

Benefit Corporations and Measures of Social Impact: Evaluation Insight, Opportunities, and Limitations

Re-submitted to The Faster Forward Fund

Authors: Rita S. Fierro Ph.D., Dale Miller Hill, and Jennifer Johnson

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Benefit Corporations and Measures of Social Impact: *Evaluation Insights, Opportunities, and Limitations*

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Acronyms & Terminology

SEVs Social Entrepreneurship Ventures. All for-profit ventures with a social impact goal. Includes non-profits with a business branch or experimental enterprise.

benefit corporations.

Business entity that is legally required to take social and environmental factors into account as part of its operations with a general public benefit and a specific public benefit in their bylaws. As of 2014, this business form exists in 31 States.

BLCOs B Lab Certified Organizations. Organizations that have been certified by B Lab. Organizations may have a variety of legal structures but cannot be non-profits. The distinction in terminology we are making here differs from that of B Lab. B Lab publications call these B Corps: a business (of a variety of legal types) has met standards related to environment, workers, customers, community, and governance).

BLCBs B Lab certified benefit corporations. Legal benefit corporations who have been also certified by B Lab.

B Corps This is the term B Lab uses for BCOs and BCBs combined. We are limiting the use this term here because we find it misleading. In its current use it denotes certified entities that may not be legal benefit corporations at all.

OSB Other Sustainable Business. Businesses that have attempted certification with B Lab but have not fulfilled all their criteria for certification. This can be legal benefit corporations or have another legal structure.

Executive Summary

Context

In November 2015, a Faster Forward Fund grant was awarded to Dale Miller Hill and Rita Sinorita Fierro of [Fierro Consulting, LLC](#) in response to a competition geared towards future directions for Evaluation. Hill and Fierro proposed a study of B Corporations certification to:

- a) understand how measurement of social impact was accounted for to certify B Corporations; and
- b) review and assess the certification criteria for measuring social impact and recommend improvements.

From 1995 – 2015, interest in social entrepreneurship has grown. The business world often uses social impact as a marketing pitch. Yet the business world is also creating its own systems of accountability such as the B Lab certification for sustainable businesses and the benefit corporation legal entity, in 31 states as of March 31, 2016. Benefit corporations are not audited¹, but must publish an annual benefit performance report based on a third-party standard. Investors have a growing interest in choosing investment portfolios with evidence of social impact. To satisfy this need, B Lab created a certification process in 2007 that, as of the writing of this report, had 1996 certified BLCOs.² However, from the standpoint of the evaluation profession, the standards for assessing impact are still behind the best practices in the non-profit world.

Our work is relevant to a range of organizations that combine social goals with market incentives. Many organizations are blending for-profit ventures and social responsibility, from pure “for-profit corporations” on one end, which devote some resources to social corporate responsibility to “not-for-profit organizations” on the other, which incorporate market incentives into their methods of service delivery. In fact, B Lab certifications are not awarded to benefit corporations alone, but to the whole range of profit-seeking entities, excluding only 501 c (3) non-profit organizations.

Assessment Critique

A shortlist of strengths and weaknesses of the certification process, and B Lab’s reporting on the results of the process, follows.

Strengths

Culture Change. With the mandatory signing of the Declaration of Interdependence document, B Lab is contributing to creating a movement that is grounded in the principles of Purpose, Interdependence, Accountability, and Transparency.

Stakeholder Inclusion. The inclusion of stakeholder interests in governance, a requirement for certification, is a radical step forward from other OSBs.

Good Measures of Poverty and Inclusion. Inclusion criteria have both their own section and are well-integrated throughout the instrument. Several measures are thorough in detecting hidden mechanisms of inequality.

¹According to the benefit corporation website: <http://benefitcorp.net/faq>

² According to <https://www.bcorporation.net/>

Incentive for Independent Research. Several items in the assessment ask about research on impact. These items are a valuable incentive for independent research of the business' impact.

Certification Evaluation. B Lab conducts an in-depth evaluation of the certification process for 10%³ of its BLCOs to ensure they have completed the assessment correctly and monitor oversight.

Gradations of Impact. For many items, a gradation of impact options is offered.

Transparency. Multiple measures of transparency within the organization and towards the general public are included.

Accountability. Many items ask about feedback mechanisms and checks and balances.

Incorporation of Regional Differences. According to its leadership, B lab has an Emerging Markets Standards Advisory Council and advisory groups in global partner regions to advise on the standards and ensure local applicability while maintaining a global standard.

Weaknesses

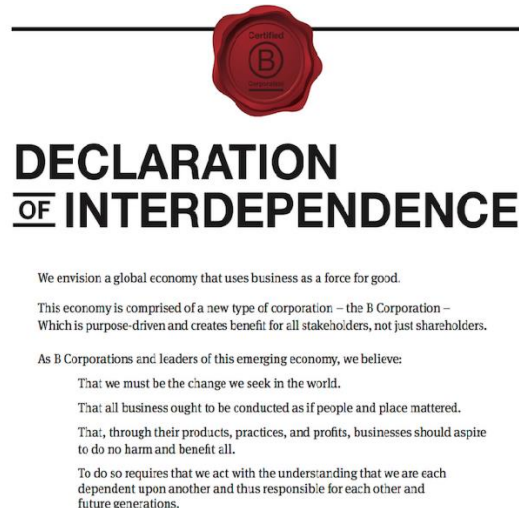
Data Sharing. B Lab's annual report is more geared toward marketing than reporting. It is surprising that the non-profit organization that is promoting accountability and transparency in the business world seems to not have transparent goals and outcomes for itself. *We recommend:* Establish consistent benchmarks for B Lab's progress to include in every annual report. To avoid confusion, disaggregate certified legal benefit corporations from other certified entities.

Standardization. As for all standardizations, the criteria B Lab uses for measurement may not correspond well to individual businesses' goals and outcomes. *We recommend:* Ask businesses to list their own outcomes and ask for each the % to which it was achieved in the prior 2 years. Add the latter to the final score.

Research and Evaluation Incentive. While the incentive to do research is appreciated, one yes/no item on the achievement of outcomes is not enough. There is an open-ended question where one can place a theory of change but it does not apply to all business models and the tool could go further. *We recommend:* As part of the certification process, make the program theory a requirement, and verify that each business integrates it into their business plan, to ensure that its activities are aligned with its expected outcomes.⁴ Establish service partnerships with research and evaluation firms to incentivize independent impact measures and accountability.

³ <http://www.bcorporation.net/become-a-b-corp/how-to-become-a-b-corp/performance-requirements>

⁴ A "Theory of change" (for a program, or in this case for an aspiring BCLO) is also known by other names: Results Framework; Theory of Action (for project or intervention level); results chain; or program theory. The Theory of Change specifies, at least: an objective, planned inputs and/or activities (project or program design); and expected results (outputs, outcomes or intermediate outcomes.) It may also specify assumptions and risks.



Conclusions

Our research can bring heightened social accountability to the business world's claims of positive social impact both domestically and internationally. With better information, investors can direct their investments where the social impact is higher, consumers can make more informed choices, and B Corps can identify better projects. The business sector would be held more accountable for the full repercussion of its impact in the developing world, too.

For the field of evaluation, there is an opportunity to use our knowledge beyond the fringes of the non-profit and philanthropy economy to build bridges with the world of business.

In doing our assessment, we considered that evaluators and executives of BLCOs use criteria and tools in quite different contexts. Evaluators are usually hired to perform a discrete task, limited in time, such as evaluation of a project or program. However, the executives of BLCOs are engaged year-round in operation of their businesses, and need tools that take the dynamics and evolution of their business into account, and that help them in governance, strategy formulation, management, and marketing.

To build bridges, both evaluators and the BLCOs need to understand the other's perspectives and endeavor to speak a new language.

Evaluators and B Lab have a mutual interest in building dialogue on social impact measurement. The demand for credible evaluations would increase. New social impact funds may be created that challenge existing entities to expand and deepen the criteria they use to measure social and environmental impact and sustainability.

Introduction

Context

In November 2015, a Faster Forward Fund grant was awarded to Dale Hill and Rita S. Fierro of Fierro Consulting, LLC in response to a competition geared towards future directions for Evaluation. With this grant, Hill and Fierro proposed a study of B Corporations (B Corps) certification as conducted by B Lab, one of several certification entities for benefit corporations, to:

- a) Understand how measurement of social impact was accounted for to certify benefit corporations and
- b) Review and assess the certification criteria's for measuring social impact and recommend improvements. Fierro and Hill hoped to promote the improvement of these criteria for inclusion in the certification process for B Corporations meeting threshold levels of "social impact."

Such improved criteria could assist in the future for evaluating impact of B Corporations, B Lab Certified Organizations (BLCOs), Other Sustainable Businesses (OSBs), and Social Entrepreneurship Ventures (SEVs).

