

IT'S MORE THAN A BUSINESS:
THE RISE OF B CORPORATIONS,
A MORE SUSTANIABLE BUISNESS MODEL

by
Matthew Casciani

Submitted in partial fulfillment of the
requirements for Departmental Honors in
the Department of Marketing
Texas Christian University
Fort Worth, Texas

May 2, 2016

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Project Approved:

Supervising Professor: Stacy Landreth Grau, Ph.D.

Department of Marketing

David Gras, Ph.D.

Department of Management, Entrepreneurship and Leadership

ABSTRACT

B Lab is a non-profit organization that has called together a coalition of social enterprises known as B Corporations and asked them to help redefine what success means in the business world. This thesis is an exploratory study of B Corporations and their role as social enterprises in the corporate social responsibility movement. The objective of this study is to add to the discussion of B Corporations and social enterprises by aggregating current research surrounding social corporate responsibility, social enterprises, corporate law, and their relationship in the context of B Corporations. Data was also collected through prior research, interviews, and publications in order to examine three case studies of current B Corporations and provide insight surrounding key issues and lessons learned by the B community. This study found that Benefit Corporations have the potential to be just as, if not more, successful than their traditional counterparts. However, in order for the B community to continue growing and be sustainable, they will have to find ways to overcome two major overarching issues pertaining to incurring additional costs beyond those of a traditional corporation and to develop more accurate ways to assess social and environmental impacts.

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Introduction

Since 2008 the U.S. and much of the world has spun into a major economic crisis. Largely due to corporate ethics, stakeholders have begun to hold companies to higher social, ethical, and environmental standards. As entrepreneurs and corporate Board of Directors sought ways to meet greater ethical and environmental demands, they faced legal and institutional roadblocks. One proposed solution was a new legal filing known as Benefit Corporations: otherwise known as “B-Corps”. This thesis is an exploratory study of B Corporations and their role as social enterprises in the corporate social responsibility movement.

To enable social entrepreneurs, investors, and consumers to fulfill their objectives, government legislation and the corporate system demanded alterations and updates. With the necessary modifications made, it was agreed that a “fourth sector” would bridge the void between non-profits and for-profits. And at long last social enterprises would be empowered to take on the most challenging social and environmental issues of the modern day, while also making a profit. The work of B Lab, “a nonprofit organization that serves a global movement of people using business as a force for good” and their B Corporation model has been the most promising solution (B Corporation, 2015).

Despite the rapid growth of the movement, much of the research on B Corporations has remained sparse and scattered. Several issues remain open and these include measures of social giving, legal barriers regarding stockholder rights and lobbying, and consumer/investor responses. Furthermore, few articles specifically focus on the role B Corporations play in the larger corporate social responsibility movement.

This analysis would contribute to the study of B Corporations in a number of ways: First, it will aggregate current research surrounding social corporate responsibility, social enterprises, corporate law, and their relationship in the context of B Corporations. Second, it will share insight of the vision, experiences, problems and potential solutions from a number of companies' and executives that have a hand in leading the corporate social responsibility movement and designing the B Corporation model. Finally, it will shed personal insight and solutions to advancing the social movement.

Corporate Social Responsibility

Defining CSR

In the past few decades, Corporate Social Responsibility (CSR) has emerged as a significant concern of top executives across the world and a trending topic amongst academics (Garriga, 2004). Because a multitude of definitions for CSR have been suggested, theoretical development and measurement are difficult. However, all proposed definitions consistently entail four main components:

1. Meeting objectives that produce long-term profits.
2. Using business power in a responsible way.
3. Integrating social demands into business decisions.
4. Contributing to a good society by doing what is ethically correct (Garriga, 2004).

For this study, CSR will be defined as: Initiatives undertaken by firms to go beyond compliance with the law and to further a social or environmental good.

Theoretical Perspectives of CSR

Despite the ambiguity surrounding CSR, numerous theories have developed in the field during the latter half of the 20th century. The first debate surrounding the topic arose after Levitt cautioned that ‘government’s job is not business, and business’s job is not government’ (1958, p. 47). Later, Friedman supported agency theory which argues that businesses should not engage in CSR activities because ‘the one and only social responsibility of business is to use its resources and engage in activities designed to increase its profits’ (1970, p. 8) and thus doing so would be a misuse of stockholder funds. Agency theory assumes that the highest interest of owners of a company is to make as much money as possible, even though some owners aim to meet higher order needs. Furthermore, proponents for agency theory oppose the integration of social initiatives in business decisions even though such actions may prove be profitable in the long run.

Bernard (1938) and Freeman (1984) argued for shareholder theory implying that managers should consider numerous vested parties when developing policies because doing so is in the best interest of the firm. Stakeholders include not only shareholders but customers, employees, suppliers, and community organizations as well. Other theories that support CSR include stewardship theory and institutional theory. Stewardship theory argues that managers have the moral responsibility to do right regardless of other considerations (Donaldson and Davis, 1991). Institutional theory, which extends from classical economic theory, argues that firms rely on repeated transactions with stakeholders and people avoid those that are unethical, seeking out those who are ethical; thus, it is more advantageous in the long run to be habitually ethical than unethical (Velasquez, 1996).

Building off these earlier theoretical frameworks, Garriga and Melé (2004), mapped CSR theories into four broad categories:

1. instrumental theories
2. political theories
3. integrative theories
4. ethical theories

Instrumental theories view CSR as a tool to meet economic objectives. These theories are similar to those of agency theory and highlight maximizing shareholder value, which often result in short sightedness, achieving a competitive advantage, and cause-related marketing. The latter two take a more long-term perspective but still thinking from a point of self-interest. Political theories, focus on the relationship between corporations and society, acknowledging that corporations serve as citizens in communities and have immense amounts of power. Thus firms must be good citizens and provide for society using their power. Integrative theories, take an inverted perspective of political theories, in that they view firms as dependent on society. This group argues that in order for a firm to sustain itself in the long run it must monitor social demands and find innovative ways to meet them. The final broad category are ethical theories. Like the stewardship theory, ethical theories argue that firms should work to follow principles that are morally right (Garriga & Melé, 2004). Through the utilization of these theoretical frameworks much of the ambiguity surrounding CRS is curbed and functional applications of CSR become apparent.

Applications of CSR

Historically CSR has been a theoretical topic of study, however in recent years the topic has surfaced as a movement urging firms to strategically take up social roles. This new trend is a

result of stakeholders calling on corporate leaders to consider a triple bottom line- one that considers people, planet, and profit. Meeting a triple bottom line is the definitive goal of any CSR program; in that by doing so, the organization aims to go beyond the legal minimum of meeting fiduciary duties and works to meet the needs of a community.

Beer (2009) showed that firms with a short-term focus concentrated on the bottom line and disregarded ethical considerations, thus setting themselves up for failure in the long run. Historically, this has been evidenced in both the original Forbes100 & original S&P500. Of the original Forbes100 of 1917, 61 of the esteemed businesses have ceased to exist by 1987. And of the remaining 39, only 18 stayed in the top 100, and their return was 20% less than the overall market during the period. Of companies in the original S&P 500-stock index in 1957, only 74 remained in 1997; of these only 12 outperformed the S&P 500 in the period from 1957-1998. Further analysis strongly suggests that corporations with strong moral compasses and long-term objectives beyond profit are more successful and sustainable.

It has become evident that CSR demonstrates responsibility to stakeholders; thus CSR initiatives are now necessary for firms to sustain themselves in an evolving competitive environment and it becomes imperative that they must convince stakeholders to support their business. CSR has a positive effect on each of the three dimensions of brand image: brand perceived quality, brand personality image and brand social image (Lou, 2009). Corporations that mismanage CSR see direct negative impacts on their image and bottom line (Orgizek, 2002). By demonstrating ethical and moral considerations to customers, firms add utility to their offered product or service (Alm, 2011). Furthermore, due to rapid developments in technology and communication, CSR has become notably important for large multi-national corporations that touch multiple communities. In particular, social media has enabled consumers to closely watch

businesses and comment positively and negatively on their performance. In response, many large companies have begun to utilize crowdsourcing to review, refine, and develop their sustainability plans and strategies (Porter & Kramer, 2006).

