Diary Jon Moulton

To B or not to B? Gaining B Corp validation may be worthy but shareholders could count the cost

Veteran financier Jon Moulton has been involved in buyouts, turnarounds and venture capital since 1979 with firms such as CVC, Permira, Apax, Alchemy and, most recently, Better Capital, where he has been the chair since 2009

The importance of green credentials and the rise of stakeholder involvement in companies has become unmissable over the past few years but some companies take it more seriously than others. There are those that advertise their green credentials widely (at least in their annual reports) but do not incorporate them into their everyday operations and there are those that aspire to the highest of standards and work hard to demonstrate their commitment to them. Most others are somewhere in between. Only a very few have the courage to say their main aim is to make money.

The rise of the B Corporation, or B Corp, is an authentication and validation that companies meet strenuous standards of social and environment performance, accountability, and transparency. Some types of business are deemed inappropriate, and the checklists are long and somewhat judgemental, covering tricky areas such as diversity, ethics, civic engagement, hiring underemployed groups and customer impact.

'A company does not fail the assessment – it is just told to go back and do better!'

So what is a B Corp and how do you get the necessary accreditation? Companies certify as a B Corp by earning points on the "B Impact Assessment" and they then have their score independently verified by B Lab, which is a non-profit network across the world with a mission to use business as a force for good. The theory is that B Corps will improve the lot of everyone associated with them.

There are now around 1,200 B Corps operating in the UK with others in some 85 countries aiming to shift the behaviour and culture of firms so that a B Corp can give similar importance to social and environmental impact as it does to financial returns.

Even investment management and PE managers are joining up – whether through noble motivations or for attracting more ESG type money and fees – you can make your own judgements. Private equity firms might shortly find pressure from co-investors to make investees conform with the culture.

I'm now starting to see companies seeking to switch into being a B Corp.

To become a B Corp, a company needs to have 12 months trading behind it and get a minimum score of 80 out of 200 in the B Impact Assessment. A company does not fail the assessment – it is just told to go back and do better! Once the company is certified, the assessment is repeated every three years and scores are meant to improve to show progress.

Instead of taking the shareholder as the primary person to whom they would be responsible, B Corps give equivalent consideration to a wide range of environmental and social considerations alongside stakeholder interests (employees and suppliers) recognising that they cannot (or at least should not) just focus on making money while exploiting people and/or harming the environment.

In addition to being successful in the B Impact Assessment, to obtain certification, a company's Articles of Association have to be changed to also recognise a legal commitment to consider a range of "stakeholder interests" when making decisions and, critically, that shareholder value is not the "supreme consideration" but is one factor among the many stakeholder interests – these include customers, employees, suppliers and the environment.

This is, at first blush, a laudable aim and while directors and stakeholders are working together harmoniously all could be well, but it is prudent to consider potential areas of disagreement. The writer has memories, early in his career, of working on the insolvencies of unrealistically managed co-op models of business – good intentions do not a successful enterprise make.

Clearly, in a really good world, businesses would be highly profitable even after diverting some of their earnings to doing good, providing generous pensions, flexible working, great working conditions, generous pay and benefits, being carbon negative and ethically excellent.

Many businesses are not in that happy position.

There is considerable room for opinion as to how to apply these B Corp principles.

Consider a company that has had an exceptional trading year. Bigger bonuses or dividends? A B Corp will likely lean to the former.

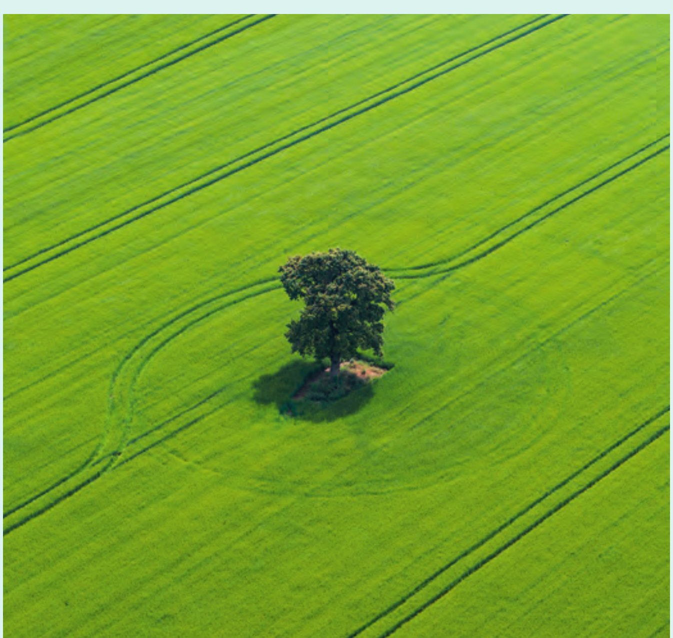
Or a company that can either execute some redundancies or absorb trading losses? How does that fit into realising investments in a 10-year fund?

Is a shareholder representative director of a B Corp not in a touch tricky position on some issues?

Directors of B Corps should note that they could be sued by their own company if they took actions that others thought showed the wrong balance between objectives. This could be particularly difficult in near-insolvency situations.

It will be the case that some companies will find valuable employees and customers attracted by the ethos of being a B Corp, but for those investors who largely seek financial return from being a shareholder it is likely that your monetary outcome will be worse than staying in the regular corporate model.

Buyer B ware!



Being a highly profitable business even after diverting earnings to doing good and being carbon negative is the rare ideal

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