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**Business models based on both shareholder profit and benefit  
for society: the case of B Corp and the Benefit Report**

**PRESENTATA DA**

***DEFENDED BY***

**Damiano Maggi**

**0000659541**

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To my parents

I would like to thanks all,  
especially my friends,  
Olio Carli S.p.A,  
Nativa, Treadom  
Little Genius, and  
Prof. M.T. Speziale,  
who helped me.

## Summary

1.	Introduction .....	4
2.	History of B Corp .....	6
2.1	An exciting evolution .....	6
2.2	The difference between Benefit Corporation and B-Corp.....	7
2.3	A new way of doing business .....	7
2.4	A European overview .....	8
2.5	Corporate Social Responsibility (CSR) and the Benefit Corporation (BC).....	8
3.	The B Corp.....	11
3.1	How to become a B Corp .....	11
3.1.1	The B Impact Assessment – The First Step .....	11
3.1.2	The rest of the process .....	11
3.2	Advantages of Being a B Corp .....	13
3.3	Disadvantages of Being a B Corp.....	14
3.4	The B Corp Community .....	15
4	The Benefit Report .....	16
4.1	What is a Benefit Report?.....	16
4.2	Which standards are required?.....	16
4.3	Why is it required? Can the Benefit Report implement the transparency of the firm?.....	17
4.4	Can the Benefit Report be useful in the firm’s activities?.....	18
5	An Italian Overview .....	19
5.1	The Italian Movement .....	19
5.2	The Italian legislative initiative .....	19
5.3	Fratelli Carli S.p.A. ....	19
5.4	Nativa.....	21
5.5	Treedom .....	22
5.6	Little Genius International.....	22
6	Further Challenges and Frameworks .....	24
6.1	A criticism about the B-Corp – Benefit Corporation .....	24
6.2	The impact of the Benefit Corporation .....	25
6.3	A European reform? .....	25
6.4	Research Implications.....	25
	Bibliography.....	26

# 1. Introduction

As the society evolves forms of corporation need to undertake a revolution too. From a recent research by Accenture <sup>1</sup>, it came out that citizens pose businesses at the same level of governments when it comes to responsibility toward the society. Nevertheless, from the same research a surprising concept stemmed: “72% of people globally say business is failing to take care of the planet and society as a whole”. Yet, consumers are becoming more informed about sustainable products, rewarding companies engaged in sustainable production process. This confirms the shift in consumer minds, which started time ago.

The main issue related to companies is how to deal with such phenomenon. Recently, lot of companies have started programs of Corporate Social Responsibility (CSR) trying to fix those concerns. Nevertheless, the increased awareness in sustainability by consumers played a crucial role in the development of the business world.

Nowadays, companies hold lots of certifications, issued by different bodies. Each of them related to specific products, services, good practices et cetera. However, the multitude of these certifications creates confusion in consumer minds. Yet, the increased use of words such as ‘green’, ‘sustainable’, ‘good’ et cetera does not help to dissipate such confusion. How can a company demonstrate its commitment to a Corporate Social Responsibility and communicate it? Do companies need to hold lots of certificates to demonstrate their commitment to be a sustainable company? Is there a way to condense their commitment? Is there a solution to these problems? What is more, the continuous partnerships among for-profit companies and non-profit organisations started to blur the objective of just value-maximisation.

In an article Nidumolu et al. (2009)<sup>2</sup> argues that this concept of sustainability, embedded in Benefit Corporations, is now the key driver of innovation. However, to create innovation the company must undertake 5 stages, which are: (i) viewing compliance as opportunity (provisions dictated by the law can be an opportunity for the company); (ii) Making Value Chains Sustainable (it involves 4 main areas: Supply chains, Operations, Workplace and Returns); (iii) Designing Sustainable Products and Services; (iv) Developing new business models (such as the Benefit Corporation business model); and finally (v) Creating next-practice platforms.

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<sup>1</sup> Accenture, 2014, “The Consumer Study: From Marketing to Mattering. The UN Global Compact-Accenture CEO study on sustainability”

<sup>2</sup> Nidumolu, R., Prahalad, C.K. and Rangaswami, M.R., 2009, “Why Sustainability is now the key driver of innovation”. *Harvard Business Review*, vol. 87 pp. 57-64.