Firms accomplish CSR objectives and create stakeholder value in three broad ways. Firms can incorporate social characteristics into their product or services, innovating more progressive human resource practices, or reduce environmental impact (McWilliams, 2006). The most successful applications of CSR have been when corporations focus on their core competencies and find ways to utilize them so they may offer solutions to challenging social issues. However, developing solutions has proven to be immensely challenging tasks that require innovative social thinking and business experience. Given these challenges, firms look to the third sector and emerging social enterprises as models for social innovation.

The Fourth Sector & Social Enterprise

The Emergence of Social Enterprises

Much like CSR, today the third sector is growing rapidly across every industrialized nation and has become associated with the economic roles of public and private figureheads. Much of this growth has come to fruition because stakeholders are organizing coalitions to address major social and environmental issues that the public and private sectors have failed to address, despite lobbying and CSR initiatives (Defourny, 2001). Some examples of the most pressing issues the third sector aims to combat include unemployment, carbon emission reduction, and the need to reduce debt.

In the last quarter of the twentieth century the third sector has been focalized around two major frameworks: non-profits and social economies (Defourny, 2001). The prior are legal entities deeply rooted in American society. To file as a non-profit, an organization must be

private, self-governing, maintain a certain level of voluntary service and may not distribute profit. The latter is a framework that is present in the United States but has been part of European economies since the early twentieth century. Social economies are composed of three welfare states: Co-Operatives, Mutual-Type Organizations, and Associations. Much like non-profits, social economies aim to provide service rather than make a profit and are independently managed. However, social economies slightly differ in that they use democratic decision making and do distribute income.

Traditionally an economy has been seen from a tri-polar perspective: private enterprise (business), the state (government), and social (non-profit). However, over the past few decades growth from the third sector and movements like that of CSR have begun to blur the lines between the three sectors and what has been called the “fourth sector” has emerged. The fourth sector is the intermediate space in which different poles combine and belong neither to the private nor to the public sector. Social enterprises are hybrid organizations that operate in the fourth sector and look to go beyond traditional social economies by bringing together multiple stakeholder groups rather than a homogeneous one (Defourny, 2001). Furthermore, these organizations center on entrepreneurial thinking and are prompting conversations surrounding the current corporate and legal frameworks.

Defining Social Enterprise

The recent surges in developments within the fourth sector have led to debate and the lack of a general consensus surrounding the term social enterprise. However, it may be agreed that social enterprises have two primary dimensions: economic and social (Nyssens, 2007). Economically speaking, social enterprises must meet five criteria:

1. Financed through a hybridization of trading activities, public subsidies, or voluntary resources
2. Continuously produce some form of good or service
3. Hold a significant level of risk
4. Autonomously governed
5. Offer a minimum amount of paid work

Socially, again, there are five benchmarks social enterprises must meet. These include:

1. A mission that aims to provide some good for a community
2. Collective contributions from community members
3. Decision making base of power and not capital ownership
4. Engagement from a variety of stakeholders
5. Limited amount of profit distribution

In light of these ten dimensions, a social enterprise may be defined as a hybrid venture that aims to meet a social need through the production of goods and services, and overcomes scarce resource constraints through innovative strategies offered by stakeholders.

Convergent Theory

As hybrid ventures, social enterprises can be viewed from a social or economic perspective. From a more traditional third sector perspective, however, the pro-social model suggests that social enterprises should maintain true to their core mission and emphasize social outcome by distributing all surpluses. Thus, this enterprise is highly dependent on and unsustainable without aid from donors, volunteer work, or grants. In contrast a pro-economic perspective of social enterprises takes up a more corporate framework by emphasizing self-sustainability through commercial activity (Dees, 1998).

Today social enterprises are being pressured to reconcile the differences between these two perspectives and converge toward self-sustaining entities that create both economic and social value (Chell, 2007). To become self-sustaining and to provide long term social value, social enterprises need to make and maintain a surplus by tapping into commercial markets through entrepreneurial initiatives. However, doing so raises some concerns. First, most non-profit leaders lack any business experience and are overly optimistic about their abilities to operate an organization in a commercial context. As Foster and Bradach (2005) point out that ‘in the USA, only 39% of small businesses are profitable, that 50% fail in the space of 5 years, and that it is even tougher for social enterprise, because of conflicting priorities and the lack of a business perspective.’ This suggests that social enterprises need to seek leaders with business experience and to develop a business like culture. Another concern may be that in order to develop a surplus firms must engage in continuous commercial activity. And doing so may lead to questioning the fundamental mission of the social enterprise. What percent of firms’ profits should be reinvested for growth or distributed for their social cause? It is up to each social enterprise to develop their own solutions to overcome these challenges.

By developing self-sustaining models social enterprises create the fourth sector and begin to bridge the third sector gap between non-profit and for-profit sectors. However, this convergence also suggests that social enterprises need to compete in both the social and economic landscapes. To engaging in new competitive markets while remaining loyal to their fundamental cause, social entrepreneurs must come to understand the fine distinctions between their entities and that of their economic counterparts.

Comparing Economic and Social Enterprises

Four variables may be utilized to guide comparison between entrepreneurship in the commercial and social sectors: market failure, mission, resource mobilization, & performance measurement (Austin, 2006). Market failure presents different opportunities to entrepreneurs. Most social enterprises emerge to fill the needs that commercial enterprises have failed to or cannot meet. Thus, according to Austin, 'A problem for the commercial entrepreneur is an opportunity for the social entrepreneur.'(2006, pg. 3) Second, the social enterprise's mission differs in the sense that they aim to create social value rather than personal and shareholder wealth. Third, resource mobilization is a much more challenging task for social enterprises than their commercial enterprises. This challenge presents itself because social enterprises cannot tap into the same capital markets, compensate competitively, or distribute surpluses. Finally, performance measurement is completely different and non-tangible for social enterprises. Given these four distinctly different variables, to compete with traditional for-profit firms, social entrepreneurs must develop innovative ways to overcome two major issues. First, social enterprises must develop a way to comply with or alter the current legal and corporate framework. And second, social entrepreneurs must develop ways to measure social and environmental impacts so they may increase efficiencies and report their progress to various stakeholders

Current Issues Surrounding Social Enterprises

Legal & Corporate Framework

One of the primary reasons that social enterprises have yet to come to full fruition is due to the strict distinctions between for-profit and nonprofit corporations. Much of the framework across state and federal legislation has been constructed to further business development rather

than social progress. This becomes evident when looking at the way ‘social and economic indicators are deteriorating while businesses are booming’ (Gupta, 2011, p. 204). Given this one sided legal infrastructure, social entrepreneurs have been trying to bend the system and create hybrid organizations that operate in the fourth sector.

Within the for-profit legal structure, corporations may choose to take a variety of forms including: sole proprietorship, partnership, an S corporation or a limited liability corporation. Despite the number of legal vehicles available, none are suitable for social enterprises. As was stated by *Dodge v. Ford* (1919) ‘A Business Corporation is organized and carried on primarily for the profit of the stockholders. The powers of the directors are to be employed for that end.’ Thus, management must solely act to further the monetary interests of shareholders. And considerations of other interest would violate that obligation. Furthermore, as was held in *Revlon v. MacAndrews & Forbes Holdings, Inc.* (1986), despite long-term strategies, it is the responsibility of management to maximize immediate shareholder values. One notable instance was the hostile takeover of, B Crop., Ben & Jerry’s by the multinational conglomerate Unilever in April 2000. Although Ben and Jerry did not want to sell their business they were bypassed when the Board accepted a \$326 million offer from Unilever (Page, 2010). Another issue is that tax codes give relatively little incentives for corporations to make charitable contributions (Gottesman, 2007). Finally, there is no standard way to certify corporations for CSR initiatives so consumers, governments, investors, and competitors have no way of comparing CSR practices across industries.

