# Measuring Impact in the Boardroom

B Corps setting the standard for measuring SRI.

**BY DOUG RAYMOND**

Over the past decade, there has been a significant change in the way companies, investors and consumers think about the broader role business plays in society.

The proposition is gaining acceptance that businesses should provide a benefit to more than their customers, employees and owners. The social-impact investing movement has focused attention on a broader role for corporate social responsibility, moving beyond merely avoiding pollution, child labor and other bad behavior.

The "B Corp" movement — recognized as a driving force in the arena of social-impact businesses — has set the standard for making and measuring impact in a public and verifiable way. It's a fairly new organizational form for for-profit businesses dedicated to the environment and social issues.

The eyeglasses retailer Warby Parker, for example, is a B Corporation. The company works with other organizations to provide one pair of eyeglasses as a donation for each pair sold, which is an important part of the company's marketplace positioning.

We're seeing more B Corps, in part, because of a push for socially conscious investing.

With a reported $8.72 trillion of "socially responsible investing" (SRI) in 2016 in the U.S. (an increase of 33% from 2014), the markets increasingly reflect that many investors are putting their money where their conscience is. This trend is expected to continue as wealth shifts to younger generations that desire to work for, buy from and invest in businesses more closely aligned with their concerns about the environment, sustainability and social justice.

Companies that are riding these trends have found that it can increase their access to customers, talent, capital and even profits. Consumers have increasingly shown a preference for brands that support a social cause, with a recent Brookings Institution report finding that millennials responded overwhelmingly (89%) with increased trust and loyalty, as well as an increased likelihood to buy from these companies.

In addition, companies with a broader purpose have an advantage in hiring and retaining the key millennial demographic that is expected to grow to 75% of the workforce by 2025.

This trend has significant implications in the boardroom.

While it is, of course, important for the board to

**B Corp and benefit corporation are often used interchangeably, but they are very different.**

- The term "**B Corp**" refers to the B Corp certification. Similar to "fair trade" for coffee or "LEED" for green buildings, the B Corp designation is a certification for the whole company rather than one aspect of a product or business. To get certified, companies must meet high standards of social and environmental impact, evidenced by obtaining a threshold score on the "B Impact Assessment," which is both verified and audited, as well as pay certification fees. Certification is for two years. You can identify certified "B Corps" by looking for the certification symbol: a capital "B" inside of a circle. Certified B Corps are required to make legal changes to their organizational documents, so many certified B Corps are also benefit corporations.
- The term "**benefit corporation**" refers to a new legal framework to incorporate a for-profit business with a broader purpose to benefit society and the environment. New corporate statutes authorizing benefit corporations have been passed in more than 30 states since 2009 (also called "public benefit corporations" or "PBCs" in some jurisdictions, including Delaware). A company does not need to be a certified B Corp to incorporate as a benefit corporation.

make sure that employees comply with applicable laws, embrace best practices and otherwise operate responsibly, for many this is no longer enough. But if these steps are no longer sufficient, what is? There have long been generally accepted accounting principles and other metrics available to measure and report financial performance, but very little guidance for those looking to benchmark social impact. However, the situation is changing.

Another example of a B Corp is Patagonia, the well-known outdoor apparel retailer, that donates 1% of sales to environmental causes, closely monitors its supply chain and conditions in partner factories, and uses eco-friendly materials in more than two-thirds of its products.

We know this not from an advertising campaign, but from Patagonia's publicly available "B Impact Assessment" and from an annual benefit report that evaluates and scores its social impact.

There are now over 2,300 certified B Corps and many more companies that have adopted the benefit corporation legal form. Investors like KKR, Andreessen Horowitz, First Round Capital and Union Square Ventures have all invested in benefit corporations, and major international companies including Unilever, Danone and Campbell Soup have acquired benefit corporations and maintained the status when integrating those businesses into their other operations.

Danone went a step further this year when its CEO announced the company's plan to obtain B Corp certification as a global entity and expand its commitment to use the B impact assessment to measure social and environmental impact.

This year also marked the IPO of a benefit corporation when Laureate Education became the first U.S. company to go public as both a certified B Corp and a benefit corporation. Listed on Nasdaq and incorporated in Delaware, Laureate made a commitment to pursue a "public benefit" purpose in its charter. Its directors must balance the stockholders' pecuniary interests, the best interests of those materially affected by Laureate's conduct and the public benefit identified in its charter, as well as provide reports to stockholders at least biennially on the company's impact.

The measurement and reporting tool that is required to be used by B Corps is comprehensive, quantifying a company's impact in key five key areas: environment, workers, customers, community and governance. Directors of more traditional companies can look to the B Corp assessment framework, which is free and available to all companies, to develop specific and quantifiable criteria for their own businesses.

Other tools provide context and transparency for investors.

For example, Aeris, an information and ratings provider for community investors, provides ratings and analytics to investors (and benchmarking for rated institutions). Aeris' Impact Ratings assess the pursuit and achievement of impact goals as evidenced by strategies, use of investment capital, and how impact is measured and affects the refinement of those strategies.

This is critical information in a marketplace where, according to an Ernst & Young survey, 64% of institutional investors say businesses do not adequately disclose non-financial risks and nearly half of investors would rule out investment based on non-financial factors.

Tools like those provided by Aeris are increasingly available to evaluate the effectiveness of SRI practices that boards can incorporate into their own strategic planning as they seek to respond to the demands for more transparency around social impact. For companies, setting specific goals and measuring impact go hand in hand with the ability to report out and up on SRI factors.

As the focus on impact investing increases, so will the demand for credible and transparent tracking and reporting of impact. Advertising campaigns, glossy reports without verifiable data and reliance on charitable giving to show a commitment to social and environmental impacts may no longer be enough to demonstrate social responsibility. Directors should contemplate the implications on their businesses of considering and measuring these non-financial indicators of success. The silver lining is that doing good also appears to be good business. ■

*The author can be contacted at douglas.raymond@dbr.com.*

*Lizzie Babson assisted with the preparation of this column.*

**Doug Raymond** is a partner in the law firm Drinker Biddle & Reath LLP (www.drinkerbiddle.com).