

Why Becoming a B Corp? A Discussion and Some Reflections

Zeila Occhipinti

University of Pisa, Pisa, Italy

In the late 1980s, the prevailing corporate model usually depicted companies as economic entities pursuing shareholders' profit maximisation interests without a thought for the consequences of this behaviour on the local community and environment. However, over the last decades, corporate scandals challenged that corporate model's validity and paved the way for a sustainable corporate model. The latter emphasises a triple bottom line approach that incorporates social, economic, and environmental objectives. By implementing a sustainable corporate model, companies achieve both economic and social goals in a balanced approach. This research investigates the B Corporation (B Corp) certification system, which helps companies implement a sustainable corporate model voluntarily. B Corp certification is a badge signal that companies' business model adheres to ethical standards and meets socially conscious stakeholders' expectations. Our research aims to provide a deep contextual understanding of the determinants and implications of the B Corp certification's adoption. We adopt a semantic approach to review and systematise management and accounting literature on Certified B Corporations (B Corps) through institutional theory's lenses, which help us explain why firms decide voluntarily to become B Corps.

Keywords: B Corp, sustainable corporate model, community, environment, hybrid organisation

Introduction

In the late 1980s, the prevalent corporate model depicted companies as economic entities pursuing profit maximisation goals in the interest of shareholders without a thought for the consequences of such behaviour on the local community and environment. Firms were self-interested, considering all social and environmental activities that do not increase shareholders' profit a waste of resources. However, over the last decades, corporate scandals, corporate responsibilities for environmental disasters, and human rights abuses challenged that corporate model's validity, paving the way for a new organisational form, called hybrid organisations, which adopt a sustainable corporate model (Friedman, 2007; Battilana & Dorado, 2010; Harjoto, Laksmana, & Yang, 2019).

While profit and social goals were traditionally perceived as being decoupled, hybrid organisations blurred the divide between non-profit and profit organisations (Munck et al., 2018; Roth & Winkler, 2018). This type of organisation emphasises a triple bottom line (TBL) approach that incorporates social, economic, and environmental objectives in the core business process and structures. By implementing a sustainable corporate model, hybrid organisations achieve both economic and social goals in a balanced approach, all of which contribute to minimising the negative effects of their economic activities on the community and the environment (Kim, Karlesky, Myers, & Schifeling, 2016; Stubbs, 2017a; 2017b; Villela, Bulgacov, & Morgan, 2019).

Several legal forms have been developed to establish hybrid organisations, for example, in the U.S., the Flexible Purpose Corporation, the Low-Profit Limited Liability Company, and the Benefit Corporation; in the UK, the Community Interest Company; and, finally in Belgium, the Social Purpose Company (Stubbs, 2017a; Villela et al., 2019). In this paper, we focus on the B Corporation (B Corp) certification system, which is a tool that helps develop hybrid organisations (Haigh, Walker, Bacq, & Kickul, 2015; Rawhouser, Cummings, & Crane, 2015; Villela et al., 2019). Certified B Corporations (B Corps) are companies which have successfully passed the voluntary certification process under the supervision of B Lab, a non-profit organisation. This process assesses company policies' positive impact on five areas: workers, community, environment, governance, and customers. B Corp certification is a badge signal that companies' business model adheres to ethical standards and will meet socially conscious stakeholders' expectations. The B Corp movement is growing, comprising more than 3,400 certified B Corps across 150 industries in more than 74 countries (B Corp, 2020; Bianchi, Reyes, & Devenin, 2020).

Our research aims to provide a deep contextual understanding of the determinants and implications of the B Corp certification's adoption. We adopt a semantic approach to review and systematise management and accounting literature on B Corps through institutional theory's lenses to help us explain why firms decide voluntarily to become B Corps and, subsequently, hybrid organisations.