While the for-profit framework is clearly not a suitable vehicle for social entrepreneurs to meet their goals, the nonprofit framework has proven to be just as problematic. For nonprofits the main concern is that of funding. In order to file under the nonprofit legal framework,

organizations must be classified as one that spends money for social good or a grant-making foundation that raises money and distributes it to service organizations (Gupta, 2011). As previously noted, nonprofits may not raise capital or make a profit and must rely on private foundations and government grants for funding. Furthermore, nonprofit foundations are restricted from funding or investing in anything other than nonprofit organizations. Thus, nonprofit organizations must rely on the charity of others and may not invest in other companies to grow with the market the way traditional corporations do. Additionally, because nonprofits heavily rely on government grants they are legally restricted from lobbying or engaging in political campaigns, thus inhibiting nonprofits from having any say in policies that may affect their mission or the interests of their stakeholders. These limitations stand as the primary reasons growth within the third sector has been minimal.

The creation of the “fourth sector” aims to overcome these limitations present amongst traditional for-profit and nonprofit organizations. In recent years the lines between the for-profit and nonprofit sectors have become increasingly blurred as 33 states have adopted constituency statutes which allow directors to consider stakeholder interests beyond those of shareholder maximization (Hiller, 2012). However thus far, only two formal frameworks have been proposed: L3C’s and B Corps. Since B Corps. will be thoroughly covered, for now only L3C’s will be discussed. L3C’s or “low-profit limited liability companies” emerged in 2006 at a meeting held by the Aspen Institute’s Nonprofit Sector and Philanthropy Program. These hybrid social ventures are amendments to LLC’s and are currently recognized in 9 states and 2 Indian nations. Their aim is to meet social objectives and to place profit as a secondary goal. Although L3C’s are organized as LLC’s, they must meet additional requirements. Their primary objective may not be to achieve profit or any political objectives. They must self-designate themselves as

L3C's in their articles of incorporation, and they must further a charitable or educational purpose (Gupta, 2011). Additionally, L3C's may not engage in lobbying or political campaigns. Despite restrictions, L3C's are the first legal framework to enable social entrepreneurs to sell products and services to raise revenues and reduce the amount of reporting entailed in grant funding. This allows L3C entrepreneurs to focus on their core mission and provides encouraging progress in current legal frameworks for the social enterprise model.

Although L3C's and B corporations offer promising solutions; with the rapid globalization of commerce, it is not sufficient for entrepreneurs to merely consider the legal progress of social enterprises within the United States. It has become imperative to look to legal policies and solutions abroad as well. The concept of social entrepreneurship and welfare are notions that have long been rooted in European societies. However, the concept of social enterprise only began emerging in Italy 1980's Italy (Nyssens, 2007). Since then, the concept of social enterprise has spread all over Europe and the world. Leading the movement, countries across Europe have been developing new legal forms to accommodate the evolving third sector. In Italy, companies are now able to file as an A Co-operative aiming to meet social, educational, or health needs or a B Co-operative striving to integrate disadvantaged people back into society (Nyssen, 2007). Since 2002 the English parliament has recognized social enterprises and created laws to recognize "Community Interest Companies" (DTI, 2002). In fact, sixteen new laws similar in tone and tenor have been identified across European countries (Nyssens, 2007). For Europe, changes in public funding have played an important role in the re-shaping of the fourth sector.

The way European policies and public funds have shifted in the past fifteen years suggests that countries are now altering their social agendas to foster fourth sector development.

The European Unions (EU) financial support is a prime example in the evolving social landscape. In recent years the EU has been slow to directly finance third-sector social welfare programs. However, during the same timeframe they passed subsidies that have played major roles in the emergence of new social enterprises (Nyssens, 2007). Another area the EU has been diverging from traditional approaches to the third sector is in public contracts. The European commission is considering introducing social clauses into public tenders, so they may take in the consideration social giving costs in contract bidding (Nyssens, 2007). Such clauses would even the playing field and would enable social enterprises to compete for public contracts with for-profit companies. Although promising, given that the European policies surrounding the fourth sector and social enterprises are relatively new, the full ramifications of the new rules are still unknown. However, given these circumstances, if social entrepreneurs wish to overcome the legal barriers present in the United States' legal framework, it would be wise to keep a watchful eye on the progress of their European counterparts and to make these developments known to politicians. The only way the fourth sector will come to full fruition is if social entrepreneurs gain the support of the government and work with Congress to develop innovative legal frameworks which would serve as vehicles to meet a triple bottom line. Which also raises the next issue: In order for the notion of a fourth sector to gain the support of external stakeholders, entrepreneurs must develop means to quantify and measure their social and environmental impacts.

Social & Environmental Impact Assessment

Developing ways to measure and quantify the Social and Environmental Impacts (SEI) of the third sector and CSR initiatives has proven to be yet another pervasive challenge inhibiting the growth of the social enterprise model. The measurement of SEI is necessary for the fourth

sector to develop best practices, compare progress amongst competitors, and demonstrate returns to stakeholder. Striving to quantify SEI and organizational “effectiveness”, research by academics and business practitioners peaked between 1975 and 1985 while hundreds of SEI models were proposed (Zammuto, 1984). In his study, Kroeger (2014) found that a functional model may define the effectiveness of any social initiative as the degree to which organizations’ interventions benefit the society to which they belong and minimize the difference between the intended and actual outcomes. Furthermore, a functional SEI framework must be able to not only accurately quantify the effectiveness of a social intervention but also offer a comparison of: heterogeneous social interventions, context mobility, and the social element (Kroeger, 2014). For SEI indexes to be functional across heterogeneous social interventions aimed to meet different treatment groups, the framework must utilize a uniform unit of measurement. This is to say an intervention to combat human trafficking in India must be comparable to one aimed at affording opportunity to disabled children in the United States. In terms of context mobility, the framework must also be able to compare different socioeconomic contexts and industries. Finally, SEI must be able to measure the social elements of an intervention by separating the social and monetary or commercial value add. Multiple attempts have been made by practitioners, academics, and legislators to develop a SEI framework that may accurately measure effectiveness of social interventions and accounts for heterogeneous social interventions, context mobility, and the social element, however not one framework has been unanimously accepted and standardized (Wolfe and Aupperle, 1991).

Using contemporary SEI models Turker (2009) identified five approaches to measure SEI: reputation indices or databases, single- and multiple-issue indicators, content analysis of corporate publications, scales measuring SEI at the individual level, and scales measuring SEI at

the organizational level. Reputation indices or databases are the most common approach to measuring SEI. Three examples of this approach include The Kinder, Lydenberg, and Domini (KLD) Database, the Fortune Index, and the Canadian Social Investment Database (CSID). Each index considers five to eight dimensions to compare the impact organizations have on various stakeholder groups. However, the majority of these indices are theoretical and face a number of limitations, including the ability to compare heterogeneous social interventions or offer context mobility (Maignan and Ferrell, 2000). The second approach to measuring SEI, single- and multiple-issue indicators, is useful in measuring organizational progress to meet specific goals such as the reduction of carbon emission or crime, but is not practical for measuring the entire effects of social interventions or compare activities across heterogeneous groups. The third and fastest growing form SEI measurement is content analysis of corporate publications. Due to the increasing interest of CSR, corporations are now publicly publishing more information regarding their practices towards the community, environment, employees and consumers than ever before (Brockert, 2010). Despite the corporate trend to become more transparent, measuring and comparing organizations through corporate publications may be misleading because there is a large contradiction between reports and actual performance (Freedman and Wasley, 1990). The fourth approach, scales measuring SEI at the individual level, accurately measures the SEI values and opinions of interventions at the managerial level but fails to applicably translate into the value and organization is providing in an economic context. Finally, the fifth framework, scales measuring SEI at the organizational level, is the least developed and not one framework has been successful in quantifying. Thus far, the best model in this category was developed Maignan and Ferrell (2000) and aimed to measure corporate citizenship on five levels: economic, legal, ethical, and discretionary responsibilities. Despite meeting all three of Kroeger's (2014) criteria

to measure an intervention's successfulness; the framework is limited to the consideration of three stakeholders: consumers, employees and community. Each one of these five frameworks has contributed to the practice of CSR and third sector interventions and academic literature. However, all of them have limitations. This being said, social entrepreneurs must develop a new model that will accurately quantify and report the SEI of organizations.