From 1995 – 2015, interest in social entrepreneurship, corporate social responsibility, and corporate philanthropy has grown. More often than not, the business world uses social impact as a marketing pitch. Much of the business world does not have the equivalent built-in systems of social accountability as the non-profit world, but their own systems of accountability are quickly growing.

The recent emergence of formal legal registration for benefit corporations (now passed in 31 states) represents one response that places social benefit and profit on equal footing in the legal commitment of the corporation. Benefit corporations are not audited, but in most states, they commit to publishing their performance in a benefit report based on a third-party standard annually. Investors have a growing interest in choosing investment portfolios according to specific social responsibility indicators and certification of social impact. To satisfy this need, B Lab created a certification process in 2007 that, as of the writing of this report had almost 2000 certified BLCOs.⁵ However, from the standpoint of the evaluation profession, the standards for assessing impact are still behind those used for official and non-profit financing of projects.

By focusing on B Lab certification in this study, this work is relevant to a range of organizations that combine social goals with market incentives. Many organizations are blending for-profit ventures and social responsibility, from pure "for-profit corporations" on one end, which devote some resources to social corporate responsibility to "not-for profit organizations" on the other, which incorporate market incentives into their methods of service delivery. In fact, B Lab certifications are not awarded to benefit corporations alone, but to the whole range of entities, excluding only 501 c (3) non-profits.⁶

⁵ According to <https://www.bcorporation.net/> there are 1,996 "B Corporations."

⁶ B Lab and GRI assessment tools do not *only* focus on B corporations (organizations with a legally defined dual purpose of profit and positive social impact); but they also are used by purely for-profit corporations to rate their corporate social responsibility, e.g. impact of their regular operations on environment, workers, and community. We focused on measurement of social impact for B corporations, those aiming for a positive social impact.

1. Our Analytical Framework

In this study, we saw a need to build a bridge between the evaluation profession and the B Lab certification body given our common interests in: accountability, transparency, and positive social impact.

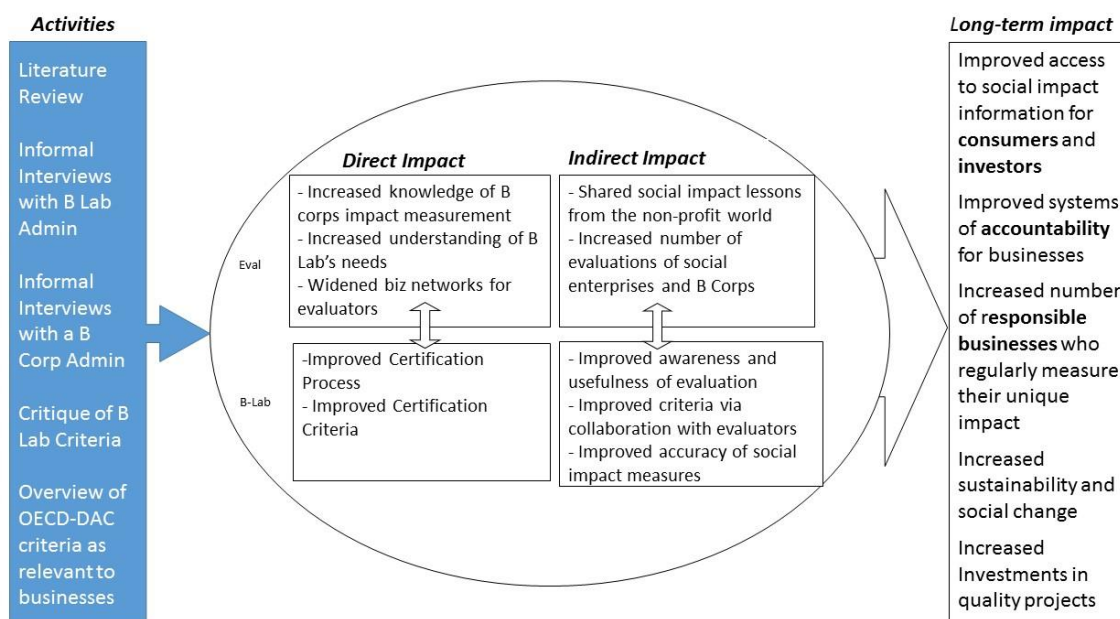
Our methods included: a literature review; two informal interviews; a review of potential applicability of OECD-DAC evaluation criteria to benefit corporations, BLCOs, and SEVs; and a critique of the B Lab assessment instrument.

We aimed to increase communication with B Lab and BLCOs and generate mutual benefits both to B Lab and the evaluation profession. Given the limited scope of this initial study, our direct impact is limited to the short-term. We focused on relationship-building, increased understanding for evaluators, and a more informed certification process and criteria for B Lab. However, we recognize that these are the first steps in an opportunity with great potential to affect in the medium and the long-term several results of benefit to both the evaluation profession and the business world:

- demonstration of the value of increased use of evaluation to help businesses meet a variety of their needs;
- increased accuracy of measurement of social impact of BLCOs; and
- increased attention to frequency of measurement and accessibility of the information, and thus accountability to the public for transparency; and
- context-sharing lessons learned about projects in developing countries.

If the evaluation profession and certification bodies and organizations continued to invest in building these bridges, there are long-term benefits to be expected for investors, consumers, and businesses. There would be much more sharing of knowledge and more investment in better projects that generate sustainable social change.

Figure 1: Potential Impact of Grant Funded Activities



2. Background on SEVs, BLCOs, and BLCBs

Social Enterprises

A social enterprise is an organization that aims at using commercial strategies to improve social and environmental well-being. A social enterprise may have a variety of legal structures, from non-profit organizations, which have obligations mainly towards stakeholders, to traditional c-corporations, which have a legal obligation to create value for shareholders. Any business registered as a traditional corporation may call itself a social enterprise, by either effectively having a positive social impact or simply marketing themselves as such. Microfinance institutions and impact investing may be the most commonly known social entrepreneurs worldwide. This report will not focus on microfinance and impact investing given their niche role in the finance world. In an attempt to regulate businesses and the use of the term “social impact,” more stringent criteria have emerged, in particular benefit corporations, and BLCOs.

Types of Social Enterprises

Social Enterprises can be classified according to a variety of criteria. These criteria are listed in the Figure below, briefly. More detail on the differences in governance is covered in the governance section below.

Figure 2. Typology of Social Enterprises

By Governance: <ul style="list-style-type: none"> • Differentiated hybrids: Consumers are not social impact stakeholders; • Integrated hybrids: Consumers are stakeholders. 	By Type of Goal: <ul style="list-style-type: none"> • Do no harm; • Positive Impact. 	By Legal Status: <ul style="list-style-type: none"> • Non-profit; • LLC; • C-corp; • Benefit Corporation; • S-Corp, Etc. (any legal entity can claim social enterprise status).
By Social Impact area: <ul style="list-style-type: none"> • Environment; • health and safety; • employee diversity; • procurement/supply chain; • Governance; and • community development. 	By Products or services provided: <ul style="list-style-type: none"> • Known products with innovative targeting or pricing; • Innovative Products; • Public goods. 	By certification status: <ul style="list-style-type: none"> • B-Lab assessed and certified; • B-Lab assessed but not certified; • GIIN certified.
	By stage of development: <ul style="list-style-type: none"> • Pilot stage; • Experimental; • Established, Validated market demand. 	

Governance Types

One distinction drawn in the literature between different types of B Corps and SEVs that seems particularly interesting is between differentiated hybrids and integrated hybrids (Ebrahim et al. 2014). These two different types of social enterprises—differentiated hybrids and integrated hybrids—face their own challenges regarding governance and mission drift. For differentiated hybrids, the stakeholders in the company’s social impact (meaning those who benefit from the organization’s positive social impact) are not its consumers, and thus it is harder for them to impact the company’s financial bottom line if they feel they are not being affected as positively as they would wish. In this case, companies must do extra work to solicit input from their beneficiaries about the quality and value of their social impact business activities. As they become profitable, differentiated hybrids must be wary of the temptation to prioritize customer value over social impact. For instance, companies which allocate a portion of profits to social causes, either on a fixed percentage basis, or by earmarking certain profitable market-based activities for social purposes, could feel pressed during a recession to

shortchange their social goals. Also, as explained earlier, because the beneficiaries cannot express through the market their needs and preferences, they may not even receive sustained benefits if the company chooses to diversify its social causes from year to year.

Integrated hybrids face a different, and even sometimes opposite, governance challenge. When a company's consumers are also its stakeholders—when those who buy the product are those who benefit from the product's sale—social impact depends on the continued accessibility and affordability of the product. An example is a company that delivers eyeglasses to the poor in emerging market countries at affordable prices due to use of local institutions and training of local unemployed women. It could not expand its market to middle income customers willing to pay more, without the risk of undermining its social outcomes. When consumers are stakeholders, they can express their dissatisfaction with the company by not buying the product—that is, unless the product is something they can get no other way, such as the affordable eyeglasses provided by this company.

