

What Do You Mean, “Social Responsibility” not Maximizing Profits?

By [Peter Bauman](#)

Understanding the New Benefit and Special Purpose Corporations

Corporations in California now have a new way of doing business that requires them to take a more universal view to their role in the world, rather than concentrating only on the balance sheet. The benefit corporation, or “B Corp”, was created to satisfy the objective of some businesses that wanted to find ways to both be profitable and address the concerns of their employees, the community, and the environment.

The law allows California companies to register as this new class of corporation rather than a limited liability corporation (LLC) or other business entity, and holds them to specific standards for their corporate behavior which includes: (1) a corporate purpose to create a material positive impact on society and the environment; (2) redefining the fiduciary duties of its directors to mandate consideration of non-financial aspects in decision-making; and (3) reports on the organization’s overall social and environmental performance using accepted third-party standards.

A benefit corporation creates a “general public benefit,” that is “a material positive impact on society and the environment,” in addition to its business activities and any “specific public benefit” such as:

- Providing services to low income or underserved individuals or communities;
- Promoting economic opportunity for individuals or communities beyond creating jobs in the ordinary course of business;
- Preserving the environment;
- Improving human health;
- Promoting arts, sciences, or advancement of knowledge;
- Increasing the flow of capital to entities with a public benefit purpose; or
- Accomplishing any other particular benefit for society or the environment.

In addition, the new legislation allows corporate officers a “safe haven” from the risk of actions by shareholders who argue that the corporate board did not maximize profits or that the company’s environmental or social policies devalued their stock.

In January, Patagonia was the first company in California to become a benefit corporation in order to pursue strategies that benefit society as a whole. Yvon Chouinard, founder of Patagonia, said “I hope that five years from now, 10 years from now, we’ll look back and say this was the start of the revolution. The existing paradigm isn’t working anymore — this is the future. ... Patagonia is trying to build a company that could last 100 years. Benefit corporation legislation

creates the legal framework to enable mission-driven companies like Patagonia to stay mission-driven through succession, capital raises, and even changes in ownership.”