In summary, there are two current issues impeding the emergence of social enterprises. The first problem surrounds the current legal and corporate frameworks available to entrepreneurs. Not one legal vehicle within the for-profit or non-profit sector is suitable for social enterprises. The primary issue pertaining to for-profit filings is that they are legally obligated to take up a one dimensional paradigm and generate the highest possible profit for its owners. On the other hand, non-profit entrepreneurs are faced with the difficult task of securing funds and resources to accomplish their mission. Thus, in order for social enterprises to come to fruition, social entrepreneurs must come together and lobby for new legal frameworks or expand on the current L3C's and B corporation filings. The second issue pertains to the measurement and reporting of SEI. The measurement of SEI is necessary for the fourth sector to develop best practices, compare progress amongst competitors, and demonstrate returns to stakeholder. Although a number of methods to quantify SEI have been offered by practitioners and academics, most are unrealistically expensive or complicated to administer and none have successfully compared all three elements Kroeger (2014) deemed necessary for practical SEI measurement. Thus, although progress has been made by academics and practitioners, social entrepreneurs must come together to develop innovative solutions that will make SEI measurement practical and applicable across all industries. Although these problems may seem unsurmountable, one organization, B Labs has called together a coalition of business

practitioners, academics, and social entrepreneurs, to offer solutions to these issues and bring to fruition the social enterprise model.

Benefit Corporations

Certified B Corporations

B Lab is a nonprofit organization that has been the primary driving force behind the B Corporation movement. Founded in 2006 with the mission of building a community of investors, institutions, and businesses that “compete not only to be the best in the world, but the Best for the World” (B Corporation, 2016), B Lab called upon companies to join their movement by voluntarily adopting a heightened set of ethical, environmental, and social business standards while becoming more transparent. In the past decade B Lab has emerged as the leading CSR advocacy organization and the only organization to develop a comprehensive certification that measures social, environmental, and financial practices (Chen & Kelly, 2015).

Today, there are 1,609 Certified B Corporations in 43 countries and 130 industries (B Corporation, 2016). And although the movement has grown exponentially in the past ten years, most of these companies remain small to mid-sized and are privately held businesses (Chen & Kelly, 2015). Clearly being socially and environmentally conscious often means being a maverick, going against conventional wisdom, and risk taking: all of which are difficult for large entities. As a certified B Corp. an organization has access to: consulting on how to grow and be more economically, socially, and environmentally responsible; B Impact Assessment (BIA); the Global Impact Investment Rating System (GIIRS); and advocacy for CSR initiatives on the state and federal level. In return, certified B Corps. are required to maintain a minimum BIA score; revise their governance documents to reflect an expanded fiduciary duty to consider the needs of

all of the business' stakeholders; and pay annual certification fee, which may range from \$500 to \$50,000 a year depending on annual revenue (Marquis & Lee, 2015).

B Impact Assessment & Global Impact Investment Rating System

The B Impact Assessment serves as a tool to measure and benchmark an organization's social and environmental impact based on a metric of 215 indexes. More specifically, the B Impact Assessment has four broad categories, each with their own sub categories:

1. Governance: Transparency & Accountability
2. Workers: Compensation/Benefits, Training, Work Environment, & Ownership
3. Community: Product/Services, Community Practices, & Giving
4. Environment: Product/Services & Environmental Practices (Hiller, 2012)

The BIA is on B Lab's website, free, and available for any organization to take. However, for an organization to qualify as a B Corp. they must score a minimum of 80 out of 200 in their assessment (B Corporation, 2016). These scores are made publicly available and may be found on each certified B Corps.' page. In 2012 from a pool 2,500 small businesses, the median B Corp Index was 88, while certified B Corps. scored 25 percent higher than other sustainable businesses (B Lab. ,2012). As an increasing amount of businesses take the BIA and the data set grows, benchmarks will become more significant for different sized companies, in different industries, and for different stakeholders (B Lab. ,2012).

Similar to the BIA, B Labs has also developed GIIRS, a B Analytic platform to assess SEI impact investing. GIIRS is similar to the SROI (Social Return on Investment) method that utilizes a number of principles to measure how effective an project, business, organization, fund or policy intervention is across multiple stakeholder parties (Social Value UK, 2014). For

investors, the GIIRS rating and analytical system is comparable to the Morningstar investment rankings and Capital IQ financial analytics (Social Value UK, 2014). GIIRS helps investors collect impact data for their portfolios so they can invest both wisely and responsibly in order to reap the maximum SROI. For organizations, GIIRS helps them set industry benchmarks, gives them motivation to reach quantifiable SEI environmental goals, and gives them access to a large database of SEI performance in order to follow trends (B Analytics, 2016). Although B Labs BIA and GIIRS analytical platforms are not yet highly standardized, nor perfect for every organization, they provide promising solutions for SEI reporting which is one of the two primary issues that has impeded the development of social enterprises.

Benefit Corporations

While B Lab has provided a remedy to SEI reporting they are still working hand in hand with the United States government to develop a legal framework that is suitable for social enterprises. Although they are often confused, it is important to make the clear distinction between Certified B Corporations and Benefit Corporations (BC). Certified B Corporations are not a legal entity but rather voluntary members of the B Lab association. As members of the B Lab association they are bound by a contractual agreement to consider the interests of a variety of stakeholders and meet a number of standards (Hiller, 2012). On the other hand, a BC is a legal entity bound by statutes proposed by B Lab.

Thus far 30 states have successfully passed legislation that recognize BCs, while five more are in the process (Benefit Corporation, 2016). Although statutes surrounding BC vary state by state, most have overlapping requirements. All BCs must follow incorporation steps, pay a state filing fee ranging from \$70 to \$200, and be recognized as a for-profit entity (Benefit Corporation, 2016). Similar to L3Cs, BC are not nonprofits, hybrid organizations, or charities,

but rather a corporation that has voluntarily chosen to accept BC duties and standards. As such, all BCs agree to take up the responsibility of providing material public or environmental benefits to society.

To insure BCs are compliant in meeting their social and environmental obligations, each company appoints a Benefit Director who is independent and charged with producing an annual benefit compliance report. Corporate Directors are bound to these duties as they are not advised but obligated to consider the long and short term needs of all stakeholder groups (Hiller, 2012). To enforce these duties the legislation has put forth benefit enforcement proceedings, which are the only means for Directors and shareholders to take legal actions against BCs that fail to carry out their duty of providing a social or environmental benefit (Hiller, 2012). Depending on the state, BCs are required, or highly encouraged as a best practice, to be annually audited by a third-party group and produce an SEI benefit report (Benefit Corporation, 2016). In order to maintain transparency with all parties, these annually produced benefit reports are sent to all shareholders, the state department, and made public.

Since October 2010, when Maryland became the first state to pass legislation recognizing BCs, the entity type has grown and fueled the B movement exponentially. In fact, with 3,060 BCs, there are far more BCs today than Certified B Corps (Benefit Corporation, 2016). With this most recent achievement B Lab has successfully led the development the first American legal entity that recognizes a triple bottom line and the equal rights of all stakeholders. Thus, B Lab has now put forth promising solutions to the challenges of SEI measurement and a legal framework that has been impeding social enterprise development. So what's next?

