

'B corporation' plan helps philanthropic firms

Ilana DeBare, Chronicle Staff Writer

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Mike Hannigan and Sean Marx started their Oakland office supply company, Give Something

Back, with an unusual mission - donating all profits to charity. As they grew to sales of more than \$26 million, Hannigan and Marx often wished for additional capital to help fuel that growth. But they held back from seeking outside investors for fear of undermining their philanthropic mission.

"Even if investors came in saying, 'I am totally into giving away the profits,' two years later they might change their mind," Hannigan said.

Now Hannigan and Marx believe they've found a solution to their dilemma - writing their values into their company's legal structure as something called a "B corporation."

B corporations are the latest innovation within the small world of companies with a social as well as financial mission. Such firms have banded together for decades in networking groups such as Businesses for Social Responsibility, Co-op America's Green Business Network or the Social Venture Network.

But the B corporation movement - with the "B" standing for "beneficial" - takes things a step beyond networking and newsletters. B corporations must receive a passing grade on a long scorecard that covers environmental practices, employment practices, purchasing policies and whether their products are beneficial to society.

They must also adopt legal language stating that their directors may consider the welfare of outside stakeholders such as employees, customers, their community and the environment, as well as the financial interest of shareholders.

"These companies are stewards of the whole, not just stewards of maximizing shareholder wealth," said Jay Coen Gilbert, a Stanford business school graduate and entrepreneur who co-founded the B corporation movement.

The Bay Area is a hotbed of this movement, home to 24 of the country's approximately 100 B

corporations - including firms such as Method Home in San Francisco, Numi Tea in Oakland and the Hanson Bridgett law firm in San Francisco.

But the movement had its start and headquarters near Philadelphia, where Coen Gilbert and two of his Stanford classmates found themselves looking for a new challenge after successful careers in sporting goods and private-equity investment.

Coen Gilbert and Bart Houlihan had founded and sold AND 1, a \$250 million basketball footwear and apparel business. Andrew Kassoy had been a partner at MSD Real Estate Capital, a \$1 billion real estate fund that handled investments for Michael Dell and his family foundation.

All three had become interested in social entrepreneurship, or businesses that see social and environmental goals as part of their core mission. But rather than start a green business or a social investment fund, the three friends decided to strengthen and expand the entire sector.

"There was a lack of basic infrastructure preventing this marketplace from developing more quickly," said Coen Gilbert. "There was a lack of standards, and of knowing what we mean by 'responsible, sustainable, green business.' There was a lack of legal structures reflecting the values of these new enterprises. And there was a lack of a unifying voice for this market."

Coen Gilbert and his friends started their initiative, called B Lab, in June 2006. They coined the term B corporation as a playful reference to C corporations and S corporations, long-established legal structures named after sections of the federal tax code.

Unlike C and S corporations, though, B corporations don't have any special tax status. And it's too early to know how much legal cover the B corporation language will really offer firms like Give Something Back if, for instance, they are sued by an unhappy investor who doesn't like their social or philanthropic priorities.

A muddy situation

The situation is muddied further by the fact that some states have laws allowing companies to consider the interests of constituencies other than shareholders, while others including California don't have laws explicitly addressing that.

(California lawmakers are considering a bill - AB2944 by Assemblyman Mark Leno, D-San Francisco - that would give directors the leeway to consider the interests of outside stakeholders such as employees, customers, the community and the environment.)

Even with such unknowns, the B corporation idea has been spreading in social entrepreneurship circles. Some nationally known firms like Seventh Generation household products and King Arthur Flour have become B corporations. Locally, Method Home - which manufactures nontoxic cleaning products - had been independently considering how to embed its values in its governing documents when Coen Gilbert

showed up at its door. Method filled out B Lab's scorecard and received a grade of 128.7 out of 200, well over the passing score of 80.

Similarly, Numi Tea - which sells organic, fair trade teas from more than 25 countries - scored a 101.2 and became a B corporation.

Companies like Numi, Method and Give Something Back say they were attracted to the B corporation idea partly because of its potential to help them attract investment capital without jeopardizing their ideals.

They see the current explosion of consumer interest in green products as offering them unprecedented opportunities for growth - *if* they can obtain the capital needed to finance that growth.

When firms are acquired

They've also watched large corporations buying up one small socially conscious brand after another, with Unilever buying Ben & Jerry's in 2003, Colgate buying Tom's of Maine in 2006, Clorox buying Burt's Bees in 2007, and Coca-Cola buying a 40 percent stake in organic Honest Tea in February.