Benefit Corporations

Benefit corporations are social enterprises that are legally bound at a state level to pursue social and/or environmental benefits, in addition to their profit motives. General and specific public benefits are listed in their bylaws. Legislation to allow private entities to register benefit corporations exists in 31 U.S. states and one Canadian province (British Columbia). The benefit corporations movement has grown to help customers and investors differentiate between businesses who market themselves as having impact and those who actually are committed to & effective in their social impact. The United Kingdom, Italy, and New Zealand have similar models of legally-enshrined entities. To meet its legal obligations as a benefit corporation, a private enterprise must state in its charter the positive social and/or environmental impact it wishes to create, and make a commitment to report its social and environmental impact performance using third party standards in its public annual or biannual benefit report each year. Reported impact covered can vary from how it treats workers to how it affects the environment. Reporting criteria change from state to state, but for most states the benefit reports are to be annual, posted on their website, and conducted according to third-party standards with an explanation for how that third party was chosen. Interestingly, only one state, Vermont, requires that the benefit report include specific goals and objectives and evidence of their achievement; only four states (NJ, FL, MN, and NH) clearly state the repercussions for benefit corporations that do not deliver their reports; and 10 states (MD, MN, DE, NY, NJ, OR, SC, VT, VW, VA) do not require a disclosure of conflict of interests between the company and the third-party entity of choice. Figure 2 lists a brief overview of five states' legislation, but more research is needed.⁷

B Lab and Certified B Corps-BLCOs

The two most widely used third-party standards are those developed by the Global Reporting Initiative (GRI) and B Lab, a Pennsylvania-based organization that offers a certification process that includes an assessment tool (B Lab Impact Assessment) to enable benefit corporations to satisfy their benefit report requirement.⁸ While B Lab certification is not necessary for a benefit corporation to call itself such,

⁷ <http://benefitcorp.net/sites/default/files/Benefit%20Corporations%20Chart.pdf>

⁸ There are other certification bodies that are less well known. The study of other certifications was beyond the scope of this report.

certification serves as an important cue to both consumers and investors that a company not only *strives* to create social impact, but also *achieves* it. What B Lab calls certified B Corps however, are not all benefit corporations under USA law. B Lab places no restrictions on the legal format or the country of entities that may request certification except for non-profit 501c(3)s. To avoid confusion, in this report we will use the terms B Lab Certified Organizations (BLCOs) to indicate B Lab certified organizations that include benefit corporations but are not exclusively legal benefit corporations. We will use the term B Lab Certified Businesses (BLCBs) to indicate specifically legal benefit corporations with B Lab certification. In the case of BLCOs, they can use the B Corp logo and consumers can see their total score online with a breakdown by area of impact.

Benefit corporations and aspiring BLCOs can become B Lab certified if they satisfy all five of the following requirements:

- Gain a score of 80 or more out of 200 on their Impact Assessment;
- Provide documentation as required for some of the responses provided in the Assessment;
- Modify their bylaws to include stakeholders' interest in their governance;
- Sign the B Corporation Declaration of Interdependence;
- Pay an annual fee, which is segmented by revenue range.

In needing to satisfy these criteria, BLCOs are hybrids in that they need to fulfill obligations to both stakeholders and shareholders. But B Lab's mission aims at expanding a movement of businesses best for the world, and their impact assessment is not exclusively a certification tool. Even if companies do not achieve the 80/200 score, they may still use the assessment tool for free for their benefit reporting and track their changes in scores over time. There are no limits on the number of times they may try to achieve the passing score.

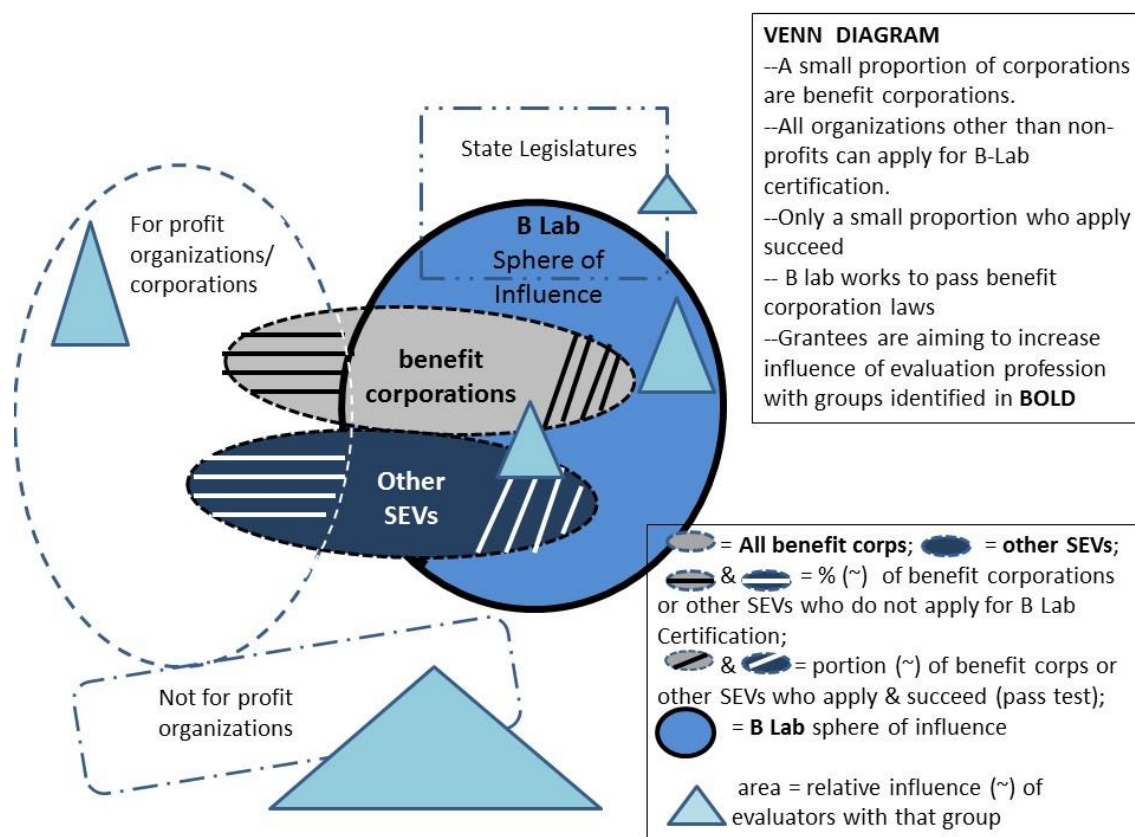
Examples of BCLOs' social objectives include:

- A consulting company which seeks to gather expertise on social entrepreneurship and coach potential social entrepreneurs;
- A couple from Ethiopia which retails coffee for a cooperative of farmers, turning back 50% of the profits to the cooperative;
- A bakery that has a corporate priority of hiring ex-offenders recently released from prison.

Sphere of Influence

In our grant proposal, we set out to influence B Corps to pay more attention to the way they measure and report social impact. We postulated that there was a "gap" in accountability, in that their claims of social impact may not be based on evaluative data. We discovered that while evaluative studies are rare, there are multiple measures of impact that were quite innovative. For example, measures of inclusion had several indicators that were thorough and mindful of hidden unequal practices. We defined the sphere of influence of our work in terms of a Venn diagram in Figure 3. In the long term, we would hope our work would influence all who claim social impact, whether they are BLCOs, BLCBs, or SEVs. Given that as of now, the strongest commitment to positive social and environmental impact is that provided by B Lab on those organizations that have succeeded in being certified, this group of BLCOs, BCLBs and B Lab itself, are those we can most directly influence in this first phase.

Figure 3: Sphere of Influence



We have also found another channel for our influence. There are several B Local groups established in the US, which include: Boston Area, New York City, Mid-Atlantic Region, Virginia, Texas, Portland and Oregon, Bay Area, Los Angeles, and San Diego. Internationally, B Locals have been formed in Canada and Europe. These groups are voluntarily formed by BLCOs who are interested in connecting with each other at the regional level to increase the visibility of benefit corporations and BLCOs in their community, encourage other businesses to adopt this legal entity and become certified, and provide opportunities for benefit corporations/BLCOs to do business with each other.

We chose to interview one founder of a certified BLCO, active in one of the United States Northeast local groups, to balance the perspective we got from the B Lab itself, and to provide an objective view on the broader set of third party certification options. If there is to be a second grant to continue our research, both the B Lab and this influential B-Corp entrepreneur could help us identify other BLCO and BLCB executives to interview.