On the other hand, Ehrenfeld<sup>3</sup> (2005) remark that the word *sustainability* does not have an economic implication. Yet, the roots of sustainability need to be searched outside the economic world. Still, Ehrenfeld (2012) argues that companies are trying to reduce the “unsustainability” of the current economic development, without being sustainable. It is worth pointing out that these two concepts are not related, reducing the unsustainability is not creating sustainability. However, the author specifies that “sustainability efforts cannot be simply one more set of tactics to be measure and managed”. This lead to the reinforcement of the concept that these moves cannot be intended as merely strategic actions. Yet, being sustainable means making responsible ethical choices. What is more, Ehrenfeld debates about what business should do, such as: change the rules of competition both at a macro and micro level, and in a voluntary or a mandate manner. The author calls for a newer definition of profit which includes social costs, and benefits, a longer accounting period to reflect long-term effects. As a result, this would produce new metrics that could satisfy both the interests related to sustainability and capital markets and shareholders.

The rise of the “shared economy”, the increased attention to the concept of Triple-Bottom Line, the emergence of the so-called fourth-sector, helped the development of new form of businesses. A new corporate model for corporations is the For-Benefit Society. This new corporation has a revolutionary business model, based both on shareholder profits as well as benefit for the society.

This model has been disrupting for the classical dichotomy: for-profit vs. non-profit. The Benefit Corporation plays a role between these two antithetic ideas. On one hand, these new corporations are pursuing an economic return, earning profit from their activities, such as a “normal” company. On the other hand, these companies commit themselves to pursue a general public benefit as well as specific benefits, taking into account stakeholder interests in their decision making process. This paper tries to explain what are the Benefit Corporations, and their development. Furthermore, the Benefit Report will be discussed with its implications. Finally, there will be a focus on the Italian context.

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<sup>3</sup> Ehrenfeld J. R., 2005, “The Roots of Sustainability”, *MIT Sloan Management Review*, vol. 46, pp.22-25

## 2. History of B Corp

### 2.1 An exciting evolution

It's June 2006, Jay Coen Gilbert, Bart Houlahan and Andrew Kassoy, the three founders of B Lab, started talking with different parties from different sectors: profit oriented firm, non-profit organisations, social entrepreneur and such as. They wanted to create a new form of corporation which resembled both elements of "traditional" corporations as well as non-profit and social entrepreneurship features. What came out were three founding pillar for the development of this idea.

Firstly, they wanted to adopt a set of standards which would be used by stakeholders, customers, and any other involved parties helping them to distinguish a 'good business' from a 'bad one'. This was a necessary move since more and more companies are using words such as: "green", "responsible", "sustainable", et cetera.

Secondly, they wanted to resolve the conflict between the directors' duties to maximise shareholder value and the social aspect of doing business. An example of such conflict is the case of Ben and Jerry. The two founders were concerned about the selling of their company to Unilever. They did not want to sell to a company whose interest is in just value-maximisation, and did not share Ben & Jerry's view. This tension was best described by Houlahan's words: "Boy, I feel like a square peg in a round hole".<sup>4</sup>

Finally, they wanted to create a community which would be able to speak for itself. The envisioned "a brand for good business that was an umbrella brand and pulled together all the different moves"<sup>5</sup>. Furthermore, they wanted "using the power of business to create social and environmental change"<sup>6</sup>.

Following these first moves, Gilbert, Houlahan and Kassoy, started to recruit leaders from different industries, locations and impact areas. They also noted that, apart for product-specific and industry-specific certifications, there were not any certifications for business who were socially responsible. When they had to convince established companies to commit to this untested certification and way of doing business, Houlahan tried to convince them about the simplicity of their message. During those meetings, where the three founders wanted to convince leaders, they convey this message:

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<sup>4</sup> Marquis, C.; Klaber, A.; Thomason, B.; 2010, "B Lab: Building a New Sector of the Economy", *Harvard Business School Case* 411-047, p. 4

<sup>5</sup> Ibid

<sup>6</sup> Ibid

The reason why you started your business was to have impact and to provide a model for others to follow. We are going to give a platform to disseminate that model. [...] We are going to bring together a community of likeminded entrepreneurs who are going to stand at your side.<sup>7</sup>

A year later, in June 2007, B-Lab was proud to announce that 19 companies followed their idea, and they were the first to be Certified B Corporations. Nowadays, the B Corp certified by B Lab are 1,307 in 41 different countries encompassing 121 industries.

