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B The Change: Why and How B-Corporations are Entering Our Economy

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Abstract

This qualitative and quantitative study will examine and analyze the practices of fourth-sector businesses and how they interact with and compare to our decades old three-sector economy model. Fourth-sector organizations, also called “B-Corporations” or “For-Benefits” are businesses that have decided to get a certification that allows them to benefit from a social cause. This creates a hybrid model business that takes the consumer aspect of business and combines with the social change aspect of nonprofits to create a new business model in our economy. This study will focus on a well-known B-Corporation, TOMS, and how their business model and success has changed and improved since becoming a certified For-Benefit business. Researchers conclude that the best approach to studying B-Corporations is to focus on impact and annual reports to see if profits increased and how much more consumers are willing to invest and interact with corporations with a cause rather than a business or traditional nonprofit.

KEYWORDS: fourth sector, nonprofit, for-benefit, for-profit, B-Corporation

In most developed countries, the economy consists of three sectors: the government or public sector, the private sector which is comprised of for-profit businesses, and the nonprofit sector. But for a few decades now there has been a new continually emerging fourth sector which combines the market-based approaches of the private sector with the social and charitable aspects of the nonprofit sector. The phenomenon of this fourth sector is to promote change and advancement to upgrade our centuries old economic system to meet the challenges of business today. These fourth sector businesses are called For-Benefits of B-Corporations and there are currently over 2,000 operating in just North America. This new redefined way of business is changing the way both the nonprofit sector and private sector interact with each other and it is important to see how fourth sector organizations are making this happen.

According to The Fourth Sector is a new model that has social and financial value, and it is not defined by an operationalized definition, like the other three sectors. This sector will intertwine social value and financial values of the nonprofit and private sectors. Economists state that “for-benefit” businesses strive to provide services nonprofits typically offer such as social services, education and housing while also creating jobs, paying taxes, and making investments like for profit businesses do.

The main question the fourth sector brings is “to what extent do “fourth sector” organizations operate like or not like the traditional business model?” It is hard to know if a new era of hybrid businesses will impact nonprofits that have been around for decades. This new hybrid model also brings up concerns that all businesses may convert to this hybrid model if social values and expectations grow with an emerging sector. This potentially could harm the

nonprofit sector in the long run unless they are able to collaborate with these for-profit businesses. This would only become a harm to non-profits if consumers focused solely on supporting B-Corporations because they are able to do so by just purchasing a product without donating or participating in social movements.

This case study includes extensive research that has been done in the past decade leading up to the accepted idea of a hybrid sector that has already started to be introduced into our economy and others for the past decade. The research done has examined the implications and benefits for our economy. This study also examined for-benefit businesses that have already been introduced into our society and will help us try to understand why and for what benefit do they choose to get the certification to operate as a B-Corporation business.

Literature Review

Changing the Traditional Business Model

Change is something that is inevitable and needed to make anything successful. The economy is something that affects the everyday life of everyone in our society and our three-sector model, while effective, is centuries old. The largest benefit of a new for-benefit sector is the social aspect. These social aspects consist of creating new markets, influencing corporate morals and practices, and allowing consumers to show social preferences and values by investing in these businesses that also benefit civil society. (Alessandrini, 2015, 19). It is hard to measure how beneficial a B-Corporation certification is to the profit and income of a business in comparison to the social benefits. However, this study will examine all the aspects of B-

Corporations and why a traditional business may decide to take the extra steps and get this certification.

Benefiting the Private Sector: The benefits of these for-benefit include better brand image, cost-effectiveness, and enhancement of goodwill and productivity. Opening the private sector to allow for for-benefit organization also unlocks a potential for investors' money that would usually just go to a good or service to instead go straight into social change and corporate philanthropy. This type of philanthropy and charity is above what is required and expected from a business, which can have a significant impact on their communities and the business itself. What these authors are trying to convey is that businesses using this hybrid model will be able to give back to their communities or other communities while also gaining a profit for their benefit.

