social entrepreneurs do not see B Corp certification as a distraction from their core mission. Instead, they see it as a new lens through which to view their internal operations, a way of broadening their social responsibility efforts. B Lab offers social companies a

[216] Interview with Mark Slagle, March 24, 2016
[217] Interview with Travis Boyce, Nov. 9, 2016
[218] Interview with Servane Mouazan, Aug. 8, 2016

new, cohesive identity, verification of their claims, and a network of likeminded entrepreneurs. It also makes them more responsible, and checking items off an assessment list feels like progress. But progress here is narrowly defined. By creating a predetermined structure for thinking about CSR, the assessment may discourage thinking outside the box, embracing new innovations, and prioritizing a specific mission.

Commensuration leads to mission expansion, even in the absence of rewards.
Mission expansion becomes even more evident when we look at changes in B Impact scores over time. Jay Coen Gilbert, founder of B Lab, insisted that the B Impact Assessment becomes "more rigorous with each update,"[219] and this is borne out in the data. With every iteration of the assessment, new questions are added and fewer points are awarded for answers to old questions. Social entrepreneurs themselves agreed that each version of the assessment is tougher to pass. In fact, Bob Willard, founder of Sustainability Advantage, told me "I didn't change a thing"[220] from one assessment to the next, and as a result, his score dropped 43 points. And yet, the average company increased their total B Impact score by 4.7 points from their first assessment to their most recent one. On average, companies improved their environmental score by 4 points, community score by 2.7 points, governance score by 1.5 points, and worker score by 1.3 points. On average, companies lost 0.4 points on their customers score.[221] The customers section measures whether a company sells products or services with public benefit and whether those products or services are targeted toward underserved populations. Essentially, according to B Lab, this section measures "whether a company's product or service is designed to solve a social or environmental issue."[222] Thus an indirect benefit company, like New Belgium Brewery, would be awarded 0 points for the customers section.

The decrease in company's average customers score suggests that organizational decision makers were quicker to make changes to their environmental, employee

[219] Interview with Jay Coen Gilbert, August 26, 2016
[220] Interview with Bob Willard, June 17, 2016
[221] Because of way B Lab weights each section, the section totals do not equal the overall score.
[222] https://www.bcorporation.net/impact-report

wellbeing, and community engagement policies than they were to examine or strengthen their primary mission. In fact, Clean the World, the company that underwent a full audit of its suppliers, lost 15 points in the customers section from 2015 to 2017, but the company's B Impact score improved overall, thanks to a 26 point improvement in the environment section. Although the assessment evolves with each iteration, these general trends give us a good idea of which kinds of changes are encouraged and which initiatives are put on hold. The assessment data align with social entrepreneurs' own accounts of their experiences. *Figure 6* displays the kinds of changes respondents report making as a result of the Impact Assessment.

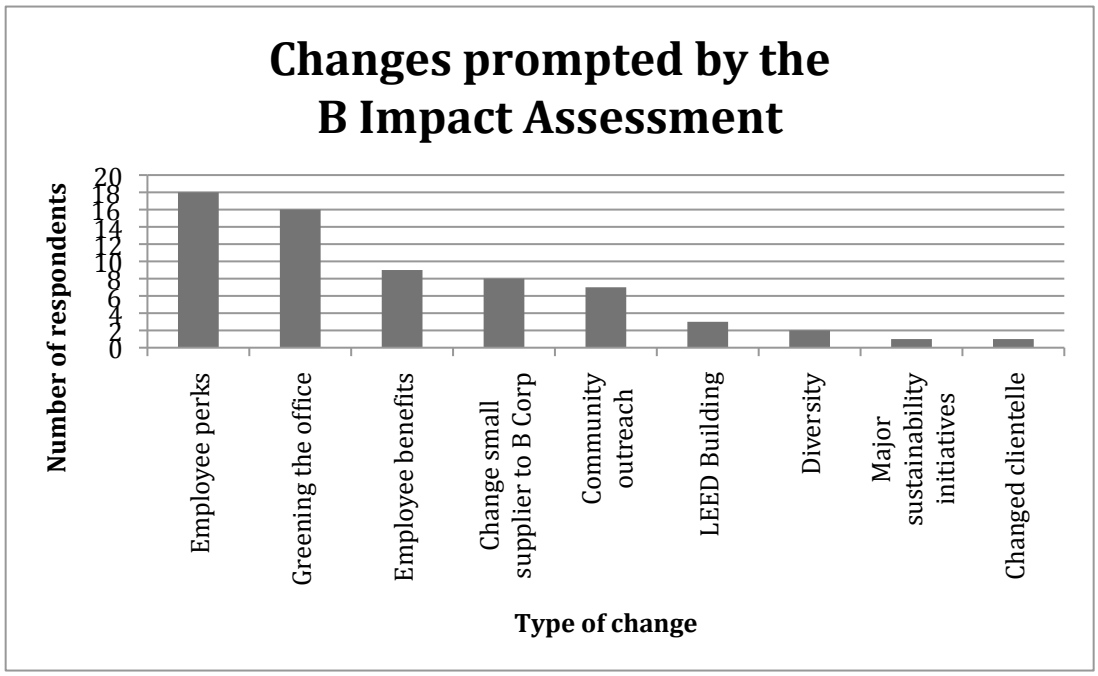


Figure 6: Self-reported changes prompted by the assessment

As shown in the chart, the most common changes are employee perks (18) - adding a bike room, allowing employees to bring pets to work, hosting a volunteer day – followed by greening the office (16) – implementing a recycling or composting system, switching to LED lightbulbs or installing a new thermostat. Next are changes to employee benefits (9); these are more substantial HR practices, like paid maternity and paternity leave, better insurance packages, or narrowing the pay gap between the highest and lowest paid employees. Other companies changed a small supplier, like a bank or an office supplies company, to a B Corp (8). Fewer engaged in a new form of community

