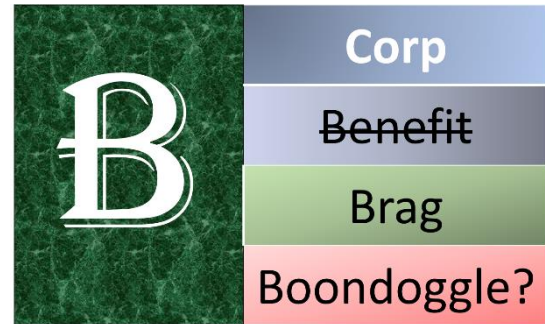


## B Corp: Benefit, Brag or Boondoggle?

By Douglas Hileman, FSA, CRMA, CPEA



The Los Angeles Times reported on controversies swirling around the “coveted ethical and eco-friendly seal” last month<sup>1</sup>. The article mentioned celebrities and well-meaning companies who are among the 7,800 certified B Corps worldwide. The article highlighted several controversies, including:

- Nespresso is awarded B Corp status, despite poor track record on human rights, including child labor [aside: not to mention over 20 billion plastic pods, the vast majority of which go to landfills<sup>2</sup>].
- Over 30 certified B Corps accuse B Corp of greenwashing.
- B Corp scoring is opaque, and does not consider negative factors.

As insightful as the article is, there is more. The LA Times article cited members as saying B Corp “isn’t a marketing gimmick – it’s a movement.” Douglas Hileman Consulting LLC (DHC) wonders if it’s something else. Is B Corp a benefit, a brag – or a boondoggle?

- **“Benefit” it’s not.** The LA Times article says “... B Corps – short for ‘benefit corporations’ ...” This is not correct, but a common misperception. When companies obtain charters (from states), they must indicate if they are for profit or a non-profit organization. For-profit organizations exist to make money for shareholders – full stop. Non-profit organizations exist for a purpose. At for-profit companies, environmental and social issues were met via regulatory compliance requirements. Many considered budget for Sustainability, social issues, etc. to be “extra” – if not contrary to their state charter. What about companies that wanted to do both? In April 2010, Maryland became the first state to allow companies to register as benefit corporations – a hybrid, if you will.

Consider a [fictitious] example. Suppose “Fresh Food Oasis” is created as a benefit corporation to provide fresh, healthy food choices in lower-income areas with limited food choices. The company wants to



<sup>1</sup> “Nespresso, Dr. Bronner’s and the Battle over B Corp Certification” by Jie Jenny Zou, published in Los Angeles Times, December 13, 2023.

<sup>2</sup> See <https://repodder.com/1-the-problem-with-nespresso-coffee-pods#:~:text=In%202022%2C%20it's%20estimated%20there,than%2070%25%20entering%20global%20landfills.,> accessed 1/11/2024.



make a profit, but will not focus exclusively on profit because it is also obliged to fulfill the mission included in its charter. One hopes the auditor reviews not only the financial statements, but the company's performance relative to its purpose as part of its annual audit activities. If FFO derives most of its revenues from selling junk food and beer, it isn't fulfilling its mission.



Or, if FFO management loses money by offering exotic produce with no buyers, it isn't making money. Both are legally required.

The B Corp designation, on the other hand, has no nexus to law, regulation or company charter. B Lab is the non-profit organization that determines the criteria for the B Corp certification. I attended a meeting where an audience member asked presenters from B Lab and a law firm specializing in benefit corporations to explain the difference. The presenters waved away the question, laughing that it was too difficult. It's not difficult at all. B Lab benefits from the conflation of the two. Companies holding the B Corp designation may benefit also, but perhaps from mistaken impressions.



**B Corp Criteria:**

The LA Times article discusses the opaque nature of B Lab's criteria and evaluation process. DHC notes this contrasts with other notable nationally and internationally-recognized Sustainability standards and frameworks.

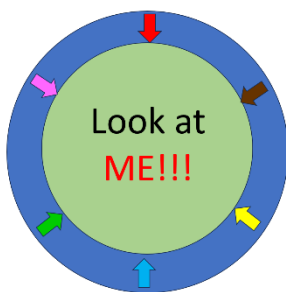
SASB undertook a rigorous process to identify parameters and criteria for disclosure of Sustainability matters material to primary users of financial reports. SASB's process included publication of draft standards for public comment. ISSB followed the same process, resulting in two key reporting and disclosure standards published in 2023. GRI is used by over 10,000 companies – including 96% of the G250 companies – as a framework for voluntary Sustainability reporting. GRI has consistently published draft standards, open for public comment. CDP's questionnaire is available on their website, as are CDP reports from thousands of companies and CDP's grades.

B Corp's approach more closely resembles that of analysts serving the capital market. Investors use ratings published by Moody's, Standard and Poors, Ecovadis and others in making some decisions about investment. Yet reporting companies' patience is wearing thin with the analysts' approach. ERM's Sustainability Institute published "Rate the Raters" report in 2023<sup>3</sup>, their latest look at how this community fares.

<sup>3</sup> See <https://www.sustainability.com/thinking/rate-the-raters-2023/>; accessed 1/11/2024.



**Evaluation, Reviews, or “Audits”?** B Lab has a “B Impact Assessment” tool, publicly available. B Lab reviews company submittals. With growth in demand, they have outsourced verification, including to contractors from an online training company and certified B Corp. The word “audit” is conspicuously absent. Audits require independence – in organizational reporting relationships, and in judgment. Auditors must be objective and free from bias. They must have no vested interest – actual or perceived – in the outcome of an audit. There is a growing demand for “assurance” in Sustainability reporting and disclosures. As a simplification, an “audit” checks the accuracy of data and “assurance” checks the processes that produce the data. California’s climate disclosure rule will require assurance of greenhouse gas emissions data; so will EU Sustainability reporting standards. B Lab’s efforts are neither. This poses risk of undue influence by B Labs, compromise of independence, variability in review processes, and/ or biased reviews. This can result in inconsistent grading and certification, and eventual distrust in the certification and its goals.



**Bragging?:** I’ll come clean: I think bragging can be just fine – if it originates in significant accomplishments. Muhammad Ali said “It’s not bragging if you can back it up.” At this writing, University of Michigan just won the national football championship. Donovan Edwards had the second and third longest touchdown runs in the championship’s history. A Sustainability colleague just completed her Master’s degree while working full-time and with family obligations at home. I brag, too – most recently as being an author of COSO’s “Achieving Internal Controls over Sustainability Reporting.” Brag on!

**Boondoggle?** Bonner’s, Dean’s Beans Organic Coffee and other signatories to a protest letter to B Lab may think so. As more stakeholder peer behind the curtain, and as more companies invest in audits and assurance, others may, too. On the other hand, any company can use the B Impact Assessment to find ways to make a difference in the environment or social situation in the world. They don’t have to pursue B Corp certification. If the environment or social situations are improved, is that so bad? The market will tell. Nonetheless, DHC suggests that B Lab – and the B Corps and the stakeholders they are trying to impress – will be better served if B Lab is honest about what they are, what they aren’t. The LA Times article is a good reminder to be curious and skeptical about certifications and marketing claims.