We find that becoming a B Corp might activate a virtuous cycle of financial success and a broader social impact. Good practices related to the five impact areas potentially reward firms' behaviour, therefore improving their corporate market value in the long term (Romi, Cook, & Dixon-Fowler, 2018; Gazzola, Grechi, Ossola, & Pavione, 2019; Honeyman & Jana, 2019). The institutional theory explains the B Corp certification's adoption as being the result of a legitimation process demanding conformity to the institutional context (Harjoto et al., 2019; Villela et al., 2019; Alonso-Martínez, De Marchi, & Di Maria, 2020).

Our research contributes to the B Corp management literature by providing a conceptual discussion of the dynamics underlying companies' choice to become a B Corp. Furthermore, our research informs policymakers by helping them understand the elements that favour the implementation of B Corp certifications and the reasons for them to subsequently direct their policies and actions towards encouraging the B Corp movement's growth and hybrid organisations' diffusion.

This paper is structured as follows: Section 2 describes the research design; Section 3 provides an overview of the B Corp certification process, while Section 4 systematises the management and accounting literature on B Corps by using institutional theory's lenses. Section 5 presents the concluding remarks on the determinants and implications of the B Corp certification's adoption.

Research Design

We adopt a semantic approach (Cornelissen, 2017) to provide a deep contextual understanding of the determinants and implications of the B Corp certification's adoption. The following two main steps provide this understanding. Firstly, we depict the B Corp certification process's functioning, paying specific attention to assessing company policies' positive influences on the following five impact areas: workers, community, environment, governance, and customers. By reviewing secondary data from the B Corp official handbook (Honeyman & Jana, 2019), the B Corp official website (B Corp, 2020), and academic papers, we shed light on the virtuous cycle that B Corps can activate. Good practices related to the five impact areas can reward firms' behaviour by means of a virtuous cycle of financial success and a broader social impact.

Secondly, we review management and accounting literature on the determinants of B Corp adoption, using institutional theory lenses. Finally, drawing on the institutional theory we provide a conceptual discussion of the dynamics underlying companies' choice to become a B Corp.

B CORP

The B Corp certification system favours the development of hybrid organisations by helping companies combine their social, environmental, and ethical goals. *The B Corp Handbook* states that the B Corp model is not a new legal form and it is not limited to specific legal jurisdictions: "B Corp offers a framework that any company in any state or country in the world can use to build a stronger and more inclusive business" (Honeyman & Jana, 2019, p. 36).

B Corps are companies that have successfully passed the voluntary certification process under the supervision of B Lab, a non-profit organisation. The process assesses company policies' positive impact on its stakeholders (Villela et al., 2019; Bianchi et al., 2020). B Corp certification is therefore a badge signal that companies' business model adheres to ethical standards and will meet socially conscious consumers' expectations.

B Corps are required to meet social and environmental performance, accountability, and transparency's rigorous standards. The B Corp impact assessment evaluates organisations in terms of best practices in social and environmental performance by assessing the corporate model's influence on the five impact areas: workers, community, environment, governance, and customers. Firms are required to answer questions related to each impact area and need to obtain a minimum of 80 points¹ in total to receive the B Corp certification. The B Impact Report summarises the scores that firms obtain for the B impact assessment and can help firms plan improve their performance in specific impact areas (Honeyman & Jana, 2019).

In terms of their legal accountability, certified B Corps are legally required to include not only their shareholders' interests in their decision making, but also those of a wide range of stakeholders, such as their employees, customers, suppliers, and community (Roth & Winkler, 2018). These firms therefore have to sign the B Corp Declaration of Interdependence, a document outlining the B Corp community's values:

As B Corporations and leaders of this emerging economy, we believe: that we must be the change we seek in the world. That all business ought to be conducted as if people and place mattered. That, through their products, practices, and profits, businesses should aspire to do no harm and benefit all. To do so requires that we act with the understanding that we are each dependent upon another and thus responsible for each other and future generations. (B Corp, 2020)

B Corps fulfil these legal requirements by embedding these values in their articles of association, or by transforming themselves into benefit companies², or by making other structural changes. Furthermore, eligible firms have to sign a B Corp Agreement, which documents a B Corp's certification conditions and expectations³ (Villela et al., 2019; B Corp, 2020).