Future Development of B Lab

With their Certified B Corp. and BC models B Labs has found promising results redefining the meaning of success in business. The success of notable B companies such as Ben n Jerry's, Patagonia, Kickstarter, Method, Toms, and Etsy as well as the interests of conglomerates like Unilever are testaments to this. (Benefit Corporation, 2016). However, as the leadership of B Lab has been recognized, if they hope to sustain this level of growth, they must develop solutions to a number of issues in their current framework and take up a new growth strategy.

As B Labs has experienced rapid growth in the past years, it has become evident that their original certification model requires a number of highly resource-intensive processes including auditing, event planning, and one-on-one support, which many small businesses and B Lab cannot afford (Marquis & Lee, 2015). Thus, to work around the present resource limitations and in order to reach a broader audience, B Labs has begun to move from a retail to a wholesale strategy by clustering Certified B Corp. communities. These communities range from industry, regional, or international specific groups. The hope for these cluster communities is that by fostering relationships, these groups will begin to communicate, work together to solve SEI issues, heighten regional/industry SEI standards, and alleviate some of the consulting demands that B Lab currently serves.

In 2011, Latin America served as the catalyst for the first international B community. At the time companies in Chile, Argentina, Colombia, and Brazil came together to form Sistema B (Marquis & Lee, 2015). Most notably, in 2014 Natura, a multi-million Brazilian company, became the largest B Corp (B Lab., 2016). Since the founding of Sistema B, countries from Europe, Africa, Canada and Australia have all formed their own B communities and formed a

Global Governance Council of B Corps (B Lab., 2016). Thus, with their new growth strategy B Lab has found success expanding their international following while grooming their domestic partnerships.

Another element of B Lab's growth strategy is to refine their BIA and GIIRS analytic systems as a part of their "Measure What Matters" campaign. B Labs saw that with the original 200 question BIA only 26 percent of companies were actually completing the assessment (Marquis & Lee, 2015). For small companies the BIA was not too problematic but for large to mid-sized companies the 200 question BIA became complex and resource intensive. So, in order to make the BIA more user-friendly and applicable to a larger demographic of companies B Lab developed a Quick Impact Assessment (QIA) comprised of 40 questions (B Corporation, 2016). Although the QIA does simplify the assessment process, it's questionable as to how many companies that complete the QIA would be willing to then go back and invest more resources to becoming certified partners.

As another initiative in the "Measure What Matters" campaign, B Lab went through a similar revamping process with GIIRS. Through B Analytics, B Lab simplified GIIRS by enabling investors to customize their portfolios and choose what SEIs they wanted to measure (Benefit Corporation, 2016). This development in B Analytics enabled investors and companies to truly assess what matters to them by adding flexibility into the system. However as a tradeoff, the new system asks investors to spend more time choosing between causes and has made comparing companies side by side more cumbersome.

Finally, in order for B Lab to sustain its growth domestically they will need to tap further into the public company sector. Publicly traded companies make up and control a large portion of the United States economy, yet until this past year, with the IPO of Etsy, 3,060 BCs were

privately held (Hiller, 2012). The reason public companies have been slow to become BCs is because committing to a triple bottom line may violate fiduciary duties and would need the full consent of both corporate leadership and the majority of shareholders (Beckman, 2016) . On the other end, many BCs have resisted going public because doing so means losing some autonomy and thus could lead to compromises in the company's mission. However, besides the slow state by state battle of BC recognition, there is nothing in the BC legal structure that prevents them from becoming public (Benefit Corporation, 2016).

Findings

After a decade of work, there have been a number of developments and studies that have indicated that B Labs has been successful in redefining the definition of success in business. With 68 million consumers in the U.S. preferring to purchase from socially responsible corporations, it has become clear that CSR is a branding strategy that works (Natural Marketing Institute, 2012). Yet, as a result of this now widespread finding, many companies are now incorporating CSR into their strategic processes and have been accused of greenwashing their products. Being a Certified B Corporation helps companies differentiate themselves from pretenders and generates press (B Lab., 2016). What the B Corp. status demonstrates to consumers is that a company is effective at managing CSR and promises a level of quality in product development management, supply chain management, and customer relationship management.

Another development that has recently been seen is that a growing number of employees prefer working for companies that are committed to CSR. A company's purpose is especially important for the millennial generation; which by 2025 will account for 77% of the work force (Deloitte, 2014). Not only does CSR attract talent but it also leads to higher employee

engagement and productivity levels (B Lab., 2016). As B Corp.s and BCs, companies are able to bring together individuals working for a common purpose and reassure their employees that they are committed to their mission.

As CSR has increased in popularity amongst consumers and employees, it has also begun to catch the eye of corporate investors and non-profit donors. In 2014 investors invested almost \$4 Billion in BCs and B Corps. In fact, a handful of venture capitalist firms have opted to become BCs themselves (Chen & Kelly, 2015). It appears that shareholder theory may be wrong. Modern day investors are actually seeking ways to invest responsibly in companies with a mission they believe in. BCs and B Corps. help investors find, follow, and support responsible companies, expand stockholder rights, lobby for shareholder rights, and insure that their investments are meeting a level of quality. B Lab claims that “BCs show investors and entrepreneurs from every industry what the future Fortune 500 looks and acts like.” (Benefit Corporation, 2016) Finally in the realm of investors, although it may still be too early to tell, it will be interesting to see how such trends in corporate CSR will affect non-profits and the grants they receive.

CSR is raising the stakes in business and creating a more collaborative, but higher, demanding environment. For companies with a responsible mindset, competition begins to look different because firms begin to define success as meeting a triple bottom line. Thus, since a BC’s purpose is not to secure profit but to rather achieve some social or environmental mission, they become more willing to collaborate with competitors and share innovations. However, when comparing B Corps. side by side with their publicly traded peers, B Corps. averaged a profit growth rate that was 5% higher, despite the fact that B-Corps were investing considerably in

CSR-type activities (Chen & Kelly, 2015). With findings such as these, it becomes evident that B Labs has been successful in raising the bar for business.

Case Studies

The following cases are presented to shed light on developments surrounding the work, philosophy, vision, experiences, problems, and solutions of a few current Certified B Corps. and Benefit Corporations. The three companies were chosen because they all: operate in business to consumer capacities, are in comparable industries, differ in sizes, and have all made notable business and socioeconomic accomplishments. Each has incurred additional costs and hardships in order to champion a unique cause that has driven them to adopt innovative business models and to find solutions to the most challenging social, environmental, and economic issues of the modern day.

Ben & Jerry's

Certified since: September 2012

Overall B Score: 101

Known for their humble beginnings, bold social and political stances, and premium quality ice cream, Ben & Jerry's Ice Cream is one of the most successful and recognizable brands in the ice cream market. Founded by longtime friends Ben Cohen and Jerry Greenfield in 1978, the duo first established their business out of a small gas station in Burlington, Vermont (Harrison, 2014). Inexperienced, young, and with limited funds, operating in a rural college town was the ideal location for the two entrepreneurs to get their feet wet.

Audience

Ben & Jerry's core target market is still the same as it was when the brand first started: affluent, highly educated young adults ranging from 20-35 years of age who are highly health, social and environmentally conscious (Durisova, 2008). These traits are indicative of the millennial generation making them the ideal consumers for Ben & Jerry's products. Millennials are individuals born from the early 1980's to the early 2000's. They are tech savvy, racially diverse, not very religious or politically affiliated, highly educated, and face macro-economic hardships, due to student loans and the Great Recession (2007-2009) (Millennials in Adulthood, 2014). There are roughly 83.1 million U.S. millennials and despite economic hardships most take an admit approach toward social change, thus building a client base that perfectly aligns with Ben & Jerry's: one which emphasizes their three-part product, economic, and social mission.