"The biggest fear of any company like ours is that if we merge with a strategic partner, will they try to strip our values away just to save on the cost of goods?" said Ahmed Rahim, who founded Numi with his sister Reem in 1998. "Having this as a part of our operating agreement carries a lot of weight. It means that whoever our strategic partner is, they will be committed to our values from Day One."

Although the B corporation language could easily be amended or eliminated if a company were acquired, it does function as a warning to investors or buyers that a company is serious about its values. And it may strengthen the hand of a founder who - faced with two competing purchase offers - wants to choose one that pays slightly less but is more in line with company values.

"It would give a future Ben Cohen (of Ben & Jerry's) an additional ability to weigh factors in addition to the financial ones," said Rick Aubrey, a guest lecturer at the Stanford Graduate School of Business.

"They could say, 'We don't have to *only* consider the financial offer here.'"

Along with the legal aspects, there are marketing aspects of the B corporation movement that appeal to some member companies.

Coen Gilbert and his colleagues hope that the B corp logo will eventually become a well-known seal of approval for socially responsible businesses. As part of this, they make company survey scores available to the public on their Web site at www.bcorporation.net.

"This helps consumers tell which companies see sustainability as a business imperative rather than a trend," said Adam Lowry, co-founder of Method.

"Until now, there have been no standards that distinguish a good company from good marketing," said Coen Gilbert.

For the present, the B corporation logo remains barely known outside the limited world of social entrepreneurs.

"Their fundamental challenge is to achieve some brand recognition," said Aubrey. "How do you create a brand that has meaning, and makes corporations want to participate in it, but isn't self-serving to the member companies? You want as many people to become B corporations as possible but you don't want to water down the standards."

But Coen Gilbert has big dreams for B corporations - and for socially-responsible business generally.

"We are witnessing the birth of a new sector of the economy between the private sector and the nonprofit sector," Coen Gilbert said. "Our grandchildren will be talking about this new sector the way we talk about the nonprofit sector. ... Eventually it will be 5, 7, 10 percent of GDP. And unlike nonprofits, it will have the ability to scale up from there because it can attract capital. There will be a social stock exchange, lower capital gains taxes for investing in these companies, and government procurement preferences. All of that is going to happen - but for it to happen, we need to create some standards."

B corporations based in the bay area

Company	Industry	Location	Web site
Abacus Wealth Partners	Financial planning	Sebastopol	www.abacuswealth.com
BBMG	Marketing	San Francisco	www.bbmj.com
Blueprint Research	Philanthropic consulting	San Francisco	www.blueprintrd.com
Cathedral Financial Group	Financial advising	Oakland	www.cathedralfinancial.com
Comet Skateboards	Skateboards	Oakland	www.cometskateboards.com
Evergreen Lodge	Yosemite hotel	Groveland	www.evergreenlodge.com
Give Something Back	Office supplies	Oakland	www.givesomethingback.com
Good Capital	Investment firm	San Francisco	www.goodcap.net

Green Harvest Technology	Green product development	Oakland	www.greenharvesttechnology.com
Guayaki	Yerba mate beverages	Sebastopol	www.guayaki.com
Hanson Bridgett	Law firm	San Francisco	www.hansonbridgett.com
Indigenous Designs	Organic clothing	Santa Rosa	www.indigenousdesigns.com
InJoy Media	Inspirational videos	Fairfield	www.innerespresso.com
Mal Warwick & Associates	Fundraising consulting	Berkeley	www.malwarwick.com
Method Home Products	Cleaning products	San Francisco	www.methodhome.com
New Leaf Paper	Recycled paper	San Francisco	www.newleafpaper.com
Numi Tea	Organic tea	Oakland	www.numitea.com
Opticos Design	Urban design	Berkeley	www.opticosdesign.com
Sungevity	Solar installation	Berkeley	www.sungevity.com
TBL Capital	Venture capital	Sausalito	www.tblcapital.com
TheGreenOffice.com	Office supplies	San Francisco	www.thegreenoffice.com
Del Forte Denim	Organic denim clothing	Berkeley	www.delforte.com
SVT Group	Social investment consulting	San Francisco	www.svtgroup.net
OneRoof Inc.	Technology services in developing world	San Francisco	www.oneroof.com

Source: B Lab

E-mail Ilana DeBare at idebare@sfnchronicle.com.

<http://sfgate.com/cgi-bin/article.cgi?f=/c/a/2008/05/18/BULH10JFU3.DTL>

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