outreach (7), which included activities like donating a small[223] amount of money to a local charity or hosting a community planning meeting. Three companies moved to a LEED certified building. Two increased their diversity initiatives in recruiting. One launched a major sustainability initiative, overhauling their manufacturing practices, and one began targeting a more underrepresented and underserved clientele. There is no correlation between these types of mission expansion, so for example, greening the office and employee perks do not cluster together. In fact, the average B Corp made changes in just 1.3 of these categories, indicating that organizational decision makers tend to focus on one area of improvement at a time. Product and service providers are equally likely to exhibit mission expansion, and there are no differences in the types of initiatives they adopt. The same is true of direct and indirect benefit companies. These characteristics of B Corps do not seem related to either the occurrence or the type of changes prompted by mission expansion.[224]

While all types of B Corps experience mission expansion, the opportunity cost of mission expansions differs for direct and indirect benefit companies. Both types of companies seem to become more socially and environmentally responsible through the assessment process, but the goal for indirect benefit companies is just that – to become more socially and environmentally responsible. Direct benefit companies, on the other hand, have a more central goal, one that is not easily measured by the B Impact Assessment. Direct benefit companies are designed to solve a specific problem, and the changes prompted by the assessment tend to be unrelated to that problem.

Conclusion

Let us return to the illustration from the beginning of the chapter. Dansko is a shoe company known for its communal values and commitment to employees. To demonstrate those values, Dansko became a certified B Corp in 2007. For Dansko, certification signaled its membership in a group of socially and environmentally responsible

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[223] Less than one thousand dollars

[224] Chi-square tests show no significant relationship between either the product/service variable or the direct/indirect benefit variable and type of mission expansion. Nor was there a relationship between product/service or direct/indirect variables and the presence of mission expansion.

companies. On the face of it, B Corps have little in common; Ben & Jerry's makes ice cream, Warby Parker sells glasses, Kickstarter provides a crowdfunding tool, and Dansko imports European shoes. As outlined in the previous chapter, B Corp certification takes this seemingly disparate set of organizations and assigns them a market category, one with a clear identity and transparent norms and expectations. Defining a field entails boundary setting, and constructing a threshold for certification involves commensuration, the quantification of qualitative aspects of a company. Through the process of assessment, Dansko's practices were quantified, measured, and scored. The first time through, the company scraped by with a score of 80 points, but the assessment educated Dansko's leadership team about best practices for environmental and social performance. Over the next five years, the company added new employee benefits and launched a massive green renovation to its headquarters. As a result, the B Impact score improved by 29 points. Dansko drastically cut its carbon footprint and became a better place to work, all because B Corp certification prompted the process of mission expansion.

In this chapter, I have shown how commensuration can lead to mission expansion by highlighting some phenomena and obscuring others. Commensuration "changes the terms of what can be talked about, how we value, and how we treat what we value. It is symbolic, inherently interpretive, deeply political, and too important to be left implicit in sociological work" (Espeland and Stevens 1998: 315). Commensuration leads to mission expansion through four mechanisms: education, agenda setting, monitoring, and comparison. The B Impact Assessment educates social entrepreneurs and sets the agenda for a company's sustainability efforts. The impending recertification provides a timeline for those improvements, and the numerical scores encourage comparison among B Corps. This comparison is further fueled by awards like "Best for the World," which are conferred upon high-scoring companies at the annual retreat.

Social entrepreneurs believe in the validity of the B Impact Assessment, so they eagerly adopt new social and environmental initiatives in the pursuit of social consciousness – and a higher B Impact Score. Because of how it is structured, the assessment prioritizes quick fixes over transformative changes. By highlighting simple, one-size-fits-all changes, B Lab inadvertently encourages a pursuit of the low hanging fruit. Companies are encouraged to implement recycling programs, offer employees a

paid day off for volunteering, or switch to LED light bulbs, because these initiatives are easier, cheaper, and less time consuming than sourcing from sustainable factories, paying workers a living wage, and increasing diversity in their workforce. The B Impact Assessment moves companies in a more sustainable direction by offering suggestions entrepreneurs would not otherwise consider, but there are opportunity costs associated with these changes. For indirect benefit companies, the outcome of mission expansion is desirable; they become more socially and environmentally responsible versions of what they already were. For direct benefit companies, certification can be a distraction. Through the process of certification, companies begin to look more like B Corps, adopting B Lab's value system, but they may lose the incentive to innovate or to focus single-mindedly about their central purpose.