Social

Ben & Jerry's three-part mission is the core philosophy that defines the business: to "create prosperity for everyone that's connected to our business: suppliers, employees, farmers, franchisees, customers, and neighbors alike." (Ben & Jerry's, 2015)

Product Mission- "To make, distribute and sell the finest quality all natural ice cream and euphoric concoctions with a continued commitment to incorporating wholesome, natural ingredients and promoting business practices that respect the Earth and the Environment." (Ben & Jerry's, 2015)

Ben & Jerry's entire supply chain, from sourcing, production, to packaging, is a testament to their commitment to creating a product that is not only good for their consumers but the environment as well. All ice cream is made with all natural local ingredients that are sourced from fair trade companies in Vermont. The company has been one of the most prominent activist

against GMO's, going against their parent company Unilevers' open opposition toward GMO labeling (Boyle, 2014). Furthermore, the pints are made with FCS Certified paper, all stores have environmentally friendly freezers, and the company off sets more than 50% of their carbon emissions (B Corporation I Ben & Jerry's, 2014).

Economic Mission- "To operate the Company on a sustainable financial basis of profitable growth, increasing value for our stakeholders and expanding opportunities for development and career growth for our employees." (Ben & Jerry's, 2015)

Ben & Jerry's takes care of their workers, suppliers, and investors. The lowest paid employee at Ben & Jerry's is paid 46% above the living wage. Employees also enjoy supplemental benefits, counseling, a wellness program, free products, a day care program, and fun programs like 'Ben & Jerry's Joy Gang' (B Corporation I Ben & Jerry's, 2014). Ben & Jerry's has developed a loyal set of suppliers within their Fairtrade supply chain system. They seek small local suppliers whose values align with their own and commit to long mutually beneficial relationships. In fact, two of Ben & Jerry's largest and longtime suppliers, The Greyston Bakery and Rhino Foods are also certified B Corporations (Ben & Jerry's, 2015).

Social Mission- "To operate the company in a way that actively recognizes the central role that business plays in society by initiating innovative ways to improve the quality of life locally, nationally and internationally." (Ben & Jerry's, 2015)

Ben & Jerry's has a long history of social giving while taking a progressive, left-leaning stance toward international, national, and local issues. Their first major social campaign, "1% For Peace", was started in 1988. Its aim was to redirect 1% of the national defense budget toward peace-promoting projects by selling Peace Pops. Since then Ben & Jerry's has had campaigns

aimed at taking a stance on 10 different social issues including: GMO's, economic inequality, drilling, and cloning (Ben & Jerry's, 2015). Locally, the company's employees and management, has volunteered more than 5,000 hours and donated more than 5% of its annual profits to charities (B Corporation I Ben & Jerry's, 2014). These prominent and unique social stances are what helps Ben & Jerry's develop their brand equity.

Brand

With their unique image and social mission Ben & Jerry's has become the leading premium ice cream brand. Parent company Unilever is the largest producer of ice cream in the United States with 21.8% of the market share (Yucel, 2015). The Ben & Jerry's brand in and of itself contributes a significant amount by holding a monopolistically competitive share of the premium ice cream. With only a few small competitors, differentiated positioning, and world-known brand image Ben & Jerry's is non price competitive (Ben and Jerry's Premium Ice Cream Products). Although highly specialized, the company is able to appeal to a broad customer base by having a wide variety of unique ice cream, frozen yogurt, and sherbet products in their marketing mix. Being hyper sensitive to their consumers' tastes and preferences, having a unique and fun marketing mix, and having a loyal customer base that supports Ben & Jerry's social initiatives are all factors that give the brand its edge in the premium ice cream market.

Financial

As a member of the Unilever conglomerate it is difficult to accurately access the recent financial performance of the Ben & Jerry's brand. However in the past six years, since the 2008 economic crisis Unilevers' financials have shown steady growth. Over the past five years, sales for Unilever have grown 4.5%, operating margin has increased 1.4%, and earning per share has increased 8% (Unilever, 2015). Much of the sales growth seen in the refreshment category was

driven by the Ben & Jerry's brand. And all together, refreshments generated €9.2 billion in sales (Unilever, 2015). Although the Ben & Jerry's brand has been thriving, as a whole the vast majority of sales has been coming from their distributed pints rather than their scoop shops which have seen a decline. Over the past five years Ben & Jerry's scoop shops have decreased from 799 to 586 and have dropped from 98 to 299 in Franchise 500's annual rankings (Entrepreneur Media, 2015). Nonetheless, all together Ben & Jerry's has been showing strong financial performance, steadily employing 419 individuals with above industry wages, and contributing \$2,613,582 to their social giving Foundation in 2014 (Ben & Jerry's, 2015).

Other Major Developments (Hostile Takeover)

The world's second-largest food company, Unilever purchased Ben & Jerry's in 2001 in a dramatic and controversial hostile takeover. The company's founders Ben Cohen and Jerry Greenfield were resistant; but with a struggling business, an unsatisfied board, and a very generous offer the founders had little choice but to sell (Harrison, 2014). Since then, many groups have accused Ben and Jerry of selling out as the takeover has become the poster child of a flawed corporate law system. However despite these accusations, Unilever acquiring Ben & Jerry's was the best case scenario for nearly all parties. Shareholders strongly supported the transaction which was valued at \$326 million (Page & Katz, 2012). Ben and Jerry each respectively walked away from the deal with \$41 and 9.5 million, yet they still both were unhappy deeming the sale of their company one of the worst experiences of their lives (Caligiuri, 2000). Employees and vendors were protected, as there would be no layoffs or major operational changes for two years and they would still be making their generous "living wage" (Hays, 2000). And as a whole, Ben & Jerry's obtained the managerial support needed to turn things around and continue to drive their social mission. Unilever also agreed to contribute \$1.1

million each year to the Ben & Jerry's Foundation and pay for an audit for their Social and Environmental Annual Report (SEAR) (Page & Katz, 2012). Through these measures Unilever acquired a well known and loved American brand, while simultaneously protecting the unique brand image, equity, and core social culture. The acquisition of Ben & Jerry's by Unilever may serve as a reminder that despite the legal status or environment an enterprise may operate in, it is the people within that are the heart and soul that drives the social mission.

Patagonia Case Study

Certified since: December 2011

Overall B Score: 116

Patagonia is a lifestyle apparel company that has become well known for their minimalist style, outspoken stance toward environmentalism, and upscale “Ironclad Guaranteed” apparel items. The outdoor gear and clothing business was founded in 1974 by one of the most unlikely of businessmen, a “dirt bag” climber named Yvon Chouinard. Before founding Patagonia, Yvon worked as a blacksmith during the winter months and traveled to remote climbing destinations in the Spring through Fall (Chouinard, 2005). As a blacksmith he developed a unique ability to recognize the needs of a market and developed innovative ways to solve them. By marrying together his deep passion for the outdoors with a strong entrepreneurial spirit, Yvon developed a distinct business philosophy that is responsible for a number of highly notable climbing and apparel innovations which continue to be the heart and soul of Patagonia.

Audience

In the past 42 years Patagonia’s target audience has evolved from merely climbers to the world-renowned stars of a number of high profile adventure sports. These include: ski/snowboarding, kayaking, surfing, fly fishing, and trail running. Patagonia primarily aims towards appealing to environmentally friendly, highly educated consumers between the ages of 25-45 who have a median income level of \$45k-\$75k (Campaigning Digitally for Patagonia, 2016). What makes this company unique and highly successful in recent years is they ability to tap into market well beyond their core consumers. Patagonia’s high-performance, repairable designs may entice a twenty-year old wilderness guide with little cash to purchase a Patagonia jacket that’s well outside of their price range. It may be just as likely that a sixty-five year old

professor purchases the same jacket purely because of Patagonia's brand image. Regardless of a consumer's demographics or socio-economical background, most are drawn to their high-performance designs and the company's prominent social and environmental values.

