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# UNDERSTANDING BENEFIT CORPORATIONS

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## BEYOND CORPORATE SOCIAL RESPONSIBILITY


In its most simple form, company success is defined by the bottom line – revenue and profits. Organizations can expand upon this to include making a positive social and environmental impact. Typically called [Corporate Social Responsibility](#) (CSR), these good-will efforts usually exist as a separate program within an organization conducted *apart from* meeting financial goals. For instance, if an organization sells clothing, its CSR program may include quarterly clothing drives to benefit those in need. In traditional corporate structures, philanthropy is not the main focus nor is the company legally required to conduct these activities. But now many organizations take their charitable efforts out of the CSR department. They instead choose to legally formalize their social and environmental mission-related endeavors as the main business objective.

## THE BIRTH OF BENEFIT CORPORATIONS

Benefit corporations go beyond CSR or hybrid nonprofit ventures. They are for-profit organizations that are required by law to create a material positive impact on society and the environment in addition to generating profits. The mission is embedded into day-to-day operations. Directors and shareholders define what it means to be good for society and the environment – not a predetermined set of rules created by the government. These corporations are a fairly new type of corporate form that gives entrepreneurs and investors more freedom when determining what incorporated entity best meets their needs. A registered public agent is a helpful resource when making this decision. Currently, 31 states have [legislation](#) recognizing this corporate form which demonstrates not only their popularity, but that a business with a charitable mission can be profitable. Over 1,800 companies registered benefit corporations in 50 countries, including well-known businesses like [Etsy](#), [Method](#), [Plum Organics](#), [Klean Kanteen](#) and [Patagonia](#).

## BENEFIT CORPORATIONS VS. CERTIFIED B CORPORATIONS

It is important to note [the difference](#) between a benefit corporation and a Certified B Corporation. A benefit corporation is incorporated in the same manner as a traditional for-profit corporation. A Certified B Corporation is a company that meets [B Lab's](#) rigorous standards of social and environmental performance, accountability, and transparency. But it adds to the entity's credibility. For example, certification is similar to how many foods claim to be "all natural," but only those that meet certain standards are "certified organic." Certification is considered a best practice.



**"27 states already have passed legislation recognizing this corporate form, and the number continues to grow with 19 states currently working on passing similar laws."**

### BENEFIT CORPORATION ADVANTAGES

Benefit corporations go beyond Corporate Social Responsibility, by legally ingraining the social and environmental mission of the company as a core business objective. Benefit corporations are required to create a material positive impact on society and the environment, and must consider the impact of their decisions not only on shareholders but all stakeholders including workers, community, and the environment. They must produce an annual public “benefit report” that assesses their overall social and environmental performance against a third party standard (except in Delaware where making it public is optional and it can be published every other year). In addition to the obvious advantage of creating legal protection to consider other stakeholders rather than solely profit, there are numerous advantages to incorporating as a benefit corporation such as:

#### Attract Employees

- A [Nielsen survey](#) reveals that 56% of North Americans prefer to work for a company that gives back to society
- Millennials, who are 88 million strong in the US alone, prefer work that connects to a larger purpose, according to the [Harvard Business Review](#)

#### Attract Investment

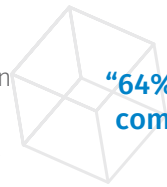
- According to the USSIF, there is \$3.7 trillion in socially responsible investing assets under management, which target companies like benefit corporations
- The annual benefit report provides transparent and credible information for impact investors, reducing their due diligence time

#### Business Differentiation

- According to the same [Nielsen survey](#), 64% of North Americans prefer to buy from companies that give back to society
- Becoming a benefit corporation demonstrates a true and lasting dedication to the cause that will weather any capital raises or IPOs
- It demonstrates leadership by voluntarily holding the business to a higher standard of purpose, accountability, and transparency

#### Protect and Maintain Mission

- Any decisions made must take into consideration the impact not just on shareholders, but also on workers, the community, and the environment (according to [www.benefitcorp.net](#))
- Publicly available annual benefit reports assess the social/environmental performance against a third party standard, allowing for transparency
- Provides flexibility and clarity to directors and officers that their duty includes a social and environmental mission



**“64% of North Americans prefer to buy from companies that give back to society”**

- Offers legal protection to directors so that they can consider the interests of their workforce, community, and the environment when making decisions, even when raising capital or selling their business
- Shareholders and directors have more rights and can therefore more easily, and legally, enforce the company’s mission

### BENEFIT CORPORATIONS ARE PROFITABLE

Not only can businesses with a charitable mission turn a profit, their revenues can be quite substantial. One of the best examples of a B Corp that turns a profit is [Etsy](#), an online marketplace that connects creative business owners with buyers.

Etsy is one of the first B Corps to become a [publicly traded company](#). Over a year after its IPO, their latest [earnings report](#) shows a revenue of \$85.3 Billion in Q2 2016.

This shows that businesses can be charities, while continuing to make a profit and appease shareholders.

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