In the case of direct benefit organizations, a company's larger impact is not considered when there is no mechanism for measuring it – or when the measurement scheme seems arbitrary or inappropriate. Does a company that distributes life-saving nutritional packets (like Good Spread) get more points than a company distributing eye glasses (like Warby Parker)? Not necessarily. B Lab assigns points according to the monetary value of a company's donations, irrespective of the donations' qualitative properties. But is $100 worth of glasses really commensurate with $100 worth of nutritional relief packets? If not, how should we weigh the two? How many points should we give for lives saved and how many to sight restored? Issues like these are complex, and they highlight the weakness of attempts at commensuration. When a company's central purpose is difficult to quantify, it is rendered incommensurate and does not become part of the agenda setting prompted by the assessment.

Unlike goal displacement, mission expansion occurs without any concrete incentives for improving the B Impact Score. Companies don't become more – or less – certified when their score changes, as long as they maintain 80 points or more. Consumers and investors can look up a company's score online, but aside from a handful of "CSR mavens" (Bhattacharya and Sen 2004: 14), consumers rarely take the time to look up these reports (Rasche 2014). In fact, according to subjects in this study, most stakeholders are unaware of what a score even means; they care more about whether or not a company is certified. In the absence of financial or reputational rewards, it seems

that the act of commensuration itself is driving mission expansion through education, agenda setting, motivation, and comparison. Quantification remakes what it measures, even in the absence of incentives. This study expands our conception of incentives, demonstrating how quantification inherently incentivizes, as organizations seek scores as an end in and of themselves.

CHAPTER 7
Conclusion

This dissertation analyzes social companies, for-profit organizations with a social or environmental mission at the core of their business models. These companies balance two often competing, motives: mission and profit. Organization scholars treat social companies as hybrid organizations, because they combine the mission of a charity with the structure of a corporation. Social companies rely on a variety of techniques, including certification and changing their legal form, to gain legitimacy, a coherent organizational identity, and access to resources. This dissertation focuses on B Corp certification, a certification system with rigorous social and environmental standards, and benefit corporation statutes, laws that allow for-profit companies to adopt public benefits as a formal part of their corporate structure. I have shown that certification and legal structures help to institutionalize and legitimize social companies. This dissertation explores not just certified companies, but the certification process itself. It investigates the ways assessment shapes the organizations it measures.

Findings of the Dissertation

In the second chapter, I traced the history of B Lab, B Corps, and benefit corporations. The B Corp movement arose in response to the problems of social entrepreneurs who had trouble raising capital, growing their businesses, and eventually selling their corporations without sacrificing their company's missions or values. B Lab is a nonprofit designed to support social companies, to assess their social and environmental performance, and to protect them from shareholders. B Lab grants B Corp certification to companies that have met rigorous social and environmental standards. Finally, benefit corporation is a legal structure for companies that requires directors to consider the interests of all stakeholders, not just shareholders. B Lab authored the model benefit corporation statute and advocates for the legislation in states across the country.

B Corps and benefit corporations are similar but not identical. While B Corp is a certification, benefit corporation is a legal status. B Corps are held accountable to B Lab, whereas benefit corporations are subject to state law. I have argued that although benefit corporation status is legally binding, B Corp certification is better enforced with lower

attrition rates. Essentially, B Corp certification is outward facing. It demonstrates to customers and investors that a company is responsible and ethical. Benefit corporation status is inward facing. It reassures entrepreneurs that their mission is legally sound and that they are free to pursue their social and environmental goals.

In Chapter 3, I unpacked the legal implications of the shareholder value principle and illustrated its normative power. Although shareholders pose no real threat to most B Corps and benefit corporations, social entrepreneurs seem fixated on the shareholder value principle, the idea that a company's sole purpose is to maximize profit. Social entrepreneurs reject the principle, arguing that this focus on short-term increases in stock values is myopic and damaging. The business tactics promoted by the shareholder value principle remain widespread and commonplace, and benefit corporation status is posited as the antidote to this obsession with short-term profit maximization. I have argued that opposing the shareholder value principle allows social entrepreneurs to create a distinction between social companies and conventional ones. Incorporating as a benefit corporation or becoming a certified B Corp draws a bright line, a clear boundary, between social companies and conventional ones.

Social entrepreneurs are not only interested in setting themselves apart. They also actively engage in the creation of virtuous markets - networks of entrepreneurs, gatekeepers, and investors who share a desire to use business to tackle social and environmental problems. Critiques of the shareholder value principle are part of a larger movement away from exploitative markets toward more virtuous ones. Social entrepreneurs – even those without shareholders – care about the shareholder value principle because they recognize its prevalence among powerful public corporations. Social entrepreneurs reject the shareholder value principle because they want to change the system, to shift expectations about what a company can and should do.

In Chapter 4, I delved into the literature on hybrid organizations, organizations that combine the institutional logics and identities of two distinct sectors. Specifically, social companies balance a social or environmental mission with a financial one. Organizational scholars tend to define hybrid organizations in one of three ways: in terms of organizational goals, categories, and identities. These three approaches lead to three predictions about the types of challenges social companies will face. First, the literature

suggests that because of their multiple goals, social companies will have trouble with agenda setting. Second, category spanning will create problems with legitimacy. And finally, social companies will struggle to craft a cohesive identity. Conceptually, these approaches are distinct, but empirically, they are linked. Conflicting goals make it difficult to create a clear, concise organizational identity, which leads to problems of legitimacy.