Social & Environmental

Patagonia's products are not cheap, nor are they trendy, yet consumers are drawn to them because they represent something more than an article of clothing. Their mission statement is to "Build the best product, cause no unnecessary harm, use business to inspire and implement solutions to the environmental crisis." (Chouinard, 2005) Operating in the highly cut throat and unethical apparel industry, Patagonia takes its mission seriously and stands as a maverick amongst its peers.

The company has become known for taking a big picture approach in all that they do. And their values of "Quality, Integrity, Environmentalism, & Not Bound by Convention" are evident in every initiative they consciously take (Chouinard & Stanley, 2012).

Quality: Pursuit of ever-greater quality in everything we do.

Patagonia has become known for their superb customer service and product quality. With roots tracing back to Yvons' climbing manufacturing business, where the quality of a product literally meant the difference between life and death, Patagonia has continued a tradition of "Ironclad Guaranteed" quality. Before any product begins to be manufactured, every aspect of the design and material is rigorously tested for months at Patagonias headquarters and then sent into the field to be used by their ambassadors who are some of the most extreme adventure sports athletes (Patagonia Corporate Site Visit). With such rigorous prototype testing, coupled with

their generous life-time return, repair, or exchange policies, accusing them of planned obsolescence would be very difficult.

Integrity: Relationships built on integrity and respect.

Since its founding, Patagonia has worked relentlessly to build up its reputation amongst every one of its stakeholders. For consumers they continuously deliver premium quality products. Their “Worn Ware” campaign celebrates the durability, timeless style, and vivid memories they associate with Patagonia products (Worn Wear, 2016).

The high quality of products is largely due to their some one hundred loyal suppliers. In the 1990’s Patagonia emerged as one of the founding members of the Fair Labor Association and developed their own Contractor Relationship Assessment to measure and rate their factories’ performance (Chouinard & Stanley, 2012). Rather than producing in factories with the lowest cost, Patagonia chooses to partner with a small number of suppliers with values similar to their own. On an annual basis Patagonia privately audits 90 percent of their factories and has a third party audit conducted on 5% of their factories. As of the fall 2015 Patagonia now carries 192 Fair Trade Certified products (Fair Trade Certified™, 2016).

As the company moves into a global market, they now employ some 2,000 individuals (Schulte, 2014). Their corporate headquarters in Ventura, California possesses a unique, light hearted, and lively atmosphere where individuals are encouraged to play just as much as they are to work. With an open floor plan void of cubicles and doors, the layout seems to be more that of a house than a business (Patagonia Corporate Site Visit). Every quarter, all employees are invited to managerial meetings where financials are discussed, new members are introduced, and goals are set. Employees receive a generous compensation package with industry competitive

salaries, health and dental benefits, two months paid leave for new parents, on-site child care, flexible hours, and bonuses tied to performance and responsibility (Chouinard & Stanley, 2012). Such employee friendly benefits keep turnover rates at an astounding 25 percent, talented prospects begging for positions, and employees highly productive (Henneman, 2011).

Even amongst competitors Patagonia has become known for their social and environmental practices. One such example is when Walmart came to Patagonia in 2008 and asked for help in refining their supply chain to become greener (Chouinard & Stanley, 2012). As a result Patagonia, Walmart, and Adidas partnered to form the Sustainable Apparel Coalition (SAC) and developed the Higg index to assess the sustainability of business supply chains. In recent years Patagonia has also collaborated with The North Face, REI, IKEA, and Marks & Spencer on green initiatives; while inspiring others such as Gap and Nike, developing a new industry standard of responsibly sourced and produced apparel (Sathe, 2011).

Environmentalism: Serve as a catalyst for personal and corporate action.

Patagonia's environmental mission is integrated into every aspect of the business. In 1989 Patagonia began its "1% for the Planet" initiatives, which promises to donate 1 percent of all sales to environmental organizations (Chouinard & Stanley, 2012). Since then, Patagonia has donated over \$70 million to 3,400 grassroots groups (Fair Trade Certified™, 2016). Patagonia has also co-founded The Conservation Alliance, which encourages other industry competitors to invest in environmental organizations (Chouinard & Stanley, 2012). Through their blog, "The Cleanest Line", "The Footprint Chronicles", "The New Localism" documentaries, and "Vote for the Environment" Initiative, Patagonia attempts to, be fully transparent, to educate their consumers and to take bold, political, environmental stances.

Not Bound by Convention: Our success—and much of the fun—lies in developing innovative ways to do things.

A pioneer of green initiatives in the apparel industry, Patagonia has established themselves as an industry leader and innovator. Their innovative and eco-friendly history roots back to Yvons' original designs for reusable aluminum chocks instead of the classic iron pitons that scarred rock surfaces. Next, after transitioning from the equipment to the apparel industry, Patagonia was the first to begin using bright colors in their athletic clothing and synthetic, water wicking, polypropylene materials for their base layers. Since then, Patagonia has sparked a number of industry trends concerning green supply chain analytics and sourcing practices of materials such as down, cotton, and denim (Chouinard & Stanley, 2012).

Brand

Patagonia's extraordinarily unique business philosophies and dedication to their environmental mission has resulted in the brand becoming one of the most notable lifestyle apparel brands in the world. The foundation of this success is that they have tapped into, and developed, a large market of highly educated, loyal, consumers who support the company's environmental and anti-consumerism philosophies (Mackinnon, 2015). The contagious passion of the Patagonia brand is apparent in their outspoken marketing campaigns and bold political stances. Campaigns with clever titles such as "Worn Wear", "Don't Buy This Jacket", and "What the Pluck" not only market the Patagonia brand but also educate consumers and ask them to stop, think, and live a more intentional life. In response to their zeal and unique philosophies, consumers have responded favorably, as Patagonia has become just as financially successful as it is socially.

Financial

Like all other aspects of the business, Patagonia's financial growth strategy, or lack thereof, is unorthodox. After experiencing rapid growth in the early years, the company faced a 20 percent drop in growth in 1991. This nearly got the company out of business and resulted in a 20 percent staff reduction (Lutz, 2011). Patagonia was just growing too fast and the company could not keep up with the demand. After the 1991 a frightened Yvon vowed to run his business debt-free and never go public (Chouinard & Stanley, 2012). From this experience Patagonia learned an invaluable lesson of the social, economic, and ecological dangers of unexamined growth strategies. To Yvon being a responsible company is just good business. And he's right, during and after the great rescission Patagonia's sales grew 25 to 35percent a year, while other companies suffered. Findings on the benefits of responsible business practices were verbalized in their 2011 "Don't Buy this Jacket" campaign; then in 2013 in "Responsible Economy"; and most recently in "Worn Wear" (Mackinnon, 2015). Ironically, despite spreading anti-consumer messages, Patagonia's sales have only grown. In 2012, one year after running their "Don't buy this Jacket", campaign sales increased by 35 percent and then another six percent in 2013 to \$575 million (Spivey, 2015). Patagonia isn't against growth. They just believe that it is not justifiable to grow irresponsibly for the sake of the bottom line (Mackinnon, 2015). By tapping into a new consumer segment, spreading anti-consumerist messages, and heightening industry standards, Patagonia's philosophies and business practices have revolutionized the apparel industry.

Alter Eco

Certified since: January 2009

Overall B Score: 150

A pioneer of globally crafted organic foods, Alter Eco was one of the first companies to take up the Public Benefit Corporation legal filing and has consistently been recognized as one of the leading certified Benefit Corporations. The company was co-founded in 2005 by a team of four entrepreneurially minded environmental activists from France, Australia, and the United States; with a mission to nourish foodies, farmers, and fields through “full circle sustainability” practices. Since then, Alter Eco has remained a small company of 29 employees that has made a huge impact within the health and eco product markets (Alter Eco, 2016).