## 2.2 The difference between Benefit Corporation and B-Corp

So far, we have talked about Benefit Corporation in a general term. However, we need to distinguish between two concepts: the Benefit Corporation and the B Corp. The former, is the recognised legal corporation form in 27 American states. B Lab is working to pass a similar legislation in 14 States, rising to 41 states out of 50 states. On the other hand, the B Corp is a Corporation which received the B Corp certification from B Lab. The difference is subtle, while one is a legal status (such as Limited Co., Public Co. Et cetera) the other is just a certification. A Benefit Corporation (the legal incorporated corporation, here in after BeCo) could be not certified as a B Corp (the certificated company, here in after B Corp). On the other hand, a corporation can be Certified as a B Corp but it could be incorporated in a different form. Being a BeCo does not necessarily imply being a B Corp, and vice versa

## 2.3 A new way of doing business

Being a B Corp or a BeCo does not mean that the only objective, for the firm, is value maximisation. Nowadays, people are becoming more and more aware of their actions in terms of environmental impact, social responsibility and so forth. Being a B Corp or a BeCo means both pursuing profit and being responsible toward the society. Benefit Corporations want to break the dichotomy for-profit, non-profit. This “new” form of business is trying to accomplish both the economic aspect and the social counterpart. In an article, appeared on “The Humanist”, John Montgomery debate that, so far Corporations were “selfish”. He writes:

Corporations lack of social and environmental conscience by design. Endowed with the power of immortality, corporations aren’t required to act with consideration for the societies that charter them and the planet that ultimately sustain them.<sup>8</sup>

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<sup>7</sup> Ibid

<sup>8</sup> Montgomery, J., 2014. “The Benefit Corporation”, *The Humanist*, vol. 74, pp. 19-21.

In spite of this negative view, the development of Benefit Corporation for Montgomery is the most important event in the history of business law. Furthermore, he affirms: “The Benefit Corporation will help businesses shift from an egocentric focus on profits to include consideration of the “we” and the “one”.”

## 2.4 A European overview

Up to now, most of our discussion has been focused on the American movement and its development. However, the B Corp movement did not stop in the United States of America. It has spread to the European Continent, with the subsequent development of the European B Lab (B Lab Europe). This was a considerable development for the movement as a whole. B Lab Europe is responsible for the spread of the movement in the European continent and the promotion of the legislative initiative in those countries. However, in the United Kingdom a form of Benefit Corporation already exists. This form of corporation is called: Public Interest Company (PIC). While these two forms of corporations share similar features, there are also major differences. André (2010)<sup>9</sup> argues that the most important difference is that Benefit Corporations mainly obtain equity on private financial markets, while PICs do not. Yet, André (2010) does not classify PICs as a corporate-centric Gray Sector Organisation (GSO). Today, B Lab Europe is represented in 9 country partners, respectively: France, Italy, Germany, Spain, Ireland, Austria, Netherlands, Switzerland, and Turkey. Nevertheless, the United Kingdom plays a major role in spreading this form of business in the European Continent.

## 2.5 Corporate Social Responsibility (CSR) and the Benefit Corporation (BC)

How can we define the Benefit Corporation under the framework of Corporate Social Responsibility? The answer to this question would not be clear and precise. Unfortunately, there are several different approaches to Corporate Social Responsibility. Yet, the answer will depend to the approach taken by scholars. A useful framework, to understand if this form of business falls under the Corporate Social Responsibility lens, has been developed by Crane et al. (2008)<sup>10</sup> where Corporate Social Responsibility is defined by six factors. These six factors are:

- (i) **Voluntary:** the activities performed by firms go beyond what the current legislation prescribe;

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<sup>9</sup> André, R., 2012. “Assessing the Accountability of the Benefit Corporation: Will This New Gray Sector Organization Enhance Corporate Social Responsibility?”, *Journal of Business Ethics*, **110**(1), pp. 133-150.

<sup>10</sup> Crane, A., Matten, D., and Spence, L. J., (2008), “*Corporate Social Responsibility: In Global Context Corporate Social Responsibility: Readings and Cases in global context*”, pp. 3-20, Routledge. Available at SSRN: <http://ssrn.com/abstract=2322817>

- (ii) **Internalising or managing externalities:** firms committed to programs of Corporate Social Responsibility take into account externalities, positive or negative, in their decision making process;
- (iii) **Multiple Stakeholder Orientation:** According to Crane et al., companies engaged in Corporate Social Responsibility programs do take into account various stakeholders. The broader point here is that firms committed to Corporate Social Responsibility programs rely on various groups such as: consumers, suppliers et cetera;
- (iv) **Alignment of social and economic responsibility:** the concept of Corporate Social Responsibility expand the focus of firms not focusing any longer only on shareholders and profit. However, there should not be any conflict between social and economic interests (i.e. environment vs. profitability);
- (v) **Practices and values:** Corporate Social Responsibility is not only concerned about best practices and strategies to deal with social and economic issues. Many people believe that there is something more, a set of values or philosophy embedded into firms;
- (vi) **Beyond Philanthropy:** in some part of the world, Corporate Social Responsibility is only concerned about the philanthropic actions. However, Crane et al. argues that the current debate on Corporate Social Responsibility claim that the ‘real’ Corporate Social Responsibility goes beyond philanthropic actions and projects. They believe that they should take into account all the operations of firms and their impact upon society.