Benefiting the Nonprofit Sector: The benefit these B-Corporations will bring to the nonprofit sector is getting consumers used to the idea of giving back and being charitable. These for-profits will not replace the nonprofit or business sector, but they will "fill the gaps" left in between that the old three sectors are not able to or do not fulfill enough (Sabeti,2011). Nonprofit organizations may be able to feed off these for-benefit organizations by partnering with them to receive the benefit end these organizations would be providing. Our society today has been very empowered to take part in urban civic activism and have a very "do-it-yourself" mindset (Rask et al., 2020, 36). These fourth sector organizations allow for this type of activism which doesn't require much but allows for people to give back without getting directly involved in a movement. For college aged kids or young adults just beginning to start a family, sometimes buying from a company that donates profits to a good cause is a lot simpler than writing a big check or attending a big event for a nonprofit. Nonprofits will still benefit from a fourth sector if they

allow themselves to partner up and accept the fact that the traditional economic system may not fit into our society anymore.

Social Entrepreneurship: A great way to understand why and how B-Corporations are making their way into our economy is by studying social entrepreneurship. Social entrepreneurship is an approach that allows individuals, groups, and start up companies to fund and implement change in social causes. Social entrepreneurship is in retrospect the backbone of B-Corporations and what inspired the idea of a fourth sector. The business environment, more now than ever, is now calling for corporations to be more socially responsible due to the demand of consumers wanting to help social causes (Zhang, 2016, 50). One of the main differences between B-Corporations and social entrepreneurs that makes them not able to be classified under the same name is that most corporations have more financial stability and are able to comfortably make the risk to benefit a social cause. Most entrepreneurs are their own job security and may not be able to take all the risks and changes if the original plan does not work. Another big difference only relates to how these businesses operate. Many social entrepreneurs use a business model that allows a low income or minority group of people to work for them, and that is their social benefit. For example, in Julie Battilana, Matthew Lee, John Walker, and Cheryl Dorsey's article they discuss the business Hot Bread Kitchen who employes low-income immigrant woman to bake for them and allow them to exemplify their heritage through baked goods (Lee, 2012, 51). Hot Bread Kitchen is different than a normal B-Corporation, like TOMS, because TOMS gives profit to different nonprofits, while Hot Bread Kitchen makes profit while employing those in need. Both contain a social benefit but differ in their methods. This article also provides a chart that truly

exemplifies what the For-Profit sector is in comparison to nonprofits and traditional businesses (Figure 1).

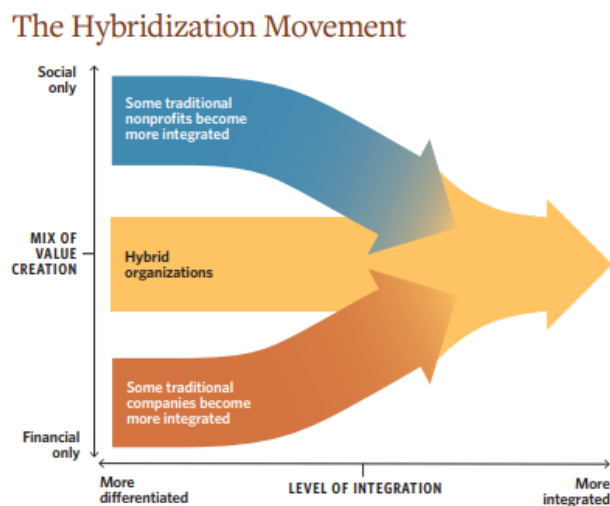


Figure 1: This diagram shows the social and financial value of the business and nonprofit sectors. The middle section highlights that hybrid organizations are at a perfect value of both value types (Lee, 2012, 54).

How They Operate and Why: A main question to be asked is “Why do businesses decide to get certified as a B-Corporation? What benefits come from this certification?” Looking at these corporations from an outsider view, it seems as if there is not much value to a B-Corporation certification besides social value. Social value, however, is very important to consumers in our society, when people can give back easily by simply buying a product, they will do so and help the social cause. Fourth Sector organizations operate much like a traditional business model. These corporations pay taxes, make investments and profits, and typically provide a good or service for consumers. B-Corporations also follow the same chain of command as a traditional corporation with the head Chief Executive Officer followed by other officers down to a chain of

managers and employees. One key difference in operating is B-Corporations must become certified and pass qualifications to register as a fourth sector organization. Businesses wanting to become certified have to pass an impact rating system, complete an interview, adopt a new legal framework, and sign a term sheet. This part of the For-Benefit organizations is very similar but less extreme than registering a 501c3 Nonprofit organization. There are at least two major reasons firms decide to get this certificate that has been concluded from prior research. The first is social responsibility efforts and that these businesses want to prove they are genuine and ethical. “B corporation certification would help them stand out ‘in the midst of a ‘greenwash’ revolution’ among large companies, and ‘help consumers sort through the marketing hype to find businesses and products that are truly socially and environmentally responsible.’” (Kim et al., 2016, 4). The second reason they discovered was these corporations wanted to change the way they conduct business. These businesses became certified to join the movement of creating a new economy with a new and improved set of economic rules and to redefine success and how it is defined in the business sector. The idea of creating a new economy comes from the idea of changing standard business practices to help prevent mass layoffs, income inequality, and other problems that happen in our economy when trying to maximize profits.