Audience

Like most companies in the sustainable product market, Alter Eco’s main consumers are young adults under the age of 35, with an annual household income above \$75k (Sustainable Food & Drink, 2010). Alter Eco appeals primarily to health and environmentally conscious, professional millennial by operating on the unique selling proposition of best practices in full circle sustainability and by holding multiple certifications: USDA Certified Organic, Fair Trade Certified, Carbon Neutral Certified, Non-GMO Project Verified, and Certified Gluten-Free. As a leader in the growing eco & green product industry and health foods markets Alter Eco’s following has been finding a rapidly growing number of loyal consumers (Diment, 2016).

Social

Alter Eco is dedicated to positively impact the earth by practicing full circle sustainability along every step of their supply chain operations. The goal is not to minimize their impact on the environment but rather to improve it through their four pillars:

Fair Trade Sourcing

Since 2005 Alter Eco has remained dedicated to insuring that all their products are sourced from small-scale, farmer owned cooperatives. Today Alter Eco works with 24,335 farmers through 10 co-ops in 43 communities (Fahnestoc, 2015). For Alter Eco, Fair Trade not only means paying farmers for their harvest but also investing in projects to help their local farming communities through Fair Labor Premiums. Last year Alter Eco spent \$1,457,271 in farm financing (Alter Eco Foods, 2016). Through these practices and partnerships with the groups such as the Fair Trade Labeling Organization, Institute of Marketecology (Fair for Life), and Fair Trade USA, Alter Eco provides small-scale farmers with an outlet and brand to compete in a competitive marketplace (Alter Eco Foods, 2016).

Organic & Non-GMO Products

Working closely with partners at each stage of their supply chain enables Alter Eco to monitor and insure that their products are not only responsibly sourced but also Organic Certified and Non-GMO Project Verified. With 79 preserved heirloom ingredients and sourcing 1.7 million pounds of organic ingredients in 2015; Alter Eco's product goal is to provide their customers with products that have more nutrients and fewer ingredients in every bag and bar (Alter Eco Foods, 2016).

Packaging

To maintain full circle sustainability, Alter Eco has gone one step beyond recycling and developed a more sustainable packaging for their products. With the Gone for Good initiative Alter Eco is pushing back against the 220 million tons of waste the US produces every year by completely moving away from petroleum based plastics (Fahnestoc, 2015). Instead, Alter Eco

has developed a variety of packages made of birch, cornstarch, and eucalyptus, and printed with nontoxic ink which will completely compost in less than six weeks (Fahnestoc, 2015). All their consumers need to do is toss any of their packaging into a compost bin or simply bury it.

In-Setting Carbon Emissions

Similar to the Gone for Good initiative, Alter Eco also goes above and beyond with their carbon emissions. Rather than minimally meeting the Carbon Neutral Certification standards, Alter Eco in-sets carbon emissions by planting thousands of trees in the same fields they harvest from. In 2015 alone, Alter Eco planted 6,567 trees to fully and naturally sequester the 2.6 thousand tons of carbon it emitted (Alter Eco, 2015).

Brand

With five certifications, multiple partnerships, and an innovative approach towards sustainable practices Alter Eco has begun to differentiate itself as a leader in the eco-friendly and health foods industries. Although small, Alter Eco has been able to compete head to head with large multi-national corporations in the mature chocolate and grain industries (Stivaros, 2016). In recent years, the fastest growing product claims in these industries have all had some type of environmental or health related component (Mintel, 2012). But with every manufacturer beginning to make these claims, consumers have become less trusting (Mintel, 2010). What enables Alter Eco to differentiate itself is through its dedication to full circle sustainability, certifications, insight, and an aggressive approach in environmentally friendly innovation. In fact, Alter Eco has been so successful in its sustainable practices that they have gained the attention of large marketers such as Mars and Hershey and to whom they now offer consulting services (Alter Eco Foods, 2016).

Financial

As a small private business it is difficult to accurately assess the financial performance of Alter Eco. However, from its recent product line extensions, growth in sales, and increasing social & environmental investments it is evident that Alter Eco has been thriving (Alter Eco, 2015). In just two years, 2012 to 2014, Alter Eco boosted revenues by 46 percent from \$7 million to \$15 million (Strom, 2015). Such growth becomes even more notable when considering that their business model also carries additional costs associated with their mission. In fact, Alter Eco has paid \$1.2 million and planted nearly 30,000 trees since 2008 (Whetro, 2016). What makes Alter Eco's mission and success a reality are the investors and creditors that understand, believe, and support Alter Eco's cause, which include: Good Capital, New Resource Bank, and Renewal Funds (Groff, 2014). The success and growth of Alter Eco has served as an inspiration for a number of businesses from start-ups to multi-national corporations, because Alter Eco has proven that it is very possible to thrive and grow without compromising your mission.

Discussion & Implications

There are a series of complex social and economic trends which diverged together leading to the successful development of the B Corp. business model. By examining these trends across all three case studies, it is evident that the fundamental key which enables social enterprises to be successful are stakeholders' willingness to look past the bottom line, take risks, and work together towards a meaningful cause. This being said, it should be noted that despite the progress the B movement has had in the past years, there are still a number of limitations and unknowns surrounding the business model.

Limitations & Key Challenges

First, the B movement is still in its early stages of development. B Labs was established fairly recently in 2006, Benefit Corporations were not recognized until 2010, the vast majority of B Corps. are private, and little research has been done around the B movement. These limiting factors make it difficult to accurately assess past impact, current positioning, and potential future growth of B Corps.

Next, naturally B Corps. incur costs which traditional firms do not. Premiums related to social and environmental giving and impact assessments are necessary for B Corps to fulfill their mission while making it difficult for them to compete in mature competitive markets. From the cases in this study it is evident that the most successful B Corps. manage additional costs by securing the proper financing, developing innovations, offering premium products, and asking consumers to pay a higher price. This being said, cost controls, innovations, and justification of auxiliary costs, coupled with added risks, becomes more difficult to warrant as an organization increases in size and in the number of stakeholders.

Finally, although B Labs' BIA has proven to be a useful tool, accurate measurement of organizational impact is still difficult. Although each of the organizations in the case studies was very successful in providing environmental and/or social services and operated in similar industries, each quantified success using differing metrics. Accurate measurement of interventions across industries and geographic regions is paramount for social enterprises, governments, and investors to properly assess the success of an organization and to further the development of best practices.

Further Research

These key challenges and limitations give way to a number of opportunities for future research: With CSR playing a larger role in today's market, will consumers become increasingly less responsive to the social and environmental causes companies champion? If B Corps. continue to grow at their current rate, will the firms that have had the B Corp. status hold a strategic advantage over newcomers? Will B Lab be able to sustain the same level of support as the movement grows? With corporations beginning to take a larger part in providing support for social and environmental issues will governments begin rewarding companies through tax breaks or subsidies? Most B Corps. voluntarily publish annual impact reports but will they be required for public Benefit Corporations? Large multinational corporations spend millions of dollars on financial audits but how much would they be willing to spend on social or environmental assessments? Can the BIA accurately assess such large companies?

Conclusion

So what's next for B Corps.? It is foreseeable that in the coming years an increasing number of both traditional for-profit entities and nonprofits will begin to come closer towards developing a fourth sector and show a greater interest in following B Lab's model. For social

entrepreneurs and nonprofits the B Corporation legal filing has surfaced as a vehicle that enables them to overcome the constraints associated with rising capital and gaining government support. On the other hand, as is evident by the increasing number of social giving departments and cause related marketing campaigns, firms are beginning to learn that there are a number of benefits that come from considering a triple bottom line and being a responsible corporate citizen. Today, stakeholders are expecting more from companies and in many industries remaining competitive now means increasing CSR initiatives. The rise of B Corporations has not only brought a new age of business, but also added meaning beyond traditional business, redefined success, and developed a more sustainable business model.

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