The presence of multiple stakeholders complicates organizational decision making, as managers and executives struggle to maintain a balance between social goals and financial ones. Some decisions are a success when viewed through a social lens but a failure when viewed through a financial lens – and vice versa. Social entrepreneurs face daily tradeoffs between pursuing social and financial goals. I found that social companies occupy different positions along a spectrum from purely social to purely commercial, but these positions are temporary. Organizations move back and forth over time, prioritizing social goals, then financial ones, as they react to external shocks and internal struggles. The social entrepreneurs in this study seem to deal with hybridity by creating temporary moral hierarchies. This allows them to tinker with different strategies, working toward a better balance of their two goals: mission and profit.

These multiple internal goals shape the way stakeholders view social companies, which seem to straddle two categories: company and charity. Multiple category membership confuses customers and investors, who are accustomed to traditional charities or traditional for-profits. Social entrepreneurs see social business as a way to combine the benefits of both charities and corporations, but this category spanning has a cost; it creates problems with legitimacy. To reconcile this ambiguity, social entrepreneurs try to create a new, integrated organizational identity by framing the market as a tool to drive social change. These entrepreneurs distance their organizations from both conventional corporations and traditional charities, defining social companies in a new way altogether.

Although organization scholars tend to focus on just one of these challenges, all three elements of hybridity - multiple goals, category spanning, and integrated identities - are conceptually and empirically linked. When organizations pursue goals from multiple sectors, they appear to span categories. Entrepreneurs weave together a narrative, trying

to make sense of their multiple category membership by crafting an integrated identity. And the problems associated with each type of hybridity are linked too. The presence of multiple goals inevitably leads to tradeoffs and difficulties with agenda setting. Organizations alternate between making decisions based on social outcomes and financial returns, making their category spanning glaringly obvious to key stakeholders, who find it difficult to understand or support them.

Chapter 4 demonstrates that as hybrid organizations, social companies lack three things: a template for organizational decision making that ensures the company will uphold social or environmental goals; legitimacy and verification for their social claims; and a coherent identity that takes into account multiple stakeholders. B Lab provides all three through B Corp certification, and to some extent, benefit corporation status. In Chapter 5, I delved deeper into effects of B Corp certification and benefit corporation status. I demonstrated that the benefits of certification and incorporation are both symbolic and tangible. B Corp certification and benefit corporation status serve as commitment devices, which solve the problem of multiple missions by making it costly for companies to succumb to mission drift. And while commitment devices alter stakeholders' expectations of companies, they do not help audiences make sense of social companies, of their multiple, conflicting goals. To solve that problem, social companies require validation, a way of explaining multiple category membership and demonstrating their commitment to their mission. B Corp certification reassures skeptical customers that a for-profit company can create positive social change. By validating companies' social efforts, B Corp certification reframes the relationship between social and financial goals, making them compatible rather than conflicting. By creating a new organizational identity, the titles "B Corp" and "benefit corporation," become new categories in and of themselves. These categories have their own set of expectations that blend characteristics of companies and social organizations.

Certification serves other purposes as well. By creating a new category, a new bounded in-group, B Corp certification distinguishes social companies from greenwashers. Certification signals virtue in a market saturated with ethical claims. Unlike "green" or "responsible," the meaning of B Corp is concrete; it applies only to companies that conform to a specific set of standards. In their search for legitimacy and a

clear identity, entrepreneurs draw boundaries between social companies and conventional ones, between B Corps and everyone else. Furthermore, B Lab facilitates an expansive network of like-minded entrepreneurs through a global online platform, local chapters and meet-ups, and an annual B Corp retreat. B Lab's largest networking tool, called the B Hive, was created specifically for certified B Corps to allow executives and employees to connect and share best practices. Finally, certification not only connects entrepreneurs with likeminded peers; it also helps companies appeal to likeminded job seekers. Subjects report a larger pool of potential employees and lower turnover rates after B Corp certification.

Becoming a B Corp provides more advantages than becoming a benefit corporation, because B Corps are assessed by a third party. Still, considering the amount of time and energy required to become certified, we would expect B Corps create clear financial benefit, but there is no evidence for increased sales as a result of certification. Instead, certification allows entrepreneurs to draw a boundary between themselves and conventional companies and to foster a community of likeminded people. This group comes with a clear organizational identity and a sense of legitimacy that solve many of the problems associated with hybridity.

In Chapter 6, I illuminated the changes prompted by B Corp certification, the unintended consequences stemming from the measurement system, the B Impact Assessment. The primary goal of the B Impact Assessment is to provide a cutoff for certification, to draw a boundary between eligible and ineligible companies, but the assessment is not just descriptive; it is also prescriptive. Through commensuration, quantification remakes what it measures. Assessment redirects social entrepreneurs' attention and refocuses their perceptions of their own practices.

