

3Qs: Benefit corporations raise new questions on business, civics

December 17 2012, by Matt Collette

Several states across the nation have considered or approved the creation of a "benefit corporation," a class of corporation that gives special status to companies like King Arthur Flour, ensuring that their corporate values can be protected in the event of sales or mergers. But the classification may not necessarily be good for business, consumers or even democracy, warns Rae André, a professor of organizational behavior and theory in the D'Amore-McKim School of Business, who wrote about the topic in a paper published this year in the *Journal of Business Ethics*.

What is a benefit corporation? Why would a company choose to incorporate as one?

A benefit corporation is a new form of business corporation dedicated to improving corporate social responsibility. Most are private businesses without stockholders. Even though they are a separate corporate classification, they must obey all the same laws as traditional corporations.

The way this works is that benefit corporations are certified by an independent third-party evaluator, in many cases the nonprofit organization B Lab, which is the thrust behind most of the benefit corporation legislation that has passed in the United States. Benefit corporations pay a fee to B Lab and, in return, they're given a questionnaire that reflects certain values of these organizations and how they are certified. Often they are asked complex questions such as, "Is your supply chain designed to address issues of poverty alleviation and job creation for underserved

populations?" and companies answer simply yes or no.

I suppose these companies believe that becoming a benefit corporation provides some benefit legally. I don't see it that way, though, and this has not been tested in the courts. I see them more as a public-relations effort and a way to network with other companies that share their values.

You describe benefit corporations as businesses that fall within a new "gray sector." What do you mean by that?

As citizens, we always have to be looking at questions such as, 'Who does our certification?' We have to understand who is doing the regulating and why, and we have to keep on top of these corporations and organizations. Groups like B Lab, which benefit corporations pay on a sliding scale for certification, fall into what I call the gray sector and that's hard to monitor.

Traditionally, the organizational universe consists of businesses, non-profits and governments—three very separate sectors. But certifiers like B Lab fall somewhere between business and nonprofit, and in fact act on behalf of the government, serving in the place of our representative government. It's very hard for citizens to keep track of these organizations and what they're really doing. I don't like to see citizens lose control of the organizations in their society.

We assume that something called a benefit corporation is going to be something for the benefit of society. But what if the organization that is doing the evaluating of the benefit corporation is diametrically opposed to the goals of society? What if it's not green, for example? I as a citizen have no control over the "independent third-party provider," who legislatures have empowered to certify benefit corporations; there aren't any

specific criteria for them involved in that legislation.

What are the dangers of blurring the line between government and private groups like the ones certifying benefit corporations?

The way to think of benefit corporations and their relationship with B Lab is that they're a trade association, and that's fine. Trade associations often keep businesses on a straight path, which is good for institutional marketing. But the question is: Why do we need government to do that? In my mind, we don't. Benefit corporation legislation outsources citizen values to an unelected third party.

When B Lab, which is the primary evaluator involved in this right now, gives out its questionnaire, it's essentially substituting its own values for that of society's. We voted for the legislation that covers these topics, or at least for the lawmakers behind them; we as citizens do not, however, get a vote with these organizations. They disenfranchise citizens.

This should not be something the government is involved in. Part of my concern is that benefit corporations going forward will get tax benefits because, after all, they're supposed to be doing some broader good. But why should my tax dollars go to members of this organization that we as citizens did not certify and that we did not select? And why should benefit corporations get tax preference over traditional corporations?

This would totally change the competitive playing field. What is also important is that this separate classification also implies that other corporations are not doing good and that's simply not true. Traditional corporations give to charities, create foundations and support employment, and creating a separate benefit category creates a distinction where I don't think one exists in reality.

Provided by Northeastern University

Citation: 3Qs: Benefit corporations raise new questions on business, civics (2012, December 17)
retrieved 9 April 2024 from

<https://phys.org/news/2012-12-3qs-benefit-corporations-business-civics.html>

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