

Social Innovations and Public Values: Mainstream Corporations vs. Benefit Corporations



Over the past few decades, the narrow-minded pursuit of short-term profits and maximized shareholders' values (MSV) demonstrated by many corporate executives has come at the expense of the interests of non-shareholder stakeholders, such as employees, customers, the community and the environment. Such behaviour is for the root of many problems with modern capitalism, leading to market instabilities, wider income gaps, and more conflicts between corporations and the general public.

One major misconception of the MSV belief is that directors and executives are, by law, agents of shareholders only, with a fiduciary duty to maximise their profits. The truth is that MSV is merely common practice and market norm rather than a law or regulation. Recent "constituency statutes" and court cases in North America clearly indicate that directors and executives have fiduciary duties to all relevant stakeholders.



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To maintain the legitimacy and sustainability of capitalism, over the past decade, reflections, explorations and movements have emerged in European and North American countries towards the direction of actively converting the “shareholder primacy” model to the “shareholder-based” model in order to create greater social value.. In addition to relatively common Corporate Social Responsibility (CSR) and Creating Shared Values (CSV) initiatives, recent alternative initiatives include social-purpose organisations such as Social Enterprises (SEs) and Benefit Corporations (B Corps).

Regarding the recent movement of the social-mission corporations, would it be beneficial or desirable if more mainstream corporations converted into B Corps, or would this just give companies excuses not to consider other stakeholders’ interests by overstating the limitations of existing laws placed on directors’ decisions?

Alternatively, if more mainstream corporations adopted an inclusive stakeholder approach, B Corps could instead play a bigger role in addressing specific pressing social issues and focus on creating public values. So, the question remains, what are the key role differences and relationships between these two types of entities?

1. The Limitations of Social Enterprises

Strategic CSR and CSV stress that within many social problems lie business opportunities. In other words, the economic values or competitiveness of mainstream corporations can be realised while addressing social needs or problems, thus establishing a more sustainable business-operating model. However, many large mainstream corporations are concerned only with social issues that lead to high business growth potential and profitability. As a result, important but less profitable issues with less affluent customers are often ignored. Therefore, we still need some social-mission entities to fill this gap.

Unlike mainstream corporations, SEs have clear social missions and can be self-financed using market forces. Unlike mainstream corporations which focus on creating private and economic value, SEs focus on creating more social (public) values.

Many of these organisations originated from the non-profit or charitable sector, while others were established by private investors and social entrepreneurs. Currently, most of these organizations emphasize entrepreneurship more than social value, yet lack the innovation that ultimately determines how much economic and social value it creates. The growth of self-sustaining SEs is also hindered by the lack of a commonly accepted certification scheme, narrow financing sources, a lack of tax incentives for capital donors, and restricted profit distribution to shareholders (usually up to 35%).

The total income of SEs accounts for a very small percentage of that of mainstream profit-making corporations, with the latter equivalent to at least 10 times the expenditure of their governments. Therefore, the impact of SEs remains relatively small. Nevertheless, seeing as mainstream enterprises aren’t always interested in addressing certain social needs or problems, SEs do have an important complementary role to play. In the long run, SEs should focus on specific social issues/changes with more innovation.

2. The Limitations of B Corps

B Corps constitute a new type of self-sustaining entity that falls somewhere between SEs and mainstream enterprises, and are also part of a global anti-MSV social movement. The company charter of a B Corp clearly specifies that it should adopt a stakeholder approach, and should be able to resolve or mitigate social problems in addition to earning profits under market forces (i.e. “business as a force for good”). This charter protects board directors and the CEOs from liability when taking care of the interests of non-shareholder stakeholders, even if their decisions do not necessarily maximize shareholders’ values. Unlike SE shareholders, B Corps shareholders are not restricted from seeking high investment returns, although most of their investors are prepared to have a low return rate of investment.

The B Corps concept came about in 2007 at the hands of US-based non-profit-making B Lab, which also operates the international B Corps certification system. This system ensures that all certified B Corps adopt charters that they are legally accountable for meeting defined social and environmental standards. Through mutual agreements, certified B Corps can trade with one another with special discounts and beneficial terms. Most US states have enacted legislation allowing companies to incorporate as B Corps. To date, there are about 2,000 certified B Corps in over 50 countries worldwide, although they remain in their infancy in the Greater China region.

Most of the aforementioned limitations to SEs are also applicable to B Corps with the exception to no cap on profit sharing. Furthermore, the primary rationale of B Corps rests on the mistaken, though widely held assumption that the current law forces corporate boards to pursue MSV alone, thus, preventing the board of directors from considering the interests of non-shareholder stakeholders. As mentioned earlier, MSV is not an executive obligation, but a market norm and an executive choice.

Nevertheless, B Corps can still play an important complementary role in the stakeholder model movement by focusing on specific public issues and values. A certified B Corp’s company charter together with its accountancy and transparency provisions will help attract more social investors. The B Corp name and logo also contribute to marketing campaigns, recruitment and other management advantages.

3. The unique role of mainstream corporations and B Corps

It is clear that making profits and addressing social needs are not mutually exclusive. However, mainstream corporations and social-mission corporations have their respective unique roles to play in terms of creating public value, assuming both are committed to the stakeholder-based governance model.

To enhance their roles, B Corps should focus on addressing specific issues, specifically, those that may not be of interest to mainstream corporations and even those that are less profitable. However, SEs and B Corps alone are inadequate when it comes to creating significant social change and sustainable effects. In addition, SEs and B Corps are not always the most effective platforms to achieve certain social objectives.

It seems that, due to the wealth-based power and incentives, the ability to truly change society for the better still rests within mainstream profit-making businesses. By adopting a stakeholder-based

governance model, mainstream corporations could launch strategic CSR or innovative CSV projects by themselves. They could also team up with other large enterprises, NGOs, governments, SEs and B Corps to generate more social innovations and values.

In fact, many of today's most innovative social solutions break through the traditional boundaries separating different sectors, with free flows of ideas, values and resources across them. If the barriers between these sectors can be removed even further, more novel and sustainable solutions can be developed to handle the most pressing social problems.