In the last chapter, I identified four mechanisms of commensuration driving these changes in values and behavior: education, agenda setting, monitoring, and comparison. The first mechanism of commensuration, *education*, simply brings an issue or set of practices to entrepreneurs' attention. Through education, social entrepreneurs re-orient their value systems around the B Impact Assessment. The second mechanism, *agenda setting*, goes a step further than education, to suggestion. Through agenda setting, the educational information provided in the assessment is organized and sorted into an

approachable action plan. The third mechanism is *monitoring*; social entrepreneurs use the B Impact assessment to motivate improvement from one assessment to the next. Although there are no rewards for scoring higher than 80 points on follow-up assessments, increasing the future score becomes a new goal in and of itself, because companies use the assessment to track their progress. Finally, the B Impact Assessment drives change through a forth mechanism, *comparison*. Becoming a B Corp changes the reference group for social entrepreneurs, and the B Impact Assessment makes qualitative differences between companies quantitative. Rather than comparing themselves to their industry peers, social entrepreneurs compare their companies to other B Corps, creating pressure to continually improve. Ultimately, the B Impact Assessment educates social entrepreneurs and sets the agenda for a company's sustainability efforts. The impending recertification provides a timeline for those improvements, and the numerical scores encourage comparison among B Corps.

But because of *what* the Impact Assessment measures, it may redirect decision makers' attention, from the big picture of their unique missions to the small, often overlooked aspects of corporate social responsibility. The B Impact Assessment is designed to measure broad, generic social and environmental practices, but certified B Corps pursue a variety of specific missions, from preventing water pollution in American cities to treating severe acute malnutrition in developing nations. The assessment often fails to capture the core mission of social companies, though. Instead, it measures, and ultimately encourages, a wide range of best practices – from employee engagement and local sourcing to green energy and paying factory workers a living wage. As a result, companies experience *mission expansion*: quantification causes managerial attention to broaden from a set of focused, core goals to a wide array of related objectives.

Mission expansion is distinct from goal displacement in a number of ways. Mission expansion is not motivated by external rewards or incentives and does not involve the abandonment of core goals. Rather, it entails the addition of new, related objectives. Nor is mission expansion inherently negative; it can be a useful mechanism through which organizations grow their impact. In the case of B Corps, mission expansion prompts companies to adopt a wide range of environmentally friendly and socially responsible practices.

Furthermore, I argued that mission expansion affects direct and indirect benefit companies differently. The assessment is beneficial for indirect benefit companies, companies that provide conventional goods or services in a socially or environmentally responsible way. Indirect benefit companies were not created to solve a specific social or environmental problem; there is no core mission. Rather than distracting these companies from their primary mission, the B Impact Assessment exposes them to gaps in their environmental and social initiatives and pushes them to become more responsible and sustainable. While all types of B Corps experience mission expansion, the opportunity cost of mission expansion is greater for direct benefit companies. Direct benefit companies are organizations that provide a solution to environmental or social problems through the distribution of goods and services. For these companies, the B Impact Assessment focuses less on the main objective, the core mission, and more on the smaller, often overlooked aspects of running a business.

In this dissertation, I have shown that social companies are a unique case of hybrid organizations, and that both certification and reincorporation help solve the problems associated with hybridity. Furthermore, I have demonstrated that quantification remakes what it measures, even in the absence of rewards. Assessments direct our attention, acting like a spotlight that illuminates some practices but obscures others. After certification, companies conform to the assessment, becoming more socially and environmentally responsible in ways that increase their assessment scores. Unlike goal displacement, mission expansion occurs without any concrete incentives for improving the B Impact Score. Ultimately, this study deepens our understanding of social companies, extends the literature on hybridity, and expands our conception of incentives.

Limitations

Of course, this study is not without limitations. First, I can only know how entrepreneurs and executives talk about and report their efforts; I did not observe them directly. Without detailed microdata, this study cannot demonstrate the causal effects of certification or incorporation on organizational outcomes, like network size, employee retention, and sales. Second, I interviewed each subject only once, making it difficult to analyze how companies change over time. That is why it was necessary to triangulate my

findings with longitudinal data, like the B Impact Scores presented in Chapter 6. More data are needed to determine how social companies evolve over time and how incorporation, certification, and assessment affect organizational behavior.

Furthermore, B Corp certification is likely unique in ways that make these findings difficult to generalize to assessment systems more broadly. B Corp certification is more comprehensive than other certification systems. For example, it is unlikely that Fair Trade or LEED certification would trigger mission expansion, because they assess specific practices rather than the company as a whole. More research is required to deepen our understanding of relationship between assessment and mission expansion.

Finally, although my response rate is high, I cannot rule out the potential for selection into the study. It is possible that entrepreneurs who felt strongly about B Corp certification were more likely to participate than those who were indifferent, but the selection problem runs deeper than that. Social entrepreneurs make a conscious choice to apply for B Corp certification or to incorporate as benefit corporations, and B Corps can opt out of certification at any time. Most likely, companies that receive no benefit from certification will simply not apply or will drop out after a while. Essentially, companies select into B Corp or benefit corporation status. With my data, I cannot speak to the differences between those that maintain their B Corp status and those that do not – or between those that become certified and those that do not. Throughout data collection, B Lab refused to release names of companies that were formerly certified but had dropped out. Additional data are needed to answer these questions.

Practical Implications

This study has implications for practitioners as well as for theory. Chapter 3 examined the shareholder value principle, illuminating the nuances of this powerful business norm. I demonstrated that the shareholder value principle has no legal power over any companies and that it is largely irrelevant to private companies. Nonetheless, public companies do seem beholden to their shareholders, even if that power is not legally sanctioned. Shareholder activist campaigns can threaten companies into cutting costs and compromising their social missions. It is not clear whether benefit corporation status can defend against shareholder activism, but the case of Etsy makes it apparent that B Corp

certification cannot. For social entrepreneurs deciding between legal forms or certification, this research can help identify the appropriate choice. For executives considering an IPO, it offers background information about the shareholder value principle and case studies of shareholder activism campaigns targeted at social companies.