According to Hiller (2013)<sup>11</sup> Benefit Corporations, and B Corps, meet the six-factors identified by Crane et al. This framework clearly describe the intent of the three founders of B Lab. They wanted that business would voluntarily adopt this form of corporations, managing their impacts upon the environment where they operate, taking into considerations all the interested parties, sharing a set of values and take into account their impact.

However, Hiller adds few more considerations in addition to the above mentioned. Hiller includes the directors’ fiduciary duties into the requirement of multiple stakeholder orientation. However, it is argued that it is not necessary that stakeholders have direct input. The operationalisation and value adoption factors are represented by the integration of Corporate Social

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<sup>11</sup> Hiller, J.S. 2013, "The Benefit Corporation and Corporate Social Responsibility", *Journal of Business Ethics*, vol. 118, no. 2, pp. 287-301.

Responsibility into the Benefit Report and the inclusion in the organisation’s charter. Finally, Hiller affirm that the Benefit Corporation implements and supports Corporate Social Responsibility.

**Table 2.1** Crane CSR and BCs<sup>12</sup>

<b>Crane CSR model</b>	<b>Benefit Corporation</b>
<b>Voluntary</b>	Choice of entity, no legal mandate
<b>Externalities</b>	Net benefit to society takes into account broad impacts
<b>Stakeholders</b>	Fiduciary duty to consider affect on stakeholders, but no direct input/review by stakeholders required
<b>Environmental/social</b>	Fiduciary duty to consider environment and community, but no direct input/review required
<b>Value Systems</b>	In the articles of incorporation, appointment of benefit director/officer
<b>Operationalisation</b>	Annual report is required and available

Furthermore, André (2010)<sup>13</sup> recognise the possibility that Benefit Corporation can pursue a simple or complex program of Corporate Social Responsibility. However, the firm can face trade-offs when the multiple missions of the firm conflict with each other. Yet, André argues that lack of clarity can also affect the company challenging the whole organisation.

Nevertheless, there is room for integration between Corporate Social Responsibility and generating profit. Porter and Kramer (2011)<sup>14</sup>, in their theory of Shared Value, suggest that profit should be considered more broadly. This implies that firms need to take into account social benefits in their considerations. Thus companies will simultaneously advance in economic terms and improving social conditions in the communities where they operate. Firms can create shared value in three ways: (i) by reconceiving products and markets, (ii) redefining productivity in the value chain, and (iii) building supportive industry clusters at the company’s locations.

<sup>12</sup> Source: Hiller, J.S. 2013, "The Benefit Corporation and Corporate Social Responsibility", *Journal of Business Ethics*, vol. 118, no. 2, p. 296.

<sup>13</sup> André, R., 2012. "Assessing the Accountability of the Benefit Corporation: Will This New Gray Sector Organization Enhance Corporate Social Responsibility?", *Journal of Business Ethics*, vol. 110, pp. 133-150.

<sup>14</sup> Porter, M. E., Kramer, M. R. (2011), "Creating Shared Value", *Harvard Business Review*, vol. 89, pp. 64-77