Finally, all certified B Corps are required to guarantee public transparency by sharing their B Impact Report on B Corp's official website www.bcorporation.net.

¹ The maximum score is 200 (Honeyman & Jana, 2019).

² A benefit corporation is a type of corporation which evolved from the B Corp movement and was created to ensure that the B Corp mission became part of corporations' DNA, whereas any type of corporation can obtain the B Corp certification by passing the certification process (Hiller, 2013).

³ B Corps have to pay an annual certification fee, calculated on a firm's annual sales. The B Corp certification term is three years. After this period, B Corps have to repeat the B Impact Assessment (Honeyman & Jana, 2019).

The B Impact Assessment: The Five Impact Areas

Worker impact area. Assessing the worker impact area means controlling that firms implement corporate practices that support their employees. By ensuring employees' economic empowerment, guaranteeing their well-being, and ensuring that their family finances are balanced, firms can improve their employees' performance, which will provide firms with unexpected financial benefits (Honeyman & Jana, 2019).

Community impact area. The assessment of the community impact area means verifying how firms' business model is linked to the local, national, and global community. The B Corps impact assessment controls that a list of good community practices are present (see Honeyman & Jana, 2019). In that way, firms can increase their employees' sense of community and can build a culture of inclusion, which will benefit the company image. These practices enhance employee loyalty and increase employees' engagement in corporate activities.

Environmental impact area. Assessing the environmental impact area comprises verifying all the activities that firms implement to mitigate economic activities' negative impact on the environment. The identification of strategies to increase firms' environmental performance helps attract talents, creates a durable relationship with suppliers, and increases customers' trust, all of which have positive effects on the corporate economic performance (Honeyman & Jana, 2019).

Governance impact area. B Corp is a philosophy that underpins business practices. B Corps are required to internalise corporate activities' impact on stakeholders during the corporate decision-making process by not only creating value for shareholders, but also for a wide range of stakeholders, such as consumers, employers, suppliers, and the community. The B Corp philosophy should be integrated into corporate governance mechanisms to guarantee B Corps' long-term durability despite changes in management and ownership. The governance impact areas' assessment implies the verification of good corporate practices that might contribute to integrating this philosophy into the corporate governance (Honeyman & Jana, 2019).

Customer impact area. The customer area assessment verifies the implementation of practices that create value for customers, therefore fuelling a long-term customer relationship (Honeyman & Jana, 2019).

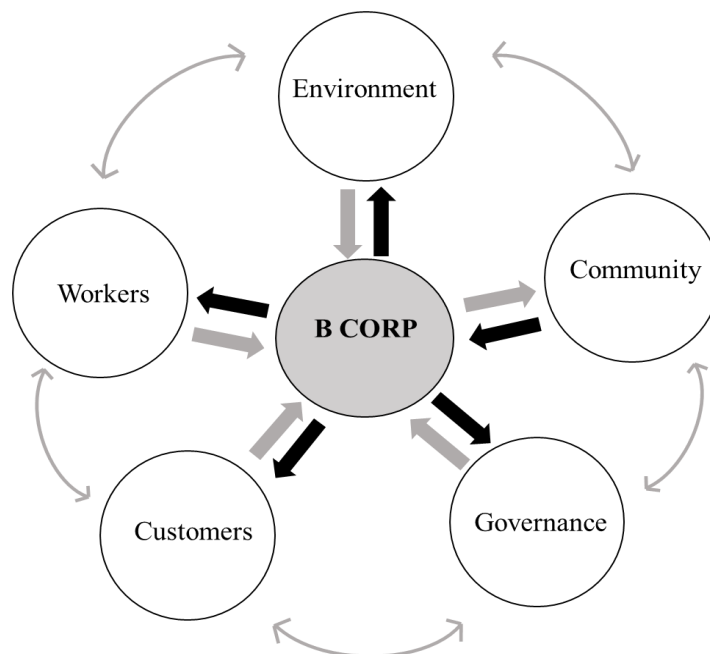


Figure 1. The B Corp virtuous cycle. Source: Own elaboration.