In Chapter 4, I outlined the problems associated with running a social company and described strategies for managing the tension between mission and profit. Social companies seem unable to strike a true balance between their multiple goals. Instead, they adjust their priorities, disassembling and reassembling values hierarchies in response to external shocks and internal conflicts. This strategy allows social entrepreneurs to keep the tension alive rather than resolving it once and for all. In Chapter 5, I provided a comprehensive outline of the benefits of B Corp certification and benefit corporation status. My research suggests that social entrepreneurs in search of legitimacy, a network of like-minded entrepreneurs, or a way to combat accusations of greenwashing should consider B Corp certification. Those looking for commitment devices should consider benefit corporation status.

Chapter 6 demonstrates that certification and assessment systems are reactive. Specifically, B Corp certification causes social companies to expand their priorities, to become more socially and environmentally responsible in ways that conform to the B Impact Assessment. These findings suggest that the creators of assessment systems should consider the implications of their measures, the kinds of behaviors their tests will incentivize or disincentivize. Finally, this study suggests that managers and executives taking assessments should exercise caution, understanding that rating systems are both subjective and reactive.

Future Work

This study highlights some areas for future research. Social entrepreneurs overwhelmingly report a tension between their commercial and social goals, but these hybrid organizations may not remain hybrids for long. “The fact that social enterprises exist suggests that the boundaries separating the sectors are becoming blurred” (Galaskiewicz and Barringer 2012: 62). Galaskiewicz and Barringer (2012) argue that

new categories – like social enterprise, B Corps, and benefit corporations – are emerging and will become institutionalized. Future studies could investigate how these organizational forms are emerging as categories in their own right.

Moving forward, I plan to collect data on the past and present B Impact reports for all the B Corps in my census, not just my sample. I will also collect B Impact Reports from companies that are *not* certified B Corps. Although there are only 2120 certified B Corps worldwide, over 40,000 companies use the B Impact Assessment as a benchmarking tool. Many of these are benefit corporations that select the B Impact Assessment as their required third party impact report. I will track changes in companies' scores over time, comparing certified B Corps to non-certified social companies. This will allow me to test (a) whether mission expansion occurs in the general population of certified B Corps, (b) what kinds of changes are prompted by mission expansion, and (c) whether mission expansion occurs for companies outside of the B Corp network. If mission expansion occurs only among certified B Corps, we can assume that the process is driven by the fourth mechanism, comparison, and that mission expansion is a product of the network, not quantification. If, on the other hand, mission expansion occurs for B Corps, benefit corporations, and social companies alike, we can assume that the process is driven by the first three mechanisms: education, agenda setting, and monitoring.

Moreover, I plan to collect data on the companies that have allowed their B Corp certification to lapse as well as companies that converted from benefit corporations to C Corps, S Corps, or LLCs. I already have censuses of both B Corps and benefit corporations for 2016, 2017, and 2018, which will allow me to identify companies that have dropped out. I will conduct interviews with the executives of these companies to determine how these organizations changed as a result of certification or incorporation and what caused them to drop out.

In Chapter 5, I discussed the nuanced way social entrepreneurs use B Corp certification for marketing. I argued that certification is a reactive marketing strategy rather than a proactive one. In a follow up study, I plan to scrape the web for data on how often benefit corporations and B Corps mention their status in (a) annual reports, (b) investment prospectus, or (c) consumer marketing materials. This will allow me to

demonstrate quantitatively how social companies use their B Corp status. To which stakeholders do they present it and how do they frame it?

Furthermore, I plan to reach out to the executives of current and former public B Corps and benefit corporations: Natura (Brazil), Australian Ethica (Australia), Snakk Media (New Zealand), Rally (American – no longer a B Corp), Etsy (American – no longer a B Corp), Laureate Education (American). Why did these companies become B Corps and benefit corporations? Are shareholders truly a threat? How does certification or incorporation protect these companies? These cases will illuminate the role of the market for corporate control, which can make a company like Etsy vulnerable to shareholder activist campaigns. Takeover artists can encourage companies to cut costly social programs and sell their shares for a profit. I predict that direct-benefit companies will be less vulnerable to shareholder activism, because the social mission sits at the core of their business models, making it harder for takeover artists to find social programs to cut. There is much to be learned from a study of social companies; existing research has merely scratched the surface.

Conclusion

This project illuminates the complexity of social companies and explores a previously understudied phenomenon, B Corps and benefit corporations. I have investigated the history and consequences of both organizational forms and unpacked the challenges facing these organizations, both real and imagined. This dissertation offers the first comprehensive look at hybrid organizations. It brings together the disjointed literature on hybrids, examining social companies through the lens of goals, categories, and identity. I have shown that social companies fit all three dominant definitions of hybridity and that B Corp certification – and to a lesser extent, benefit corporation status – help to solve the problems associated with hybridity. Finally, this study extends our understanding of commensuration, reactivity, and incentives, demonstrating that quantification inherently incentivizes. Executives manage what they measure, and scores motivate continual improvement.