Table 1. Overview of benefit corporation Reporting Legislation for Five States

Requirements	Arizona	Delaware	Vermont	Maryland	Washington DC
Report sent to Shareholders	Annually	Biannually	Annually	Annually	Annually
Posted on website?	All reports	Not required	Most recent report	Most recent report	All reports
Consequences for failure to deliver report	Not specified	Not specified	Not specified	Not specified	Not specified
Audit of Benefit Report or Performance required?	Neither	Neither	Neither	Neither	Neither
Content of Benefit Report					
General Public Benefit - The ways in which the benefit corporation pursued general public benefit and the extent to which it was created.	√	AND - An objective factual information based on the standards regarding the success in meeting the objectives.	AND - A statement of the goals or outcomes identified for creating a general public benefit; specific actions that can be taken to improve performance and attain the identified goals or outcomes; and a statement of general public benefit goals for the next period.	√	√
Specific Public benefit - The ways in which the benefit corporation pursued a specific public benefit and the extent to which it was created.	√	AND - An objective factual information based on the standards regarding the success in meeting the objective	AND - A statement of the goals or outcomes identified for creating a specific public benefit; specific actions that can be taken to improve performance and attain the identified goals or outcomes; and a statement of specific public benefit goals for the next period.	√	√
Problems with Creating benefits - Any circumstances that have hindered the benefit corporation in creating the general or specific public benefit.	√	Not required	√	√	√
Third party Standard - The process and rationale for selecting the third-party standard.	√	A third-party standard is not required, but the corporation is still required to adopt a standard (whether third-party or not) for measuring its progress in promoting public benefit. The certificate of incorporation or bylaws can require that a third-party standard be used.	Requires Third-party standard but not justification of rationale	Requires Third-party standard but not justification of rationale	√
Content of Performance Report					
Performance - An assessment of the overall social and environmental performance against a third-party standard.	√	Not required	√	√	√
Consistency - The third-party standard must be applied consistently from one year to the next.	√	Not required	√	√	√
Reasons for Inconsistency - If the standard is not applied consistently, the report must include the reasons for the inconsistency or the reasons for the change to the new standard.	√	Not required	√	√	√
Conflicts between the Third-Party Standard Organization and the Benefit Corporation - The report must include a statement of any material connection between the organization that established the third-party standard and the benefit corporation.	√	Not required	Not required	Not required	√

Data from: <http://benefitcorp.net/sites/default/files/Benefit%20Corporations%20Chart.pdf>

3. Enabling Environment for B Corporations: Accountability and Transparency

Founder motivation

While no comprehensive survey has been conducted, B Lab annual reports suggest that the primary motivation for entrepreneurs to register their businesses as B Corp instead of C Corp is the desire to signal to a certain segment of the market their commitment to creating social impact. The most popular social impact activities that these entrepreneurs pursue are activities related to the environment; to health and safety; to employee diversity; to procurement & supply chain practices; to governance; and to community development (Chen 2015).

Being registered and certified as a B Corp is potentially an important signal to impact investors of a corporation's commitment to creating social impacts as well as profits. There is a growing class of social impact investors who seek investment opportunities with just this kind of dual motivation. However, the fact that not all states currently have legislation for entities to register as benefit corporations effectively means that social impact investors must weigh certified social enterprises against uncertified ones, which may create more or less social value—since some do not have the same reporting requirements as BLCOs. The confusion that this mixed ecosystem of social impact investment opportunities creates for investors is one of the factors driving the adoption of benefit corporation legislation in more states, but it has also generated tension among social entrepreneurs. Some social entrepreneurs feel that being incorporated as a benefit corporation may reduce their discretion to make business decisions, and that they can ultimately create more impact with less oversight; those that are not incorporating as benefit corporations may worry that, as the idea of B Corps becomes more widely recognized and valued, their market share is under threat from B Corps. (Marquis, 2010; Rawhouser, 2015; Rapoport, 2015).

B Lab Certification

Overall, the B Lab process requires standards of purpose, accountability, transparency, and right of action⁹, in the governance and practice of the companies it certifies. As mentioned in the prior section, companies need to fulfill five requirements to be certified by B Lab.

To be certified, companies must first meet a score of 80 or higher on the B Impact Assessment which is a self-reporting survey that includes several areas: governance, workers, community, and environment. The latest version, version 5, also includes an impact business models section (we will talk about this in more detail in the next section), and a disclosure questionnaire.

Second, they must provide documentation that supports their Impact Assessment. These documents vary according to the client and may include: a bank statement, criteria for choosing socially and environmentally responsible vendors, donations to specific charities, etc.;

Third, they must modify their governance obligations to include stakeholders' interest and "hold directors and officers accountable to these interests." This requirement is the most burdensome for organizations that are already consolidated and incorporated because it requires major changes in

⁹ Examples of desirable "right of action" standards are: first, expansion of rights of shareholders to hold directors and officers accountable for serving stakeholder interests and/or maintaining public benefit goals and standards of conduct; and second, making these rights exclusive to certain shareholders, so benefit corporations after certification can maintain their social and environmental values even if there are changes in management, investors, and/or ownership.

governance policy and implementation changes. Yet this requirement is key because it ensures continuity in social and environmental values even when there are changes in investors or in management.

One requirement is that once stakeholder standards are introduced, only a two-thirds majority vote by shareholders can remove them.

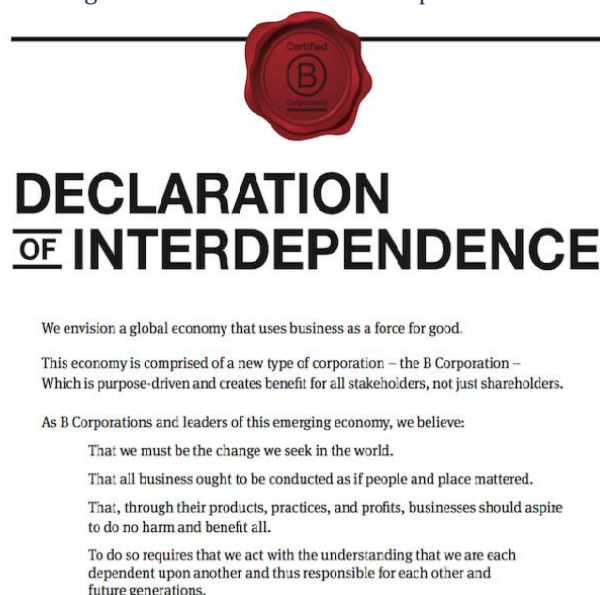
Fourth, companies must sign the *Declaration of Interdependence* (Figure 4). It is clear from this document how B Lab's goal is to produce a new culture of business accountability for the wider public good; it includes aspirational language, stating that "we envision" to "be the change we seek in the world," and "do no harm and benefit all" and that we are "each dependent on another and thus responsible to each other and future generations."

Fifth, the company must pay a fee based on their annual revenue.

GRI and other certification methods

The Global Reporting Initiative (GRI) is an alternative, popular metric for businesses to evaluate their social, environmental, and economic impacts on their communities. The GRI was created during the late 1990s, and is used by businesses in over 90 countries. The GRI's G4 standards are not specifically targeted at benefit corporations; many large C Corps (such as Nike) use the GRI's G4 standards to publish their annual sustainability (corporate social responsibility) reports. In part, because the GRI does not bill itself as a benefit corporation-specific tool, social entrepreneurs who reject the benefit corporations legal model often prefer GRI standards if they choose to report on their social impact performance regularly. The Global Reporting Initiative offers several services to complement its G4 standards. In particular, it has developed a tool to help businesses map specific G4 performance indicators to the Sustainable Development Goals (SDGs). This serves two purposes: first, it helps to validate the GRI's model for measuring social impact by comparing the G4 standards to an external standard (ironically, a parallel to the B Corps model); second, it helps businesses to see and articulate how their social impact performance relates to the United Nations' global priorities for creating social impact. The GRI has also developed what it calls Materiality Disclosures, a new service that helps its users ensure that "G4 Guidelines-based sustainability reports will focus on matters that are really critical to achieving the organization's goals and managing its impacts on society" (GRI 2015). However, the GRI instruments are completely based on self-reporting. The GRI instruments also do not provide a detailed assessment of overall performance with weighting and scoring, as does the B Lab certification assessment.

Figure 4. Declaration of Interdependence



4. How B Lab Measures Social Impact

From the start, the three founders of B Lab, Coen Gilbert, Bart Houlahan, and Andrew Kassoy were interested in the: "systemic change needed to produce a more socially and environmentally beneficial economy" (Marquis et al. 2010). Having been all in management of social enterprises beforehand, they knew there was a need for an infrastructure that could not only encourage, but also sustain this economy. As co-founders of B Lab, they saw their role as three-fold. They intended to: 1) Build a community of certified benefit corporations; 2) Advance the public policies to create the legal infrastructure of benefit corporations; and 3) Develop a Global Impact Investing Rating System (GIIRS) that would fuel investments in the direction of "impact investments" (Marquis et al. 2010).

