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Socially Responsible Decision-Making in Certified Benefit Corporations

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Abstract

Hybrid businesses operate in a multi-objective environment where decisions must account for the impact to all stakeholders. This multi-case study examined how the leaders of these companies use strategic decision making to support both a social mission and retain business viability. The decisions made within these enterprises utilize a values-based lens where the implications to all stakeholder groups are considered. The positive social implications of certified benefit corporations, as a class of hybrid business, is the ability to create shared value between the organization and the communities in which they operate, generating greater human prosperity.

Doctoral Capstone

Problem

Benefit corporations are a relatively new form of hybrid enterprise that express both the corporate purpose of profitability along side a social purpose within their corporate charter.

Supporting multiple objectives creates a pluralistic decision-making environment where the corporation must maintain legitimacy by meeting all stakeholder expectations. Strategic decisions are those decisions that have a direct impact on the organizations ability to meet the requirements of their corporate charter. However, there is little if any decision-making guidance for hybrid organizations.

The specific problem is that the strategic decisions made within these hybrid organizations must utilize finite resources to manage the internal and external expectations for social responsibility.

Purpose

The purpose of this qualitative multi-case study was to examine how certified benefit corporations utilize strategic decisions to meet the social responsibility requirements within their corporate charter.

Significance

The promise of hybrid organizations is that they can **create shared value**, increasing human prosperity for all stakeholders.

By utilizing the economic engine of capitalism, these organizations can provide solutions to human needs that can be scaled to meet the demand, something with which purely non-profit organizations struggle with.

If these corporations can truly create and sustain shared value across all stakeholders, they have the potential to make a lasting positive impact on society.

This study contributed to stakeholder theory by illustrating how corporations make socially responsible decisions within a pluralistic, stakeholder-focused environment.

Framework

Stakeholder theory incorporates moral and ethical elements into the understanding of businesses as part of the social fiber. (Ayuso, et al., 2014) The decisions of business managers have far reaching implications for the network of relationships within which they reside.

Stakeholder theory embeds corporate social responsibility within the ethical aspects of the roles business plays within society.

Relevant Scholarship

Capitalism and social entrepreneurship

Benefit corporations are “...a form of business corporation that offers entrepreneurs and investors the option to build, and invest in, a business...that consciously undertakes a responsibility to maximize benefits of its operations for all stakeholders, not just shareholders.” (B Lab, 2019) The dynamics of hybrid businesses reside within the fundamental societal questions regarding the purpose of business, do they serve shareholders or do they serve the community of stakeholders (Mele’, 2016).

The legal structure of benefit corporations

Benefit corporation is a corporate form available in 37 U.S. states 74 countries (Benefit Corporation, 2020). Benefit corporations are defined by a dual-purpose corporate charter – one that combines profit making with a social mission (Koehn, 2016)

Corporate Governance

Benefit corporations are intended as stakeholder-focused socially responsible businesses. The leaders of these organizations must conform to existing corporate regulations, remain profitable while supporting a social benefit, address the risk of mission drift, and meet internal and external stakeholder expectations. Consideration of stakeholder interests on par with shareholder interests creates a complex decision-making environment (Mitchell et al., 2016).

How the leaders of these organizations make decisions within a complex multi-objective environment was the focus of this research.

Research Questions

How do leaders of certified benefit corporations make strategic decisions that allow them to meet the social benefit requirements of their corporate charter and maintain certification?

How do leaders of benefit corporations use strategic decisions to maintain the social mission alignment?

How do leaders of certified benefit corporations view the role of their business in the community?

Why do leaders of benefit corporations believe that certification is important to the success of the business?

Participants

Six certified benefit corporations were chosen from those listed on the B Lab website (<https://bcorporation.net/>).

Procedures

Members of the leadership for each company were interviewed. The 14 interview questions were derived from Stubbs (2017), review of the literature, and refined through a pilot study.

Each 45 to 60 minutes interview was recorded and transcribed. Interviewees were given the opportunity to review transcripts of their interview.

Company websites and publicly available documents and news stories were reviewed.

Analysis

A thematic analysis of the data was accomplished by content coding using AtlasTi8.

Findings

Eight themes emerged from the data illustrating the factors that drove decision-making within the six cases.

1. These companies were operated on a foundation of **values and ethics** with a strong belief in using the business as a means of **creating shared value**.
2. There was a strong desire for the business to provide for a **meaningful life**, not just for the owners and leaders, but for all employees of the company.
3. B Lab, the certifying entity for benefit corporations, presents these organizations as part of a **social movement**, this identification was shared by the interviewees, most had attended B Lab sponsored retreats.
4. **Community involvement and engagement** was an important aspect of decision-making and how the social missions were implemented.
5. Those companies that dealt with physical products also took care to establish supply chains that shared the ethics and values of the company.
6. Decision-making within these organizations was done with a **conscious analysis of the impact** these decisions would have on **all** company stakeholders, both internal and external.
7. The values and ethics of the organization provided a lens for this decision-making.
8. While profit was necessary for continuation of the business, **it was not the primary focus for decisions**.

Interpretation

These organizations utilized a stakeholder focus where the profitability of the organization became a means to achieve values-based objectives. Being part of a social movement, perceiving their companies as being partners with the local community, being leaders and role models within the community, were all important aspects of the organizational identity.

The decisions made were fundamental business decisions on how to allocate resources. The allocation of resources was not focused on profitability, but rather was focused on the values alignment of the organization and their corporate identity as a socially responsible, social mission-based company.

Limitations

There were three limitations to this study.

- While the number has grown since, at the time of this research there were less than 3,000 certified benefit corporations. Over 50,000 companies have taken the certification assessment. The results of this research may not be generalizable to other forms of hybrid enterprise, or to companies that have chosen not to achieve certified benefit corporation status.
- All six cases were small or mid-size companies. While there are a growing number of large corporations becoming certified, the decision-making practices noted in this research may not exist in the same forms in large corporations.
- The final limitation is the financial success of the case companies. A company struggling to survive financially, with less resources to allocate, may not be able to utilize these decision-making practices.

Recommendations

This study was restricted to U.S. based companies. The growth in hybrid organizations is a global phenomenon. Comparative research could aid in understanding if the same sorts of decision-making occur in other world regions.

As a snapshot in time, this study cannot assess the long-term efficacy of the decision-making practices utilized. In order to better understand how the decision made within these organizations impact the growth and development of the company, a longitudinal study would be warranted.

There is a lack of tools and metrics to assess the effectiveness of the social mission components of hybrid organization. These certified benefit corporations would anecdotally seem to be creating shared value, but there is no quantitative measure. Without a means to measure the social mission impact, it is hard to determine and replicate best practices.

Social Change Implications

The social promise of certified benefit corporations, and hybrid organizations in general, is to utilize the economic engine of capitalism as a “force for good” in the world.

The creation of shared value through community engagement and use of a values based decision-making lens is core to the corporate identity of these companies.

Certified benefit corporations represent an alternative view of business, one where corporate practices are not driven by shareholder primacy, one where stakeholders can all benefit from the success of the business.

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