APPENDIX

Table 6: Description of Sample						
Subject name	***Company Name***	***Position***	***Category***	***Industry***	***Industry category***	***Date***
Tiffany Darst	Sacred Money Studios	Financial Advisor	B Corp & Benefit corporation	Education	Education & training service	6/23/16
Shawn Berry	Lift Economy	Founder & Partner	B Corp & Benefit corporation	Professional & technical services	Impact consulting	9/4/16
Christopher Jacobs	Solutions for Progress	CEO	B Corp & Benefit corporation	Information, communication & technology	Tax and benefit application assistance for low-income	9/5/16
Jenelle Isaacson	Living Room Realty	Founder and owner	B Corp & Benefit corporation	Real estate, design & building	Realtors	10/16/16
Christopher Grewe	APDS	CEO & Founder	B Corp & Benefit corporation	Education	Prison education system	10/18/16
Anonymous	Anonymous	CEO & Founder	B Corp $ Benefit corporation	Professional & technical services	Consulting	10/12/16
Wendy Strgar	Good Clean Love	CEO & Founder	B Corp & Benefit corporation	Manufactured goods	Organic personal care products	10/10/16
James Bloemendal	B Work	Hiring Leader	B Corp & Benefit corporation	Professional & technical services	Recruiting & staffing firm	10/24/16
Lisa Gelfand	Gelfand Partners Architects	Founder & Managing Principal	B Corp & Benefit corporation	Professional & technical services	Architecture, engineering, & related	11/1/16
Ryan Honeyman	Lift Economy	Partner and Co-Founder	B Corp & Benefit corporation	Professional & technical services	Impact Consulting	3/29/17
Jeff Gilbert	Green City Growers	Head of Marketing	B Corp	Agriculture, forestry & fishing	Urban farm & vegetable gardens	6/1/16

Subject name	*Company Name*	*Position*	*Category*	*Industry*	*Industry category*	*Date*
Amy Hall	Eileen Fisher	Director of Social Conscious-ness	B Corp	Manufactured goods	Apparel	6/6/16
Bethany Tran	Root Collective	Founder & CEO	B Corp	Retail	Shoes made by a women's cooperative	6/7/16
Shannon Adkins	Future State	CEO	B Corp	Professional & technical services	Consulting firm	6/14/16
Katie Wallace	New Belgium	Director of Sustainability	B Corp	Manufactured goods	Brewery	6/14/16
Kristin Carlson	Green Mountain Power	Vice President of Strategic and External Affairs	B Corp	Utilities	Fossil fuel power	6/14/16
David Young	VIF	CEO	B Corp	Education	Educational support	6/16/16
Krystal Meiners	Green Canopy	Director of Brand Experience	B Corp	Construction	Sustainable builder	6/17/16
Bob Willard	Sustainability Advantage	Founder	B Corp	Professional & technical services	Sustainability consulting	6/17/16
Sally Fridy	Naturescapes	Founder & Owner	B Corp	Administrative & support services	Landscaping services	6/16/16
Mike Humphries	Waldron HR	President	B Corp	Professional & technical services	Consulting	6/29/16
Anna Noyons	Peerby	Chief Product Officer	B Corp	Information, communication & technology	Sharing app	7/6/16
Gerhard Pries	Sarona Asset Management	CEO & Managing Partner	B Corp	Financial & insurance activities	Securities & investments	7/5/16

Subject name	*Company Name*	*Position*	*Category*	*Industry*	*Industry category*	*Date*
Anonymous	Anonymous	Founder & CEO	B Corp	Manufactured goods	Food products	6/30/16
Tom Willits	MRW Connected	Co-Founder and Owner	B Corp	Information, communication & technology	Web development & creative services	7/12/16
Steve Scheuth	First Affirmative	President	B Corp	Financial & insurance activities	Securities & Investments	8/1/16
Tim Chambers	Epven	Co-Founder and Director	B Corp	Manufactured goods	Agricultural processing machinery	7/26/16
Lara Pearson	Brand Geek	Founder and Owner	B Corp	Professional & technical services	Intellectual property law firm	7/26/16
Jacob Malthouse	Big Room	Co-Founder and Director	B Corp	Information, communication & technology	Operator of .eco	7/25/16
Robb Shurr	Walden Hyde	Co-Founder and CEO	B Corp	Professional & technical services	Advertising & market research	7/25/16
Kevin Mercer	Rain Grid	Founder & CEO	B Corp	Manufactured goods	Storm water collection system	7/25/16
Robert Holzer	Matter Unlimited	Founder & CEO	B Corp	Professional & technical services	Marketing & advertising	7/14/16
Paul Millman	Chroma Technology	President & Owner	B Corp	Manufactured goods	Optical filters and coatings	8/3/16
Farron Levy	True Impact	President	B Corp	Information, communication & technology	Social measurement tools	8/8/16
Servane Mouazan	Ogunte	Founder & CEO	B Corp	Professional & technical services	Social network and mentorship for female entrepreneurs	8/8/16