For-Benefit’s Already Operating: There are many companies that are already operating as B-Corporations that many people do not realize. These companies made a commitment to operate with intent to benefit a social cause. A few very popular companies are Patagonia, Ben and Jerry’s, and TOMS are some of the more well-known ones that have become favorable due to their social causes. These businesses have set a bar for the standards of B-Corporations and will only inspire other large companies to follow in their footsteps. Customers seek these purpose

driven companies and like to shop at places that align with their social value. In a survey done by Sezzel, another B-Corporation, they asked their customers to vote if the values of a company impact their reason to shop there. The results strongly favored companies with a social value or social cause.

Survey respondents were 57% Millennials and Gen Z while 31% were Baby Boomers. An impressive 81% of Sezzle respondents said it is important for them to purchase from brands that align with their social values and 80% stated they would pay for a sustainable product. The majority of shoppers are favoring businesses that promote social justice (Kohan, 2021).

These companies only further support the idea that becoming a benefit organization does impact the customer pool of many businesses and can even help expand it by reaching other social values in society.

Method

This study was conducted with a combination of qualitative and quantitative methods. I was able to do this by doing in-depth research on B-Corporations and how their impact has changed since becoming a certified fourth sector organization. By using this type of research, I have been able to uncover whether becoming certified greatly profits organizations in more ways than improving societal value. I was able to do this research by looking at secondary data from TOMS website, past annual or impact reports, and previous reports done on B-sector organizations. After investigating these sources and the data provided, I analyzed it in comparisons over the years to see if there is statistically significant improvement since TOMS

has become a B-Corporation. This research has resulted in a better understanding of the continually emerging fourth sector and how they benefit our economy and change the traditional business and nonprofit model we have become accustomed to as a society. This research also was able to show the implications and importance of the transparency of nonprofits and how different yet still similar they are from the B-corporations.

Sample Selection

For my sample I chose to evaluate a fourth sector organization that is already operating. I was able to research and chose TOMS. TOMS is a shoe company that was created in 2006 which previously used to be a one-for-one organization which means when a consumer would buy a pair, TOMS would donate a pair to a child in need in partnership with humanitarianism organizations. After unintended consequences of a one-for-one business impacting in-need countries negatively, TOMS now instead has its own projects that make sure one third of all their profits are invested in helping grassroots groups (Pendergraft, 2021, 6). Their new focus has been aimed towards ending gun violence, funding mental health resources, and increasing opportunities in disadvantaged communities. Along with those three main goals, TOMS also makes sure their products are sustainable to promote environmentally friendly consumerism. This is only one model of the popular B-Corporations operating in a “fourth” sector hybrid fashion and this model with TOMS has been very successful. TOMS are also easily recognized, and consumers know for the most part that when they purchase these products, they are giving back. This is why B-Corporations are so attractive to our society, the consumers of this generation love the idea of giving back while purchasing something for themselves, but many are unable to commit to simply writing a check to a nonprofit or joining a social movement. Using

articles and their website I was able to explore impact reports and annual reports to measure how they have grown as a business since becoming B-Corporation certified in 2018. Using TOMS as a model helped this study be able to see if there is significant change in profits and consumer interactions considering this certification.

Procedure

For my study it was important to find annual and impact reports. I attempted to reach out to TOMS organization to get this information, because it was not published publicly. However, I did not get a response, which is an implication mentioned later. I focused on the question of why businesses chose to become B-Corporation certified aside from the social aspect. I was able to then combine the data I collected and analyzed it to be able to use it to answer and support my research question.