From its inception, B lab intended to affect legislation, but expected the legislation to take a lot longer than it did. At first, the certification criteria was its primary commitment (Marquis et al. 2010). The first version of the B Lab Impact Assessment was in 2007 and was based on the GRI standards. B Lab is scrupulous in collecting feedback from users so that the assessment can be improved, with beta-testing and pilot testing. Improvements are implemented in two-year cycles. Major changes are implemented once every two years, to allow for comparisons in data results every two years. In 2016, the latest version five is being launched. It includes major revisions that were drawn from a partnership with Social Value International (SVI), a global network which supports improved measurement of the social value of programs and initiatives. B Lab's intent in the latest revision was to be more specific in its analysis of social impact, to "provide a roadmap for companies to start to pay more attention to outcomes and how they relate to inputs and outputs.¹⁰" At the end of the assessment, companies get a score. They have a chance to compare that score in each section of the assessment to the maximum score attainable and to the average of BLCOs. Organizations are required to renew their certification every two years.

B Lab's Achievements

In 2007, there were the first 19 BLCOs (Marquis et al). By 2010, there were 325 for a combined revenue of less than of \$1.5 billion dollars (Marquis et al. 2010). As of 2014, when B Lab's brief annual report was last posted online, there were over 1000 BLCOs certified, operating in more than 30 countries, and across 60 industries. 16,000 businesses had used the B impact assessment to measure and improve their performance: B Lab's goal of creating a movement for a new economy may be well underway. According to the blog¹¹, by the end of 2015, there were over 3,000 registered benefit corporations, 1,500 BCLOs (and they had reached 1,996 in 2016) and 30,000 who used the impact assessment to track impact. Also in 2015, B Lab Europe was founded, with 60 BLCOs.

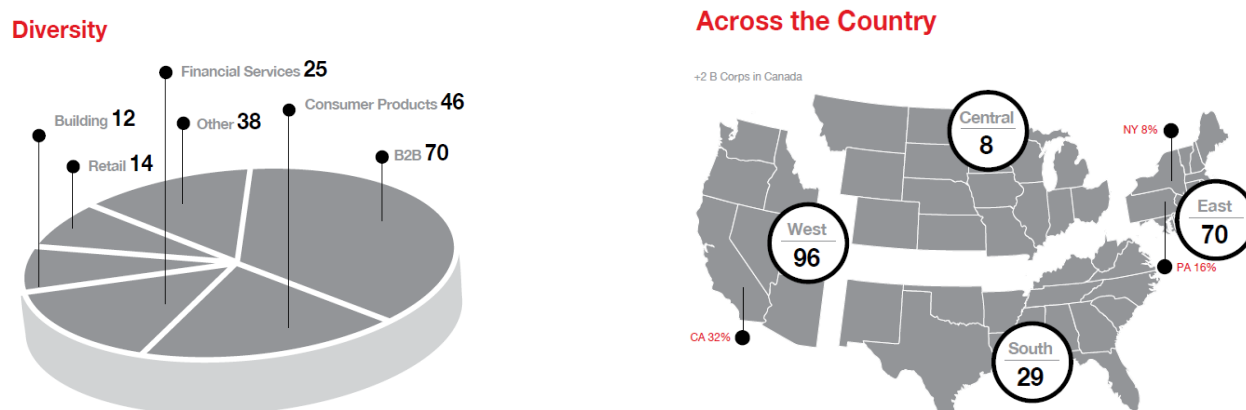
Major partnerships are supporting this growth: Yale's School of Management has a loan forgiveness program for alumni who work for BCLOs upon graduation; Philadelphia and New York City give tax breaks for BCLOs ; additionally, up to 100 service partnerships (offering discounted services such as banking and marketing to certified organizations) had saved BLCBs over \$6 million by 2014. In 2014, there were 24 million friends and followers in social media and 600 press stories that featured 250 BLCOs.

¹⁰ Personal Interview with B Lab management.

¹¹ <http://www.bcorporation.net/blog/2015-year-in-review>

According to the B Lab's 2012 report, the latest online when this report was written, B Lab is serving an audience of 6.1 million conscientious consumers. In comparing the over 500 BLCOs in 2012 to the other 2000 Other Sustainable businesses (OSBs) that have completed the assessment test but were not certified, B Lab claims that BLCOs scored 25% higher on the B Impact Assessment than OSBs, in particular scored 66% higher on measures of environmental impact, 32% higher on community impact, and 50% higher on impact for workers. However, we were not able to confirm these calculations by either looking at raw data or deriving them from the partial data in the annual report.¹²

Figure 5: Distribution of B Corps Certified in 2009 by Business Area and Region from B Lab Annual report*



*Data and Images from B Lab 2009 Annual report. The total number of Certified BLCOs in 2009 was 205. Distribution of data by sector and region was not available for more recent data despite the fact that in 2009 there were only 325 BLCOs and in 2016 there were over 1,996.

Strengths and Weaknesses the B Lab Certification Standards and Process

While, based on the data that B Lab shares in its annual reports, there are substantial achievements in terms of consumer awareness, press coverage, states with passed legislation, businesses that use the B Impact Assessment, and businesses that have completed certification, some aspects of the data reported are problematic. We reviewed the version five manufacturing B Impact Assessment for developed countries. Evaluation can bring tremendous value to overcome some of these limitations. In this section, some of these strengths and weaknesses are listed.

Strengths

Certification Evaluation. B Lab conducts an in-depth evaluation of the certification process for 10%¹³ of its BLCOs to provide oversight and ensure they have completed the assessment correctly.

¹² https://www.bcorporation.net/sites/all/themes/adaptivetheme/bcorp/pdfs/BcorpAP2012_Web-Version.pdf Page 18-19.

https://www.bcorporation.net/sites/all/themes/adaptivetheme/bcorp/pdfs/BcorpAP2012_Web-Version.pdf Page 18-19.

¹³ <http://www.bcorporation.net/become-a-b-corp/how-to-become-a-b-corp/performance-requirements>

Culture Change – Declaration of Interdependence. In the mandatory signing of the Declaration of Interdependence document, it is clear how B Lab is contributing to creating a movement that is grounded in the principles of interdependence, purpose, accountability, and transparency.

Inclusion of Stakeholder Interests in Decision-making. The inclusion of stakeholder interests in governance, as an indispensable requirement for certification, is B Lab's strongest stance to support positive impact and local sustainability. It is a radical step forward for BLCOs and OSBs. Further, multiple items in the assessment encourage direct involvement of stakeholders in governance.

Multiple and Thorough Metrics. Different metrics are used to measure the same concept from different perspectives. For instance, when assessing employees engaged in volunteer activities, the instrument has items on: # hours of volunteer activities, # employees engaged in volunteer activities, and % of hours employees are engaged in volunteer activities.

Good Measures of Poverty and Inclusion. There are several measures in a variety of sections on inclusion (gender and ethnic) and poverty. Inclusion criteria have both their own section and are well-integrated throughout the instrument. Several measures are thorough in detecting hidden mechanisms of inequality such as access to benefits and bonuses, compensation (including interns and part-time workers), and decision-making power (percentage of Board members and management from vulnerable groups). Some measures of inclusion distinguish between low-income minorities, women, and other minorities showing awareness as to different types of exclusion that may occur in the workplace. For inequity, innovative measures are used such as salary ratio between upper-management and lower-level employee, % of employees who received bonuses, and living wage of lowest-paid employee.

Incentive for Independent Research. Several items in the assessment ask about research on impact, the existence of key performance indicators, goals and objectives, and progress reports. These items are a valuable incentive for independent research and evaluation of the business' impact. Results on these items are included in the final score. More attention is needed, however, to weave these components together (See section on Research and Evaluation and Theory of Change Incentive under Weaknesses).

Focus on Building capacity. Training of employees is consistently asked about in a variety of areas.

Gradations of Impact. For many items that refer to impact, a gradation of impact options is offered. For instance, on issues of safety, businesses are asked if employees are trained in it, understand it, and look for it.

Transparency. Multiple measures of transparency within the organization and towards the general public are included, consistently with B Lab's emphasis on this principle in its marketing.

Accountability. Many items ask about feedback mechanisms, consistently with B Lab's focus on accountability in its marketing. There are also questions on measures which support checks and balances.

Innovation. Items include questions about Innovation.

Protection. Items include guarantees on safeguarding confidential information such as employee records.

Incorporation of Regional Differences. According to its leadership, B lab has an Emerging Markets Standards Advisory Council and advisory groups in global partner regions to advise on the standards and ensure local applicability while maintaining a global standard.

