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Leadership in International Management

Dear Reader,

Depending on how you tolerate uncertainty, when you have a decision to make, you may spend time in figuring out a Plan B in case your original best option won't work. Now that we are all challenged by our environmental, social, financial and values crisis, it may be time to ponder a Plan B --- in this case, the new B Corporations. Want to know more?

Enjoy the reading!

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Editor

LIM News When B Corporations Get an A

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When B Corporations Get an A

By Isabel Rimanoczy

In 2006, the Case Weatherhead School of Management in Cleveland, Ohio, organized a conference titled "Business as an Agent for World Benefit". The audience, mostly academics, listened to several guest speakers from the corporate world, who showcased examples of how their corporations were incorporating the greater good into their initiatives, products, or strategies. Pioneers like late Interface founder Ray Anderson, Alcoa Aerospace, and Unilever executives, shared inspiring stories. But a question kept circulating among the audience: If we want more corporations acting like these, what are we – the business schools- doing to promote it? The question was prompted by an awareness that business schools were teaching values that actually were an obstacle for a socially responsible business. Short-term thinking, and maximizing profit for the shareholders, it was argued, were not the values that would help an organization become an agent for world benefit. As a result, in this conference, a group of concerned academics and deans gathered to work on a commission designed to bring about change. Two years later, the **UN-sponsored PRME** (Principles for Responsible Management Education) was laying the foundation for a new model of business, revisiting values and partnerships.

Since then, over 426 business schools worldwide have signed up to address the challenge.

One new milestone in this journey is the creation of the B Corporation.

What is a B Corporation?

B corporations use the power of business to solve social or environmental problems, and they represent a new kind of corporation that doesn't abide by the shareholder primacy doctrine. Jay Coen Gilbert, co-founder of B Lab, the non profit that certifies B corporations, explains the phenomenon: "With public trust in business at an all time low, this represents the first systemic response to the underlying problems that created the financial crisis, protecting companies from the pressures of short-termism while creating benefit for shareholders and society over the long haul".By voluntarily meeting higher standards of transparency, accountability, and performance, Certified B Corps are distinguishing themselves in a cluttered marketplace by offering a positive vision of a better way to do business. This results in a new relationship with customers, who learn of a different way to do business while serving the consumers, and with suppliers, who are held to new standards. The relationship also reaches the community and employees, who are attracted to the ethical foundation of B corporations.

A movement

B corporations are leading a movement to redefine the meaning of success in business. There is a growing community of more than 600 Certified B Corporations from 24 countries and 60 industries working together toward a unifying goal: to redefine success in business. Acknowledging that government and the nonprofit sector are necessary but insufficient to address society's greatest challenges, business leaders realize that they are a powerful force on the planet, and that they have the possibility to create value for society, not just for shareholders. Successful B corporations set an example that encourages companies to compete not just to be the best in the world, but to be the best **for the world.** The B Corp Certification is the equivalent of the LEED certification, that is given to a building that meets environmental requirements, and the non profit **B Lab** requires the applicants to meet rigorous standards of social and environmental performance, accountability, and transparency.

> *"B Corps might turn out to be like civil rights for blacks or voting rights for women — eccentric, unpopular ideas that took hold and changed the world."*
> Esquire Magazine

The state of Maryland in the USA became the first American state to enact legislation creating B Corporations, in 2010, followed by Vermont and nine other states. It supports investors and entrepreneurs who want to make money and make a difference, holding directors accountable for failure to create a positive impact on society and environment. Furthermore, it empowers directors to consider employees, community and environment in addition to shareholder value when they make operating decisions, something not permitted in the traditional corporate bylaws. We have all heard repeatedly that the obligation of (traditional) business is to its shareholders, and not to maximize its profit is to fail in its responsibility. This has worked as a major obstacle in corporations that sought to include the impact on the community, on the environment or on a larger scale – the social impact of their sourcing, manufacturing processes, products or employment conditions. It simply didn't seem to be legal – although we knew there was something wrong in not considering the impact on community or environment.

"Yes, the planet got destroyed. But for a beautiful moment in time we created a lot of value for shareholders."

Business the New Way

As authors Mark McElroy and Jo van Engelen describe it, the world of B Corporations opens the door to a new landscape, where the corporate sustainability strategies no longer need to be tightly coupled to strategy in the conventional subservient sense, nor do corporate strategies need to be expressed in profit-making terms alone. Instead, the proposed corporate strategies include the pursuit of both monetary and non-monetary goals, the origin of which can be found in the relationships organizations have with many stakeholders groups, not just with the shareholders. And the many corresponding duties the new strategies have affect several forms of capital: the natural capital, the social, the human, not just one – financial capital.

But as McElroy and van Engelen indicate, this has repercussions not only valid for the B Corps, but for *all* business. "The chances of achieving an organization's monetary or financial goals will be better in cases where it is meeting its non financial duties and obligations, since the failure to do so can put the survival and/or the profitability of an organization at risk. Strictly speaking, then, sustainability strategies need not to be aligned with business strategy, and instead should be viewed as merely part and parcel of it."

Stakeholders are consumers too

Who are your organization's stakeholders? Organizations have stakeholder relationships with more than just shareholders or owners. Employees for example constitute one such non-shareholder group. Vendors, consumers, business partners, distribution channels, families of employees, and surrounding communities in places where companies do business, are some of the stakeholders impacted by business practices and decisions, suggest the authors. Furthermore business activities impact the natural resources, whether by using them (water, soil, minerals, products of the earth) or by their outputs (pollution, waste treatment, contamination of waterways, air and soil). How do the business activities then ensure the wellbeing of all the stakeholders? And what are the corporate duties and obligations to them?

Certainly consideration of these impacts will require us to think and act in terms of multi-year scenarios as opposed to the annual planning cycle, and the quarterly stock performance reports so familiar to our typical measurement of financial performance.

But which company can afford not to think of these issues? As more corporations begin to change the way of doing business, they are altering ethical standards and creating "the new normal". This is the start of a virtuous circle, where competitors taking the lead are setting the new standards. And when standing in front of a supermarket shelf, little do customers care what the bylaws say, if the corporation is “B”, “S”, or “X”. They may make the purchase decision based on which product is manufactured with their well being in mind. If a manufacturer does not, he may even been seen as immoral. That’s the new ethics.

Source: The sizzle with the stakes. Why shareholder primacy doctrine is at least myopic and possibly delusional by mark McElroy and Jo van Engelen. CR Magazine Nov Dec 2012

See also: Context based Sustainability, by McElroy & van Engelen –In: *Corporate Sustainability Management – The Art and Science of Managing Non-Financial Performance*. Earthscan 2012

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