Stanislaus State

OUT WITH THE OLD: HOW B CORPS ARE PROVING CLASSIC BUSINESS THEORY OBSOLETE

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INTRODUCTION

Certified B Corporations are hybrid social enterprise models gaining footholds in business sectors throughout the world.

Corporations self-select to complete the arduous certification process via third-party verification requirements of B Lab.

The first B Corp was recognized in 2006. In the 15 years since, more than 3,900 corporations in 70 countries and in 150 business industries have been granted B Corp certification.

Directors of Certified B Corps are legally obligated to make business decisions for the greater good of all stakeholders rather than solely for the maximization of profit. While the theory that business can be done for social good is not a new one, it is not the predominant one.

Certified B Corporation

This company meets the highest standards of social and environmental impact

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RESEARCH QUESTION

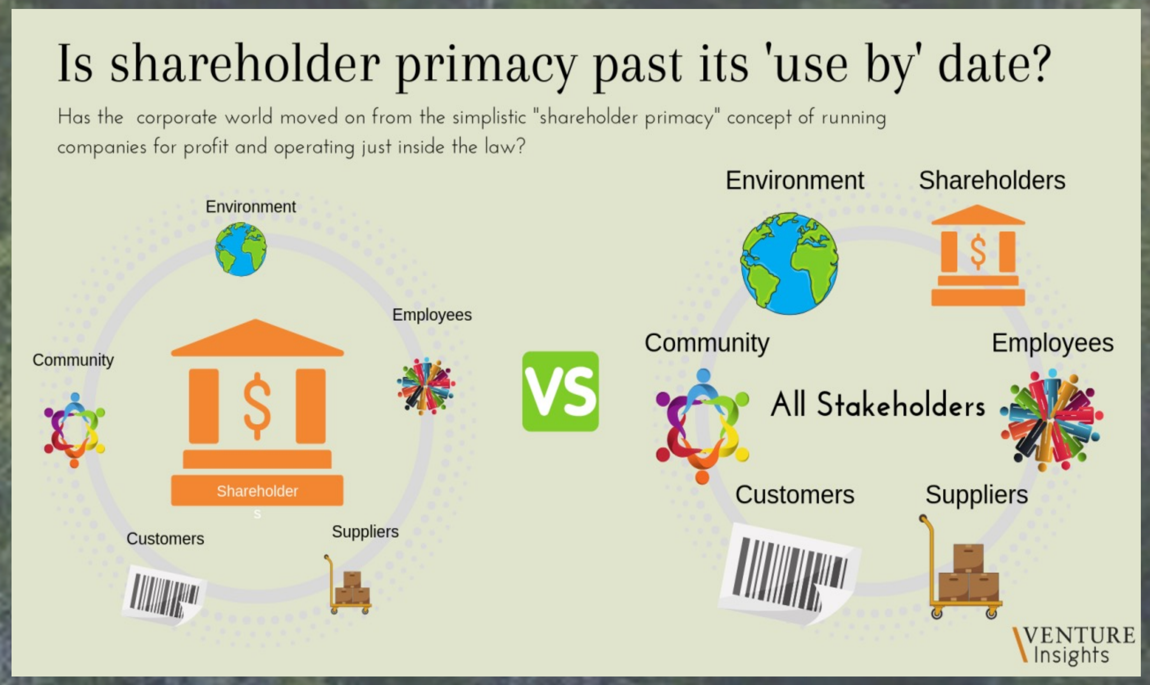
Since the 1970s, Milton Friedman's shareholder theory has been the cornerstone of all introductory business courses: the only social responsibility a business has is to increase its market value and generate profits for shareholders; all other benefits will organically follow. Might Friedman's theory have reached obsolescence? After the business scandals of the early 2000s, the subprime mortgage debt crisis of the late 2000s, and a building mistrust of corporate capitalism in the 2010s, consumers and investors are becoming more cognizant of the importance of investing in social enterprises with a focus on how business operations affect *all* stakeholders. Undoubtedly a tall order, can Certified B Corporations capitalize on this market interest, make a positive impact for their stakeholders and the world around them, and still generate profit for their shareholders?

BACKGROUND & LITERATURE REVIEW

Ascribing to Friedman's theory puts primary focus on creating stock value for shareholders, but at what cost? In response to financial devastation of the Great Depression, scholars debated to whom corporate directors should answer, shareholders or stakeholders, including employees, customers, and creditors (Munch, 2012). Today, "stakeholder" is defined more broadly, including the above, but also government entities, resource communities, the global environment, and any identifiable group or person affected by an organization's course of business (Freeman & Reed, 1983). Stakeholder theory is particularly relevant to the concept of corporate social responsibility (CSR) whereby companies integrate social and environmental concerns into business operations and do so to self-regulate, provide transparency for stakeholders, and be socially accountable; those with the highest CSR standards manage risk and enhance or preserve their corporate reputation (Chen & Kelly, 2015).

METHODS

The main method for this research will be analyzing primary and secondary sources to better understand the history of shareholder versus stakeholder theories, the trends as they relate to CSR initiatives, reporting on environmental social governance issues, and how financial executives measure profitability in both B Corps and non-certified corporations. It is a goal to analyze and compare financial statements of B Corps and their competitors, grouping corporations in industry sectors and classifying further to group like with like; however, many B Corps are privately held corporations and, therefore, are not required to publish financial data per Securities Exchange Commission regulations. When sufficient financial data is found to be unavailable, more subjective measures to analyze the trend, including impact reports, mission statements, and core values reports will be used to provide rhetorical criticism of the external value of certification.



EXPECTED RESULTS

While B Corps are a relatively new type of enterprise model, the shift away from shareholder primacy and towards stakeholder awareness is not. It is expected that I will find evidence to explain the phenomenology of B Corporations and that those organizations leaning into CSR initiatives remain financially viable while focusing on non-traditional, intrinsic value. I expect to correlate my findings to current business trends, making the case that the B Corp phenomenon is one that—although less immediately known—is becoming more relevant and capturing the attention of consumers, investors, and oversight organizations throughout the world.

SIGNIFICANCE

B Corps stand on the premise that business can be a force for change, and that corporations can do well while doing good. My research will analyze the evolution of a corporation's concern for its bottom-line to its triple-bottom-line—the concept that a corporation looks beyond profit to include social and environmental issues to measure its full cost of doing business—and what the implication of such an evolution means for financial managers of the future.

SELECTED REFERENCES

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