



BUSINESS & SOCIAL ENTERPRISE: BENEFIT CORPORATIONS

# Transparency for Benefit Corporations

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Around the nation, state legislatures are jumping on the bandwagon to authorize a new kind of for-profit corporate model for socially conscious entrepreneurs and consumers: the “benefit corporation.” We mentioned in [“Social Enterprises: A Revolution Under the Radar”](#) that California has been a leader in this movement.

Each jurisdiction has its own version of this new hybrid format. The Golden State’s statutory scheme emphasizes (1) accountability to a broad range of stakeholders; and (2) transparency by an annual, comprehensive assessment of successes and failures, based on an objective, “third-party standard.”

We introduced the accountability duties in [“California Benefit Corporations: An Introduction”](#) and the transparency elements in [“California Benefit Corporations: What Directors Must Report.”](#)

## *Transparency Evaluation and Disclosure*

The California model’s transparency feature begins with a mandatory annual report. The directors must evaluate (and disclose) how the corporation worked toward achieving “general public benefit” and any “specific public benefits” that had been designated in the articles of incorporation. They must also explain the extent to which these benefits were achieved, and disclose any circumstances that hindered achieving these purposes.

This “assessment” of how the benefit corporation achieved the “triple bottom line” of “profits, people, and planet” must be measured against a standard developed by an independent third-party. The same standard is to be used from year to year; any change or deviation must be explained.

## *What, Exactly, is this Third-Party Standard?*



“Third-party standard,” according to California Corporations Code section 14601(g), “means a standard for defining, reporting, and assessing overall corporate social and environmental performance . . . “

This standard must be:

- comprehensive, using an approach that assesses a benefit corporation’s impact on multiple stakeholders as well as on the bottom line and profitability;
- developed by an independent entity with necessary expertise; and
- publicly available

### *Where to Find An Independent Third-Party Standard*

So how does a benefit corporation go about finding and using this all-important independent, third-party standard?

Happily, there are several entities that meet the tall order mandated by the California Corporations Code, and are ready and willing to help benefit corporations comply with their transparency duties.

#### *B Lab*

Probably the best known is [B Lab](#), a 501(c)(3) nonprofit “that serves a global movement of entrepreneurs using the power of business to solve social and environmental problems.” It has developed a widely used, free assessment service called the [B Impact Assessment](#).

“Any score higher than 0 points is a good score,” explains B Lab, because “a positive score indicates that the company is doing something positive for society and the environment. The Assessment rewards practices that go beyond standard business practice; therefore, every point earned on the Assessment reflects incremental, positive impact.” There are 200 total points available; “most companies score between 40 and 100 points.”

B Lab offers [B Corp Certification](#), a coveted stamp of approval by this independent entity. There’s no requirement under California law that a benefit corporation seek or receive a certification, and a company doesn’t become a B Corp by just taking the B Impact Assessment. There are additional required steps and criteria.

#### *Other Standard Developers*

In addition to B Lab, there are a number of other independent entities which have developed suitable third-party standards and assessment tools.

For example, there’s [Global Reporting Initiative \(GRI\)](#), which describes itself as a “leading organization in the sustainability field. GRI promotes the use of sustainability reporting as a way for organizations to become more sustainable and contribute to sustainable development.”

Check out these organizations as well:



- Green Seal: [www.greenseal.org](http://www.greenseal.org)
- People4Earth Business Framework: [www.people4earth.org](http://www.people4earth.org)
- Food Alliance: [www.foodalliance.org](http://www.foodalliance.org)
- ISO 2600: [www.iso.org/iso/social\\_responsibility](http://www.iso.org/iso/social_responsibility)
- UL Environment – ULE 880: [www.ulenvironment.com](http://www.ulenvironment.com)

Each of these organizations (except ISO 2600) provides optional certification as well as assessment standards.