Weaknesses

Certification Evaluation. While B Lab conducts an in-depth evaluation of the certification process for 10%¹⁴ of its BLCOs, these findings are not public. *We recommend:* include findings from audit in each annual report for full transparency.

Data sharing. B Lab's annual report is more geared toward marketing than reporting. Annual reports include limited data on BLCOs and OSBs and do not disaggregate by types of companies. Further, the last full-length report on its website dates back to four years ago, 2012. This implies that B Lab itself, may not have identified consistent outcomes by which to measure its own progress, outside of basic outputs such as number of states where legislation is passed and number of BLCOs each year. If those standards have been identified, they are yet to be included in the annual reports. This is surprising for a non-profit organization that is promoting accountability and transparency in the business world. For instance, in the figure below, the column on the left represents BLCOs while the one on the right represents OSBs, that is, other organizations that were not certified. In the narrative of the report, B Lab claims that the certified BLCOs are "66% better than OSBs (not certified)" on environmental impact measures. Firstly, it is not clear how this number was generated. Secondly, the comparison of scores of certified to non-certified businesses does not seem a meaningful statistic. Since B Lab created the certification, it is inevitable that those who did not pass the certification would rate lower than those who did.

Figure 6. Environment Impact Scores from 2012 Annual Report

Environment	59%	38%
Environmental Products & Services	29%	8%
Land, Office, Plant	61%	47%
Inputs	36%	32%
Outputs	56%	51%
Suppliers & Transportation	45%	40%

We recommend: Establish consistent benchmarks for B Lab's progress to include in every annual report. Also, include in the annual report a description of BLCOs and OSBs that participate each year to support those who would like to know how the sustainable business sector is changing over time. Align B Lab annual report with standards for benefit corporations' benefit report, for internal consistency and accountability. To avoid confusion, disaggregate certified legal benefit corporations from other certified entities.

Standardization. Many indicators are on governance, quality of workplace, impact on community and impact on environment. As for all standardizations, it may be frustrating for companies to follow B Lab's standards, which they have not set themselves, while their own individualized standards are not taken

¹⁴ <http://www.bcorporation.net/become-a-b-corp/how-to-become-a-b-corp/performance-requirements>

into substantial account, and changes from year to year may be too small to be visible in the impact assessment's final score. While there is a place for organizations to list their objectives, the extent to which they were achieved is a Yes/No answer: *If direct research on your product/service has been performed, did the results confirm that a desired outcome is being achieved? [Least weighted]* In our longtime experience as evaluators, program impact has never been simply a yes/no answer. *We recommend:* Split achievement by outcome or by objective and ask for the extent to which, in %, the outcome was achieved in the prior 2 years. Make these percentages count towards the final score.

Research and Evaluation and Theory of Change Incentive. While the incentive to do research and to verify outcomes and impact is appreciated, one yes/no item on the achievement of outcomes and one multiple choice question on method of verification is not enough. Further, they are “Least Weighted” in the overall score. Evaluation is an extremely valuable asset here. Companies can include direct representatives of stakeholder interests on governing body, set objectives that include their interests, and assess whether or not they were achieved. While in Version 5 the assessment tool has an open-ended question that allows space for a theory of change, an answer is not required, and this item does not apply to all business models. *We recommend:* Give more weight to businesses having an evaluation in the assessment score. Add items in the assessment that require businesses to report the percentage of achievement for the top 3-5 objectives or key performance indicators. Include these results in the overall score. Integrate benefit reporting system results for benefit corporations into their assessment score, such as the list of generic and specific impact of their work, whether it was achieved, and if not why. As part of the certification process, require that businesses generate a program theory or theory of change that is integrated into their business plan, to ensure that activities are aligned with their expected outcomes. Establish service partnerships with research and evaluation firms to incentivize independent impact measures and accountability.¹⁵

Weighting. Questions on outputs and outcomes are almost evenly divided, depending on the business impact model, but different items carry different weights. B Lab relies on an Independent Standards Advisory Council for their recommendations on weights, but B Lab management has also stated that it welcomes comments on the weighting. *We recommend:* That B Lab invite other independent skilled specialists (e.g. pedagogical experts) to also assess the weighting system to ensure it reflects the values and principles underlying the goals of the assessment.

Negative effects. We commend B Lab for its item on negative effects: *Does your company also measure and manage the negative or unintended outcomes generated by this business model? [Least Weighted]* However, we suggest it could be more detailed to support systems of transparency and accountability. *We recommend:* This item should be rated higher and count positively towards the final score. Add a drop-down menu on possible negative effects. Add another item that specifies a scale for degree of each negative effect and have them count negatively on the score. The combination of these items would incentivize companies to increase their reporting, but reduce their negative effects.

¹⁵ A B Lab leader, in response to this report commented: “Up until now B Lab has not actively supported other researchers to connect with Certified B Corporations. We are looking to improve upon our engagement with researchers in the future and that can include raw data from the assessment (within our confidentiality guidelines).” Email on August 31, 2015.

5. Contribution of Evaluation

In effect, as noted in the analysis above, we did find there is a “gap” between claims of social impact and evaluative evidence available. While this is not the case for all BLCOs, it is true for some. The reader may want to look at an annual report of Patagonia, one BLCO in B Lab’s list of the top 10% companies in 2012¹⁶ for an example of a company that has established intentional goals, practices of transparency, and positive social and environmental impact. At the same time, one will also notice how the report’s focus on “achievements” and “short challenges” while insightful, do not provide evaluative evidence either in terms of external party review, or in terms of percentage of progress towards a goal.

Improved Tools for measuring social impact

We identified a gap in measuring social impact, and set out to propose alternatives, drawing on the best practices in the evaluation profession. Accordingly, we did a detailed assessment of a long list of criteria which included the OECD-DAC criteria¹⁷, and a few others commonly used by evaluators, to consider how applicable these are to SEVs, benefit corporations, and BLCOs, both in theory and in practice. Conclusions are presented in detailed excel tables, which are considered an integral part of this grant report. In line with grantors’ expressed preferences, these tables also included the assumptions behind the OECD-DAC criteria as well as common critiques, which apply even when the OECD-DAC criteria are used as intended to evaluate publicly funded projects.

Evaluations can have criteria for the ***descriptive content, the evaluative analysis, and the evaluation process***. The OECD-DAC criteria are mainly for the “evaluative analysis.”

An example of a ***criterion or standard for the descriptive content*** is that the evaluation should describe completely and accurately the services or products produced under the project, along with an indication of scale in terms of finances, coverage, and the number of beneficiaries reached. Sometimes evaluators strive to apply very precise definitions which make a distinction between “directly” reaching beneficiaries and “indirectly reaching beneficiaries”¹⁸.

The OECD-DAC criteria refer mainly to the ***evaluative content*** of evaluations—assessment of the worth and value of the project, program, or set of interventions. When applying the OECD/DAC criteria, commissioners often also include a descriptive component—asking the evaluator to prepare a list of results (outputs, outcomes, impact).

Finally, evaluators also use criteria for ***process*** of the evaluation activities, which may address: whether inclusivity and participation is built into evaluation design and execution; the independence of the evaluation (organizational and behavioral); ethical considerations (e.g. confidentiality and protection of

¹⁶ <http://www.bcorporation.net/news-and-media/annual-report-2012/best-for-the-world-list>

¹⁷ OECD-DAC stands for the Organization for Economic Cooperation and Development’s Development Assistance Committee. We considered the OECD-DAC criteria, as extended to include those important to humanitarian interventions, (Evaluating Humanitarian Action using OECD-DAC Criteria, ALNAP, 2006), as well as others considered applicable to Global and Regional Partnership Programs (GRPPs) (Sourcebook for Evaluating Global and Regional Partnership Programs: Indicative Principles and Standards, World Bank Independent Evaluation Group (under auspices of OECD-DAC), 2007).

¹⁸ The International Federation of the Red Cross and Red Crescent Societies (IFRC) has detailed guidelines on distinguishing beneficiaries “directly reached” and those “indirectly reached”.

informants); and the transparency with which the evaluation is carried out, e.g. whether eventual dissemination and disclosure of the findings meet good practice standards.

For the purpose of this grant, we **broadened these criteria** to potentially apply more broadly to the benefit corporations' and SEVs' governance, decision-making, operations, marketing and reporting (as does the criteria inherent in B Lab's certification).

In doing our assessment, we considered the fact that evaluators and executives of BLCOs use criteria and tools in quite different contexts. Evaluators are usually hired to perform a discrete task, limited in time. This could be an evaluation, or development of a monitoring plan, or a full M&E system for an organization, project, or program. However, the executives of BLCOs are engaged year-round in operation of their businesses and would be expected to be most interested in tools that take the dynamics and evolution of their business into account. Tools that determines business strategy, operationalization of the strategy and/or marketing appeals also help in the governance and decision-making process. We realized that, to build bridges, both evaluators and the BLCOs need to understand the other's perspective.