To summarise, implementing good practices related to the five impact areas, i.e., workers, community, environment, governance, and customers, could potentially reward firms' behaviour through a virtuous cycle of financial success and a broader social impact (See Figure 1) (Romi et al., 2018; Gazzola et al., 2019; Honeyman & Jana, 2019). Establishing long-term relationship with multiple stakeholders, building trusting relationships, and investing in innovation to mitigate pollution, all create reputational wealth, therefore improving the corporate market value in the long term (Hoepner, Oikonomou, Scholtens, & Schroder, 2016).

Determinants of B Corp Certification Adoption: Reviewing and Systematising by Means of Institutional Theory's Lenses

Scholars state that "being B Corps is a CSR action" (Hiller, 2013; Chen & Kelly, 2015; Harjoto et al., 2019, p. 623; Alonso-Martínez et al., 2020). Crane, Matten, and Spence (2008) identified six distinctive features of corporate social responsibility (CSR), i.e., voluntary certification, addressing externalities, taking multiple stakeholders into account, linking social and economic goals, ensuring practice and value, and going beyond philanthropy. All these distinct CSR features also characterise B Corps.

B Corp is a philosophy that underpins business practices. Becoming a B Corp is a volunteer action aimed at internalising externalities, i.e., internalising the activities' impact on stakeholders within the corporate decision making. B Corps are required to create value not only for direct shareholders, but also for a wide range of stakeholders, such as consumers, employers, suppliers, and the community. B Corps are therefore enlightened profit-oriented companies whose social and economic goals are linked (Harjoto et al., 2019).

Drawing on CSR literature, we can explain the determinants of B Corp certification adoption from the institutional theory perspective. The institutional context affects the organisation corporate model, contributing to shape the CSR level and the B Corp certification's adoption. Over the last decades, corporate scandals have challenged the profit-oriented corporate model's validity and paved the way for the diffusion of a sustainable corporate model that emphasises a TBL approach. Institutional environments recognise the relevance of ethical values and expect firms to adopt ethical behaviour (Jones, 1999; Matten & Moon, 2008.; Jackson & Apostolakou, 2010). The adoption of B Corp certification can be regarded as a legitimation process through which firms aim to satisfy their stakeholders' expectations that they will develop a sustainable corporate model. Legitimacy represents the value that stakeholders assign to the organisations and therefore a relevant source of competitive advantages for organisations (Hybels, 1995).

Isomorphism and decoupling are the main effects of organisations' legitimation process and contribute to explaining their decision to obtain the B Corp certification (Deegan, 2014). Isomorphism implies that organisations tend to adopt similar organisational structures. DiMaggio and Powell (1983) identify three mechanisms of isomorphism in organisations: mimetic, normative, and coercive isomorphism.

The mimetic isomorphism involves organisations trying to copy other organisations' institutional practices in order to gain a competitive advantage through their legitimacy (DiMaggio & Powell, 1983). Given a sustainable corporate model's diffusion among firms, mimetic isomorphism might pressure firms to gain legitimacy by adopting the B Corp certification.

The normative isomorphism relates to "the pressures arising from group norms to adopt particular institutional practices" (Deegan, 2014, p. 389). Similar resources, such as consultants and university graduates, exert normative pressures on organisations (Slack & Hinings, 1994) and might favour the adoption of the B Corp

certification. Specifically, through their educational background, which is increasingly focused on sustainability issues and ethical behaviours, CEOs exert normative pressures on firms to adopt a sustainable corporate model. Corporate ownership by females and ethnic minorities exerts normative pressure on firms by emphasising interpersonal relationships and social justice (Held, 2006; Harjoto et al., 2019). Furthermore, the innovation capacities at the country level incentivise firms to implement technology in order to reduce its environmental impacts (Alonso-Martínez et al., 2020). By favouring the development of a sustainability corporate model, normative isomorphism on the whole exerts pressure on firms to adopt a B Corp certification.