Results

The results from the data I have collected have showed that a B-Corporation certification can help improve their business. Since 2018 TOMS has also switched their one-for-one shoe model for a new and improved one-third model in which one-third of all their profits are donated to grassroots human rights organizations and nonprofits. The data collected from TOMS impact reports show an increase in business, lives impacted, and shoes sold since becoming a B-Corporation in 2018, even amidst a pandemic and being in a competitive sector (Figure 2). They are able to measure lives impacted and business differently since switching to a 1/3 model because they can directly see the difference they are making through these nonprofits. Although shoe sales may not be as high as when TOMS first started due to the demand for the shoe going

down, TOMS has been able to profit around 6 million dollars annually, leaving 2 million to donate in grants. Although 6 million may not be a huge profit compared to other companies, it is notable for smaller shoe stores that do not have as much outreach as companies such as Nike or Vans.

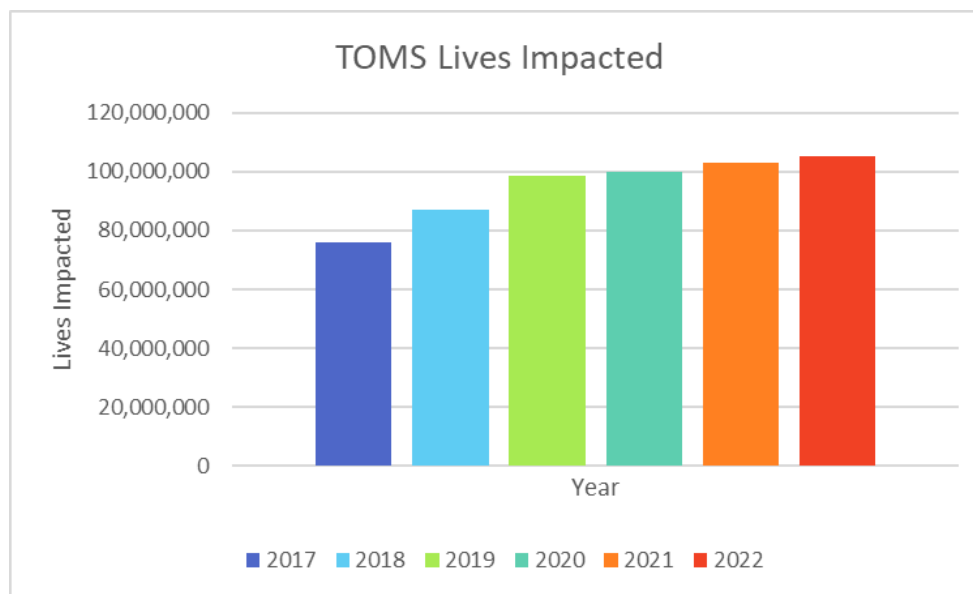


Figure 2: This figure shows the number of lives TOMS one-for-one and one-third model has impacted per year. 2018 is the year TOMS completed their B certification.

Since 2018 TOMS has only continued to grow and impact more and more lives every single day, as seen on a continuous counter on their website. Another set of data that was collected is from the official B-Corporation website which breaks down impact scores of businesses into 5 categories to show how successful they are and how they grow throughout the years. The impact scores are based on community, customers, environment, governance, and workers. This data shows even more of TOMS success since becoming a B-Corporation. According to the B-Corporation official website, most normal private businesses rank around 50.9. TOMS in 2018

ranked 96 in their first year of being a For-Benefit and they now hold a 121.5 (Figure 3) and rank Best in the World for their community score and are in the top 5% of B-Corporations.