OECD Criteria

OECD-DAC criteria were written to apply to projects or programs usually funded by public money, with a set of objectives which are serving social purposes. However, even for those purposes, the OECD-DAC criteria have been subject to criticism, which are detailed in the excel tables.

With regard to applicability to benefit corporations, BLCOs, and SEVs, our conclusions are mixed. While these evaluation criteria were drawn up to apply to time-limited projects or programs, many can also be useful for assessing performance of SEVs, benefit corporations, and BLCOs in theory. They serve a useful purpose as a barometer by which the public (and customers, employees, and investors) can hold the organizations accountable. In practice, however, some require adjustment to be applied to SEVs, benefit corporations, and BLCOs, and/or the practical measurement related to the criteria pose complex issues.

A summary of the conclusions, which draw from the more detailed assessment in the excel tables, is given in Table 2. Note that this summary table does not include all of the general critiques of the OECD-DAC criteria, only those applicable to benefit corporations, BLCOs, and SEVs; (all critiques are included in the detailed excel tables, attached to this report). Rather, this summary table focuses on how applicable the criteria are to benefit corporations, BLCOs, or SEVs. Also, since much of our report is focused on the B Lab certification criteria, a column also focuses on the degree to which the B Lab certification uses those OECD-DAC or related criteria that are judged applicable and relevant to BLCOs. All of the main OECD-DAC criteria (and some as extended to humanitarian work and Global or regional partnership programs (GRPPs) are included; criteria (whether OECD-DAC or not) not covered in the summary table include: a) those which were not considered applicable to benefit corporations, BLCOs, and SEVs for our purposes; and b) those which BLCOs already take into account, such as capacity-building, and innovation. We put forward several hypotheses in considering how applicable the criteria were:

- We postulate that benefit corporations, BLCOs, and SEVs' social impact is considered by the public to be "additional" to the social impact of publicly-funded activities,

- We postulate that waste of public funds/charity is considered an “absolute public bad” whereas waste of private funds may not be, as there may not be a perceived opportunity cost for wasted funds. For this reason, a relevant consideration is the mix of funding of benefit corporations, BLCOs, and SEVs,¹⁹
- BLCOs, benefit corporations, or SEVs which are pilots and receive public funding for reason of potential replication/scale-up present a complicated case which is considered beyond the scope of our preliminary analysis.

¹⁹ We have not done a full analysis, but it appears that BCLOs and BCLBs are primarily funded from private funds, whereas SEVs may have also received public and or charity funds.

Table 2: Summary of OECD-DAC Criteria as they apply to benefit corporations, BLCOs, and SEVs (Theoretically and Practically)

Criteria	Applicable to benefit corporations, BLCOs, &SEVs	Covered by B Lab Requirements?	Comments
Relevance of Objective	Yes, theoretically and practically. (See recommendations.)	Partially. B Lab assessment tool requires a statement of mission—and related Q's on achievement of objective, but not relevance of objective. The tool does not ask if needs assessments have been done prior to setting objectives.	<ul style="list-style-type: none"> ● Potential limitations include possibility that objective is not stated clearly and it may not be based on stakeholder priorities. ● B Lab's requirement that stakeholder interests be represented by the Governance Body may help with the latter. ● The B Lab assessment tool does provide an incentive for companies to self-examine the relevance of social objectives they set. However, the tool's approach of orienting questions to Social Impact Business Models and the use of standard, pre-defined indicators impedes an optimal consideration of relevance of objective.
Relevance of Design	Yes, theoretically, but no, practically	Minimally. There is only an optional open-ended Q on program theory. However, there are some Q's regarding sliding scale pricing and certain impact indicators that can be construed as addressing design.	<ul style="list-style-type: none"> ● The tradeoffs between the dual objectives of profit and social good, and the dynamics of decision-making on these tradeoffs, (optimal targeting/price/social benefit mix) makes it difficult practically to assess relevance of design. ● Assessing relevance of design requires an explicit program theory, and while companies may have a business plan, this does not typically provide enough information to assess "relevance of design."
Efficacy/Effectiveness (Are Objectives Met? What Are Factors Promoting or Impeding Success?)	Yes, theoretically and practically.	No. B Lab provides in its assessment tool only one question which is a self-assessment of efficacy (only Yes/No item). However, note that the legal requirements to become a benefit corporation (whether or not B Lab certified) requires a "benefit report" that states generic and specific public benefits pursued and whether or not they were attained.	<ul style="list-style-type: none"> ● As mentioned above, the potential limitations include possibility that objective(s) are not stated clearly, and they may not be based on stakeholder priorities. ● Judging efficacy when relevance of objective is unknown or limited provides less useful information. ● The Legal Requirement for annual/biannual reporting of social impact benefits is not quite the same as efficacy. It asks two questions—What public good did you pursue? Did you achieve it? The latter question is not sufficient in cases where the objective includes quantitative or qualitative targets, and is also not explicit that both factors promoting success and impeding success should be mentioned. ● It is odd that the legal requirements for reporting on objectives/benefits to maintain status as registered benefit corporation and the B Lab certification are not synchronized. These criteria (and others) should be integrated.
Efficiency/Cost-Effectiveness/Lack of Waste	Yes, theoretically; only partially practically	Partially. B Lab has some standard unit costs/product measurements, but the emphasis is more on material resource cost than on human resource and time costs.	<p>Definition issues include efficiency vs. cost-effectiveness, vs. indicators of waste. Also, for some interventions, shadow pricing is needed.</p> <ul style="list-style-type: none"> ● Our hypothesis is that stakeholders care more about waste of public funds than private funds; B/C ratios may thus also be valued differently; also valuation of benefits to use in B/C ratios is notoriously difficult. ● Benchmarks for benefit corporations/SEVs' unit costs may be harder to find ● Weighting may be required given multiple objectives ● On treatment of human resources costs, while there are questions in B Lab's assessment tool on employment status, wages, and employee volunteer work, these are used to establish standards, as opposed to feeding into unit cost calculations.

Criteria	Applicable to benefit corps, BLCOs, &SEVs	Covered by B Lab Requirements?	Comments
Sustainability	Yes, theoretically; no practically; Definitions an issue	Minimally. B Lab uses the term in the sense of “environmental sustainability” not sustainability of organization-specific social outcomes. Note also that the B Lab assessment instrument does not aim to cover financial sustainability, but focuses on impact on stakeholders.	<ul style="list-style-type: none"> • Evaluation profession does not use consistent definitions of sustainability even for publicly funded projects. Currently, “environmental sustainability”, “sustainable development” and “the evaluator’s concept of “sustainability of outcomes” get conflated. • Even in the evaluation profession, applying this criterion to public projects is already difficult; Sustainability is in fact only one of several possible “objectives regarding long term success” of a project; others could be replication & scale-up; exit, or devolution to local organizations. • Assessment of sustainability requires consideration of legitimacy, financial and organizational sustainability, demand and market sustainability, and contextual stability issues that influence sustainability like political risks. • Criterion was always meant for limited term projects • B corps and SEVs may confuse “sustainability of outcomes” (actual OECD-DAC criterion) and “sustainability of program/organization”.
Impact	Yes; as per B corps definition	Yes. B Lab partnered with a global non-profit network to broaden its framework for measuring outcomes. But there is room for improvement (see section on weaknesses).	<ul style="list-style-type: none"> • To the knowledge of the authors, as of October 2016, there is no assessment of B Lab’s version 5 assessment tool which has been published. New measures are associated with a pick list of “impact business models” which may overlap and may leave out some business types.
Results/ Reach/ Coverage/ Do No Harm/ Protection	Yes	Yes, some elements. Q’s on “reach” (# beneficiaries); strong emphasis on confidentiality (protection); many Q’s on measuring unintended impacts; Q’s on specific types of “potential harm.”	<ul style="list-style-type: none"> • B Lab’s requirement that B corporations sign a “declaration of interdependence” is a positive force for accountability (in general sense) and is relevant for these related criterion • B Lab’s List of potential areas of harm --that are covered in Q’s-- could be extended, however. It covers comprehensively environmental harm, and employee welfare, but covers less issues of community welfare.
Inclusivity in Governance/ Coordination/ Responsiveness to Beneficiaries/ Participatory Decision-Making	Yes	Partially, some elements (strong on inclusivity in governance and feedback loops for customers, employees, suppliers)	<ul style="list-style-type: none"> • As mentioned, B Lab requires stakeholder interests to be included in governance, a stringent requirement that could take some time, if by-laws need to be amended; however, this does not necessarily translate into voice on business priorities, and unequal power relationships could do harm. • It is not clear how “stakeholders” are defined.
Good Governance: Accountability/ Responsibility/ Fairness/ Transparency/ Disclosure/	Yes	Yes, some elements—B Lab assessment tool has many governance related questions; and many questions on transparency of records	<ul style="list-style-type: none"> • B Lab requirements refer to GRI requirements which cover transparency; • Accountability (up and down lines of authority) and probity (ethics) are well-covered in the assessment tool. • Some aspects of fairness are covered in B Lab assessment tool, e.g. w/respect to diversity and anti-discrimination in staff rules. • The term “responsibility” refers specifically to stakeholders who are not part of the lines of authority. This may be an area where gaps in B corporations’ accountability exist, as noted above.