## 3. The B Corp

### 3.1 How to become a B Corp

#### 3.1.1 The B Impact Assessment – The First Step

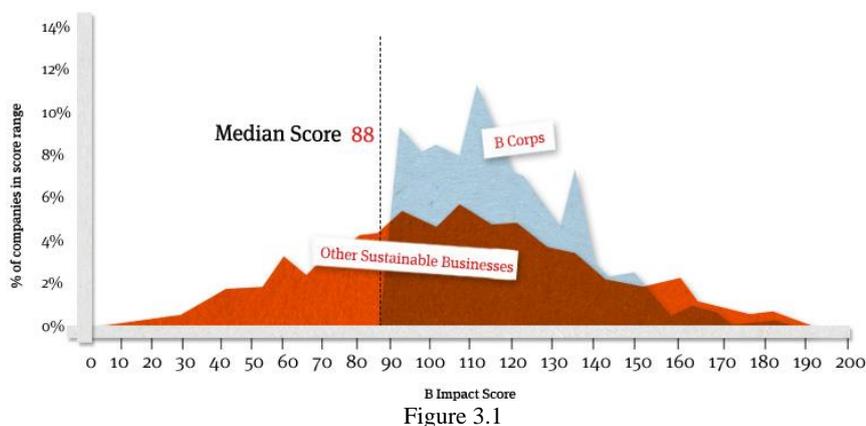


Figure 3.1

<sup>15</sup> The first step in the certification procedure for a B Corp is to complete an initial assessment. This assessment, namely B Impact Assessment, is useful for companies to evaluate their position at the beginning of the process. To pass, and continue with the

whole procedure, a firm is required to reach a threshold of 80 points out of 200. The median score for the B Impact score is 88, as in figure 3.1.

The B Impact assessment analyse the corporation under four macro-areas: (i) Governance; (ii) Workers; (iii) Community; (iv) Environment. Every section of the four macro-areas have their median scores, different by industry. However, Figure 3.1 shows that the percentage of companies in score range, relative to the B Impact Score, is higher for B Corps than other sustainable businesses. The B Impact assessment is tailored to different companies in different industries and it depends on several factors such as: the number of employees, the industry and the location of the company. The entire assessment takes approximately 1 to 3 hours. At the end, a B Impact Report will be issued which contains an overall score of the company being assessed.

#### 3.1.2 The rest of the process

The assessment and certification procedure does not stop at the initial B Impact Assessment. After the initial assessment, B Lab, the certifying body, will schedule an appointment to perform an Assessment Review. A B Lab staff member will help the company to refine and explain questions that may have been difficult to understand or unclear. Furthermore, this is a chance for B Lab to know better about the company and the answers they delivered. Yet, it will help B Lab to know circumstances and procedures about the assessed company. This step will require 60 to 90 minutes to be completed.

<sup>15</sup> Source: [http://bimpactassessment.net/sites/all/themes/bcorp\\_impact/images/report\\_average-score\\_detailed.png](http://bimpactassessment.net/sites/all/themes/bcorp_impact/images/report_average-score_detailed.png)

The third step involves submitting the supporting documentation. B Lab will ask specific documents, as well random ones, to check the real firm’s commitment. As an example, B Lab may ask the firm to provide electric bills. This is done to demonstrate that the company purchase electricity only from firms who produce energy from renewable resources.

The final step of this lengthy process is signing the Declaration of Interdependence and the term sheet. This document aims to remark, and give an “official” recognition of being a newly certified B Corp. There are four main points that these new corporations need to respect. These points are:



Figure 3.2

- (i) They must be the change they seek in the world;
  - (ii) All business ought to be conducted as if people and place mattered;
  - (iii) The companies’ products, practices and profits, these companies should aspire to do no harm and benefit all;
  - (iv) They need to understand that they are dependent upon another. Yet, they are responsible for each other and future generations.
- (Declaration of Interdependence)<sup>16</sup>

The B Corp certification is issued for two years. In this period firms accept to pay an annual fee, proportionate to their annual sales, to B Lab. This fee helps B Lab to continue running their activity. At the end of this two years firms can be recertified by B Lab. Yet, this will enhance the trustworthiness toward the certified company since it needs to continuously commit being “responsible”.

<sup>16</sup> Declaration of Interdependence – B Lab, Inc. – Available at: <<https://www.bcorporation.net/become-a-b-corp/how-to-become-a-b-corp/make-it-official>> [Accessed: June 27<sup>th</sup>, 2015]

An interesting use of the B Impact Assessment can be found in an article published on the B Lab website<sup>17</sup>. A group of MBA students used the B Impact to help a company to improve itself. The students participated to a project called “Projects for Good”, where they served as sustainability consultants to improve companies’ triple bottom line. The company, who partnered this initiative, was Terrapin Beer Company, who aimed to become a more environmentally and socially responsible company.

### 3.2 Advantages of Being a B Corp

Being a B Corp does not only mean being a certified company by B Lab. There are several advantages in being a B Corp. These advantages encompass different aspects of the company. There are advantages in terms of marketing activities, financial activities, Human Resources activities, business strategies and so forth.

From a marketing perspective, being a B Corp means being recognisable as a responsible business among competitors. Thus, this will enhance the company’s brand and its awareness in the market. This element of differentiation will be useful in terms of advertising, marketing mix and other marketing efforts. As an example, a firm may decide to run an advertising campaign where it highlights its commitment and its products as well.