Coercive isomorphism results from the external pressures that stakeholders exert on organisations dependent on them. Coercive pressures originate from power relationships and political structures, such as political parties, religious organisations, activist groups, and consumer associations (DiMaggio & Powell, 1983; Harjoto et al., 2019). The presence of demanding, conscious consumers is an important country-level factor that supports the implementation of a sustainable corporate model favouring the adoption of B Corp certification (Bianchi et al., 2020). In relation to the coercive pressures that regulatory interventions exert, scholars highlight that the latter could—in keeping with the “substitution effect”—reduce firms’ private incentives to become B Corps (Jackson & Apostolakou, 2010; El Ghouli, Guedhami, & Kim, 2017; Alonso-Martínez et al., 2020). Policymakers should reflect thoroughly on the types of regulations that do not activate this “substitution effect” and on which types might favour the adoption of B Corp certification. For example, policy actions should be oriented to develop collaboration with universities, to promote knowledge exchanges and local innovation, which could, in turn, activate the normative isomorphism effect and favour the adoption of B Corp certification (De Marchi & Grandinetti, 2013; Cuerva, Triguero-Cano, & Cárcoles, 2014).

In addition to engendering isomorphic effects, the legitimation process might also generate decoupling effects. Decoupling implies that the formal organisational structure is separate and distinct from the effective organisational practice (Deegan, 2014). Being considered legitimate does not necessarily imply embedding social values into firms’ core business. Organisations could decouple their formal structure from the effective organisational practice. By obtaining B Corp certification, firms meet a sustainable corporate model’s community expectation. However, B Corp certification could create an organisational image that is decoupled from the effective organisational practice. Villela et al. (2019) suggest that the score obtained by means of the B Corp certification might not automatically entail the embedding of social values into firms’ core business. Empirical evidence reveals that managers often only decide to adopt the B Corp certification to communicate this to the rest of the world. This certification allows managers to gain legitimacy and for potential investors and customers to reward them. However, managers do not use the B certification impact assessment to improve their effective social performance and to reform corporate governance in order to better integrate their stakeholders’ interests in their decision-making process. Future research should study corporate behaviour after the adoption of the B Corp certification in greater depth, in order to assess the B Corps’ effectiveness with regard to internalising their stakeholders’ interest in their business model.

To summarise institutional theory explains how the institutional context impacts the organisation’s decision to become a B Corp. Becoming a B Corp should be regarded as a process of legitimation, through which firms attempt to satisfy their stakeholders’ expectations that they will develop a sustainable corporate model. In order to gain legitimacy, organisations tend to become similar (isomorphism) to other organisations, and/or create a gap between their formal organisational structure and their effective organisational practice (decoupling).

Conclusion

This research aims to investigate the determinants and implications of firms adopting B Corp certification. The B Corp certification system aims to help companies implement a sustainable corporate model and therefore combine their social, environmental, and ethical goals. We adopt a semantic approach, reviewing and systematising management and accounting literature on B Corps through institutional theory's lenses, which help us explain why firms decide voluntarily to become B Corps and the implications of this decision.

The B Corp certification is a badge signalling that companies' business model adheres to ethical standards and internalises stakeholders' interests. B Corps are companies engaged in establishing long-term relationship with multiple stakeholders, in building trusting relationships and in investing in innovation to mitigate pollution. These practices reward firms' ethical behaviour, activating a virtuous cycle of financial success and a broader social impact (Romi et al., 2018; Gazzola et al., 2019; Honeyman & Jana, 2019).

From the institutional theory perspectives, becoming a B Corp is a process of legitimation, through which firms try to satisfy their stakeholders' expectations that they will develop a sustainable business. Country-level factors, such as the innovation capacity, power relationships, political structures, religious orientation, consumer orientation, and resources in terms of consultants and university graduates, all potentially exert pressure on firms to become B Corps. Our research advances the management and accounting literature on B Corps by providing a theoretical discussion of the determinants of the choice to become B Corps. Future research should support our theoretical discussion by providing empirical analyses.

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