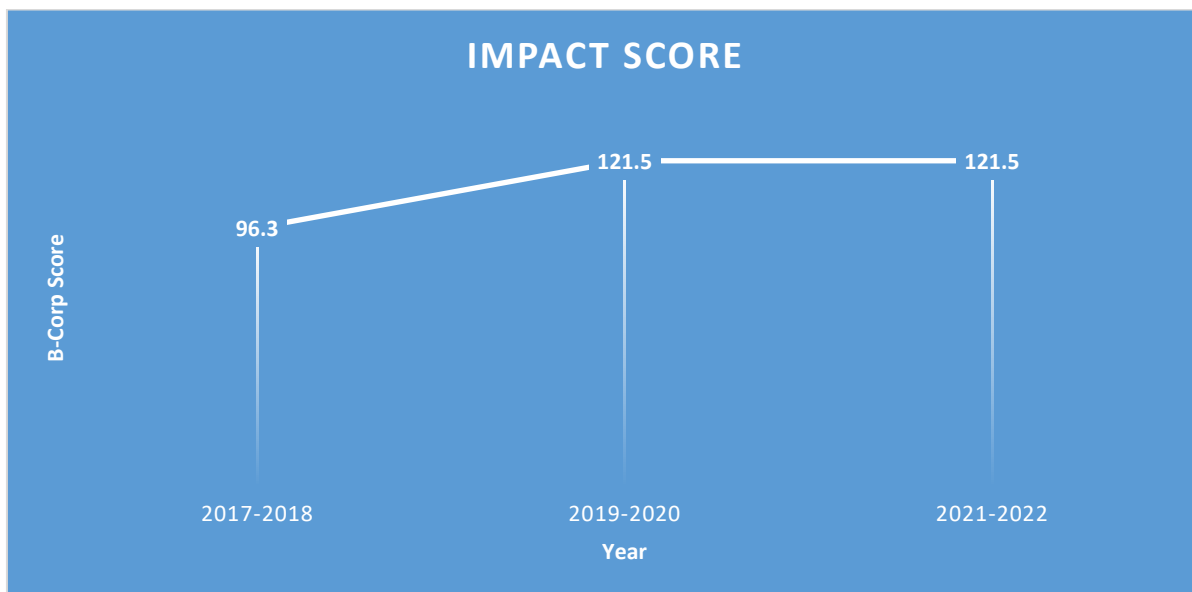


Figure 3: T This figure shows the rise of TOMS Impact score. The minimum score required is 80 to maintain a B-Certification, many ordinary businesses rank around 50.9. TOMS has maintained a score of 121.5 which puts it in the top 5% of B-Corporations.

These results show significant progress in both consumerism and social impact numbers, providing evidence to support the claim that businesses benefit from a B-Certification. Along with the data collected and analyzed above, there are also testimonies that directly correlate with the results of this study in other studies and articles along with cases of social entrepreneurship which is mentioned in the literature review.

Implications and Recommendations

Implications

The findings of this study did answer the research question originally asked, and that is reason why corporations are deciding to get a B-certification. The data concluded that becoming a B-Corporation or a For-Benefit Organization does have a positive impact on the business and the profits they bring in. Since TOMS has become a B-Corporation they have had significant growth in their business even with how competitive the shoe market is. TOMS has always had an attractive business model and has incorporated their products into something that could give back, the certification and change in some of their business practices has only made them more attractive to the public and philanthropic eye. Although, this data can be analyzed in many ways which makes room for different assumptions and opinions on why a company is successful. The implications of this study are dependent on the consumers and their personal reason for choosing TOMS for a pair of shoes rather than a competitor such as NIKE. Though the results support the idea that customers like TOMS due to their commitment to a social cause, a big chunk of the customers included may simply prefer the shoes and may not even know about the benefit shopping from them has. Other implications include the lack of information that is made public by TOMS. Even though they act like a nonprofit in certain ways, B-Corporations are not required to make certain forms such as 990s public in the way nonprofits have too. The grassroots nonprofits that TOMS benefits will have to release that information but TOMS as a big corporation is not required too. In the nonprofit sector these forms help with evaluating stability and progress so not having these allows for the implication that there is either hidden problems or progress within TOMS.

Recommendations

The biggest recommendation I have for future studies is simply more time to deep dive into such a large organization. More time would have allowed for possible customer testimonies and maybe gaining access to tax forms that could be analyzed, however time did not permit this to be a successful attempt. Having these tax forms or budget reports would allow for an entirely new data set that would help in evaluating the impact of a B-certification. Another recommendation I would make, if time permitted, would be to include other B-Corporations in the study. TOMS has always been an impactful business, but it is one of the smaller organizations due to the fact they rely solely on shoe sales. Larger For-Benefit organizations such as Patagonia or Athleta may have more readily available data due to the success and size of their business worldwide and the fact that they have more tangible stores solely for their own business. TOMS are usually sold in other shoe stores or strictly online. These recommendations would only further solidify the hypothesis that a B-certification does improve consumerism, however time does not always allow for the multitude of data that is accessible to be collected and analyzed, especially if using a larger B-Corporation.

Conclusion

In conclusion of this study, B-Corporations have and will continue to impact our economy in a positive light and make room for a new and improved fourth sector. The upcoming generation of consumers and entrepreneurs are very invested in social change. I believe in the next decade or so, the fourth sector will only continue to grow and develop. It is possible that

many businesses switch over to becoming a For-Benefit due to the fact consumers love to be involved in social change, and buying from one of these companies is one of the easiest ways to be involved.

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