Subject name	*Company Name*	*Position*	*Category*	*Industry*	*Industry category*	*Date*
John Ehinger	Cardio Ready	CEO	B Corp	Human health & social work	Emergency services training	9/5/16
Rana DiOrio	Little Pickle Press	Founder & CEO	B Corp	Manufactured goods	Children's books	8/4/16
Shawn Seipler	Clean the World	Founder & CEO	B Corp	Waste Management & Recycling	Recycling toiletries	8/3/16
Robin Kumabe	bCause	Founder & CEO	B Corp	Professional & technical services	Consulting	8/9/16
Dominic Jones	On Purpose	Partnerships & Marketing Manager	B Corp	Education	Social leadership training	8/10/16
Marc Vettori	Dansko	Director of HR	B Corp	Manufactured goods	Shoes	9/6/16
Keith Maki	Cascade Engineering	Director of Marketing and PR	B Corp	Cascade	Rubber & plastic products	9/7/16
Travis Boyce	Allbirds	Strategy and Operations Manager	B Corp	Manufactured goods	Shoes	11/3/16
Adam Goldfarb	Goldfarb Financial	Financial Advisor & Community Liason	B Corp	Financial & insurance activities	Securities & investments	8/18/16
Jeffrey Goldfarb	Goldfarb Financial	CEO & Founder	B Corp	Financial & insurance activities	Securities & investments	8/18/16
Maria Kingery	Southern Energy Management	Co-Founder	B Corp	Utilities	Solar power services	9/8/16
Anonymous	Anonymous	Founder & CEO	B Corp	Professional & technical services	Consulting firm	12/4/16
Virginia Joplin	Verbio	Founder & CEO	Benefit corporation	Professional & technical services	Translation services	6/28/16

Subject name	*Company Name*	*Position*	*Category*	*Industry*	*Industry category*	*Date*
Anda Greeney	Al Mokha	Founder	Benefit corporation	Wholesale	Coffee distributor	6/29/16
Christopher Brechlin	Blueprint for Impact	Founder	Benefit corporation	Information, communication & technology	Data analytics for nonprofits	7/7/16
Lyf Gilder-sleeve	Flying Fish	CEO	Benefit corporation	Wholesale	Fish supplier	6/30/16
Rhodes Perry	Rhodes Perry	Founder & CEO	Benefit corporation	Professional & technical services	Diversity consultant	7/11/16
Michelle Archuleta	Doctor Speak	Founder & CEO	Benefit corporation	Human health & social work	Technology-based support services	8/4/16
Phil Neumann	Mainstem Malt	Founder	Benefit corporation	Agriculture, forestry & fishing	Malt Processing	9/7/16
Matt Sabelman	Adventure Medics	Owner & Operator	Benefit corporation	Human health & social work	Emergency services	10/11/16
Karl Dakin	Colorado Community Capital	Director	Benefit corporation	Financial & insurance activities	Investment crowdfunding	10/20/16
Elise Rothman	Local Motive	Partner	Benefit corporation	Information, communication & technology	Local food network	10/21/16
Sarosh Khan	Khan Mentors	Founder	Benefit corporation	Education	Mentoring programs	10/13/16
Eric Magray	Avant Manufacturing	Founder & President	Benefit corporation	Manufacturing	Machinery manufacturing	11/18/16
Alexander Williams	Blue Earth	Owner & Director	Benefit corporation	Waste Management & Recycling	Composting services	2/15/17
Greg Ackerson	Apex	Co-owner	Benefit corporation	Professional & technical services	Sustainability solutions and facility management	2/2/17

Subject name	*Company Name*	*Position*	*Category*	*Industry*	*Industry category*	*Date*
James Woulfe	ReSET	Director of Advocacy & External Affairs	Nonprofit	Professional & technical services	Social enterprise incubator and coworking space	10/12/16
Jay Coen Gilbert	B Lab	Co-Founder	Nonprofit	Professional & technical services	Support for social companies	8/26/2016 and 9/15/16
Hardik Savalia	B Lab	Standards Manager	Nonprofit	Professional & technical services	Support for social companies	2/2/17
Anonymous	Anonymous	Founder	Social Company	Professional & technical services	Impact consultant	12/4/16
Kimberly Parker	Sisters of Nature	Founder & Owner	Social company	Retail	Boutique	9/20/15
Beth Palm	BAM	Founder & CEO	Social company	Manufactured goods	Organic personal care services	2/24/17
Anonymous	Anonymous	Founder & CEO	Social company	Manufactured goods	Handbags and accessories	5/25/16
Mark Slagle	Good Spread	Co-Founder	Social company	Manufactured goods	Peanut butter and severe acute malnutrition treatment distributor	3/31/16
Dean Wolfe	American Music Water	Founder	Social company	Manufactured goods	Bottled water benefitting musicians	4/5/16
Anonymous	Anonymous	Founder & CEO	Social company	Retail	Boutique	9/23/16
Will Anderson	Salemtown	Founder & CEO	Social company	Manufactured goods	Skateboards made by at-risk youth	3/29/16

Subject name	***Company Name***	***Position***	***Category***	***Industry***	***Industry category***	***Date***
Lauren Carpenter	BRANDED Collective	Co-Founder	Social company	Manufactured goods	Jewelry made by survivors of human trafficking	3/19/17
Anonymous	Anonymous	Founder	Social company	Professional & technical services	Event services	5/7/16
Anonymous	Anonymous	Founder & CEO	Social company	Agriculture, forestry, & fishing	Cotton farm, processing plant, and dye facility	2/17/17
Patrick Woodyard	Nisolo	Founder & CEO	Social company	Manufactured goods	Shoes made by fair trade workers in Peru	5/10/17

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