6. Suggested next research steps

Next Steps: Analysis and Research

This subject area—the world of benefit corporations, BLCOs, and SEVs is ripe for further exploration by economists, analysts, and evaluators. Our grant has allowed us only to orient you and other evaluators on this new subject and evaluand²⁰, which promises to grow in importance.

We see value in further analysis devoted to the following:

Descriptive analysis: *statistical profile on BLCOs, OSBs, and SEVs.* B Lab's last annual report was focused on marketing its services, and did not update the already skeletal profile of BLCOs since 2009, when the number was only in the 300s. That published profile only described the distribution of BLCOs by geographical region of the US and by broad industrial sector (of which "other" is about 20%). Now that the total number of registered benefit corporations in 32 states are over 3,000²¹, a statistical profile update is overdue. B Lab has data on applicants who pass the test and those who do not.²² Evaluators are encouraged to advocate that B Lab conduct further analysis of the data at its disposal. Two areas we feel would be particularly useful to explore are: a) the breakdown of those using the assessment tool between actual benefit corporations (corporations aiming for positive social impact) vs. solely for-profit corporations who use the tool to show good corporate social responsibility (they "do no harm"); and b) a breakdown of the sources of financing of these two groups, between private sector capital, and philanthropic grants. Data collected as part of the assessment tool is available online for each company that takes the test, so a statistical analysis would be possible.

Evaluative analysis: *Further exploration of the business models, criteria, and implicit standards reflected in B Lab's assessment tool.* In many senses, their tool is thorough, particularly with regard to certain fields, such as environmental harm, employment generation, human development (training), feedback loops for customers, significant source companies, and employees. However, as reflected in our critique, some areas are not so well covered (see weaknesses section on p. 4 for more detail). While the weighting is determined by an Independent Standards Advisory Council, it is not clear if the passing score is based on sound pedagogical principles and testing. B Lab management states that part of the revision undertaken every two years is an analysis of the scores to consider how they could be improved; any changes considered (including changed weights) are tested through scenarios. We recommend inviting evaluators and researchers to do parallel analyses to assess if the "balance" of the criteria is correct. Are there some aspiring BLCOs that are outstanding in some areas of social impact, but weak in others, that fail to pass? How robust is the tool in certifying the aspiring BLCOs fairly?²³

²⁰ An evaluand is an actual or potential subject of an evaluation, usually a project or a program. Sometimes, it is an entity (such as an advocacy campaign, a policy, a company) or set of entities).

²¹ According to B Lab website <https://www.bcorporation.net/educators/b-corps-in-the-classroom>

²² The Annual Report cited as an achievement that the B corps that passed the exam had a score 25% higher than all companies that took the test. These categories were not clearly defined, and we, the grantees, could not trace statistically, how the figure of 25% was calculated.

²³ A representative of B Lab management stated that there are two uses for the assessment tool: for companies who seek to have a positive social impact in addition to profit, the assessment tool invites it to self-identify with one or more social impact models, with follow-up questions varying accordingly. B Lab then verifies the its choice of social impact model(s), requesting documentation as needed. For companies who do not seek to claim a positive social impact, the tool serves the purpose of rating their overall corporate social responsibility status, asking rigorous questions about the social impact of the businesses' normal operations (e.g. on labor, the environment, and the community).

Analysis of the degree to which businesses are incentivized by the assessment tool, which could be assessed both through a survey of attitudes and motivations, but also an examination of the record in terms of, at one end of the spectrum, repeat applicants, and at the other end of the spectrum, discouraged businesses. The analysis could examine if these discouraged businesses are still claiming social impact, and perhaps even claiming to be certified by B Lab.

Examination of compliance with respect to the aspects of certification which are additional to achieving a passing score on the assessment tool—Inclusion of stakeholders' interests in the governing body and the "declaration of interdependence". How are the stakeholder interests represented in governance of the BLCO? How often are actual stakeholders present? Are they representative of the stakeholders? Do they in fact have a voice? Do they feel pressure of disapproval from the fellow stakeholders they represent? In addition, do the parts of the assessment tool that address governance accord with the reality found in this suggested research?

Testing of the hypotheses we put forward about the valuation of "additionality" of B corporations and SEVs' social impact in the eyes of the communities they serve. This analysis would involve surveys of the public, who may even not be aware of some of the BLCOs and their claimed or actual social impact. Also, testing of the hypotheses would benefit from an analysis of the financial resources on which BLCOs and SEVs rely, which we postulate may also influence the perception of the public. Are they totally reliant on private resources? Or do they accept public or charitable funds? Does the public indeed view waste in publicly funded projects or services as an "absolute bad" while valuing waste in privately funded business differently? What is the variation in these views?

Interviews and surveys with a larger group of BLCOs, BLCBs, and SEVs, including those who have tried and not succeeded, with questions related to their views on B Lab. Is its role seen as more regulatory or motivating? How valuable has the B Lab certification brand been to their marketing? Do they rely totally on B Lab requirements and criteria for their own social impact reporting, do they rely on other third party bodies, or does their governance board set high standards for accountability without such certification from third party bodies? Would there be room for the industry to self-regulate, through the other cooperative bodies? Do entrepreneurs have suggestions for improvements to the assessment tool? For other tools that promote accountability and transparency?

7. Suggested next advocacy and collaboration steps

One of the justifications for our grant proposal was the desire to build bridges between the evaluation profession and the world of business. The specific group of BLCOs and SEVs represented a challenging and interesting case because of their dual goals and claims of social impact.

We, the grantees, have applied an evaluation lens to the assessment tool and find some strengths about certain criteria of positive social impact and "do no harm"—depending on one's value judgments—but also signs of gaps and weaknesses, as elaborated in the earlier section.

We have opened up a dialogue with B Lab and offered to discuss our analysis and also opened a dialogue with a representative of a BLCO on the East coast. Our goal is to show what the evaluation profession can offer and seek common ground on further improving accountability. One means would be to go beyond the 10% random audit done by B Lab, to subject the assessment tool self-assessment to

broader empirical testing, to see if the reality reflects the claims of the companies, as mentioned above. This would best be done with the full blessing of the B Lab.

As part of beginning such a dialogue, the evaluation profession needs to better understand the motivations and perspectives of BLCOs and SEVs. Business people are expected to seek cost-effective and practical social impact valuation or evaluation tools and evaluators need to meet them halfway. At the same time, we can sensitize them to the standards of our profession that require accurate descriptions of social impact, in terms of quantity, valuation, and coverage (beneficiaries reached), as we seek to serve the public interest. Evaluators can also offer our analytical skills in a non-threatening way, whether or not we seek to “raise standards.” BLCOs may seek guidance in more clearly articulating their social impact objectives; in performing market analysis; and in running scenarios to optimize sliding scale pricing or targeting strategies. Together B Lab and Evaluators could advocate to include statements of goals and objectives and a theory of change in the benefit reports of legal benefit corporations.

8. Conclusions

We sincerely hope that the findings from our literature search, our examination of the B Lab assessment tool, and our consideration of the applicability of OECD-DAC criteria to B corporations has whetted the appetite of both B Lab and evaluators, for more. We recommend a continued dialogue as a part of advocacy for better accountability and transparency for the public interest, as better informed by evaluation principles and methods.

Our research can bring heightened social accountability to the business world’s claims of positive social impact in both the domestic and international context. The social payoff of improving systems of accountability and measurement of impact in the business sector is very high. Investors would have better information so as to direct their investments where the social impact is higher, should that figure among their criteria for investment. Consumers could make more informed choices about the goods and services they purchase. BLCOs would respond to more rigorous criteria and would identify better projects. The business sector would be held more accountable for the full repercussion of its impact in the developing world.

For the field of evaluation specifically, the opportunity to improve criteria for measuring social impact of BLCOs means using our knowledge beyond the fringes of the non-profit and philanthropy economy to build bridges with the world of business. For many evaluators this entails learning to speak a new language. Our mutual interests could be met in the short term through dialogue on social impact measurement, as it affects both BLCOs certification and promotion and social impact investing. The demand for credible evaluations of such projects would increase, and the evaluation community would respond both with offers to evaluate such projects professionally, and with a critique of the methods we recommend, and continued improvements. New social impact funds may be created that challenge existing entities to expand and deepen the criteria and methods they use to measure social and environmental impact and sustainability.

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