Financial advantages are present as well. A recent research<sup>18</sup>, conducted by the department of *Climate Change Advisors* of the German Bank *Deutsche Bank*, shows that companies benefit from being committed to a higher degree of CSR. This study demonstrates that companies, committed to programs of Corporate Social Responsibility, have a lower cost of capital. Furthermore, these firms experience lower risks compared to their competitors.

Benefit Corporations can attract, and retain, talents in their companies. This in return will guarantee them specialised employees who share the company’s ideals. Nowadays, young workers recognise the possibility that innovative companies are better in attracting talents<sup>19</sup>. Yet, these future employees are seeking to work for companies committed to improve society’s welfare.

B Corps can enhance their business strategies under several aspects. Firstly, this business model can create, and maintain, a competitive advantage over competitors. Generally, these businesses are pursuing a differentiation strategy. They want to highlight their unique features, compared to competitors, and differentiate their services and products from the rival ones. Some

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<sup>17</sup> Source: <http://www.bcorporation.net/blog/mba-students-use-b-impact-assessment-to-help-company-improve> [Accessed: June 24, 2015]

<sup>18</sup> Fulton, M. and Kahn, B. M. and Sharples, C., (2012), “Sustainable Investing: Establishing Long-Term Value and Performance.” Available at SSRN: <http://ssrn.com/abstract=2222740>

<sup>19</sup> Deloitte Touche Tohmatsu, Limited (2013), “Millennial Innovation Survey – Summary of global findings”

businesses are also pursuing a focus strategy: they are targeting a specific market segment. Nevertheless, being a B Corp can enhance the company's added value. On one hand, the certification can increase customers' willingness to pay for sustainable services and products. On the other hand, it can lower its suppliers' opportunity cost asking inputs to other Benefit Corporations.

Other advantages regard different aspects of the firm. When a company becomes a B Corp, it enters a community formed by B Corps. This can be an advantage for the company because it can learn new skills, and share experiences with companies from the same industry or even different sectors. Being a B Corp can also motivate employees to work better and being more involved in this movement. A possible economic advantage for B Corp can be reduction in tax paid to governments. Governments might decide, due to the nature of the company, to reduce taxes paid by this specific form of corporations. As an example, the city of Philadelphia decided to introduce a \$4,000 tax break for certified B Corporations<sup>20</sup>. This might incentive new corporations to become, or even incorporate for the first time, Benefit Corporations. However, these cannot give rise to a "privileged" treatment toward Benefit Corporations, there still are corporations pursuing profits.

The creation of partnerships, among B Corp, can be a source of advantages. Certified B Corp, can also be useful in helping other companies with their certification process. These partnerships will be even stronger if the parties involved will develop mutual dependence and establishing trust between them.

### 3.3 Disadvantages of Being a B Corp

In spite of the above listed advantages, being a Benefit Corporation, or certified as a B Corp, carries disadvantages as well. Munch (2012, p. 188)<sup>21</sup> argues that the increased duties and potential liabilities will limit the business' profit. However, the scholar highlights that since the Benefit Corporation is a voluntarily adopted form of business model, this cannot considered as a disadvantage.

The extended reporting requirements, the higher degree of transparency and accountability, can be thought as a disadvantage. Transparency requires disclosing certain information to the public. This can be harmful to the company since it will share more information to the public than competitors. On the other hand, the increased accountability for company's actions can slower the

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<sup>20</sup> Marquis, C.; Klaber, A.; Thomason, B.; 2010, "B Lab: Building a New Sector of the Economy", *Harvard Business School Case* 411-047,

<sup>21</sup> Munch, S. 2012, "Improving the Benefit Corporation: How Traditional Governance Mechanisms Can Enhance the Innovative New Business Form", *Northwestern Journal of Law and Social Policy*, vol. 7, pp. 170-195

business activities and damage reputation. For example, a wrong action, accountable to the company, can damage the trustworthiness of consumers toward the company.

On the other hand, the possibility of suing directors, when possible, for the non-achievement of the benefit mission can be a disadvantage as well. This will increase agency problems, and more time will be dedicated in explaining to stakeholders and shareholders the reasons why they could not pursue the benefit mission. Munch (2012) debates that the legal framework gives a strong, basic background for social enterprises. However, the same legislation does too little to encourage mission achievement, helps guiding director and officers or assist future investors. As a result, Munch (2012) argues whether the Benefit Corporation is an “imperfect solution”.

Yet, there is uncertainty about the Benefit Corporation model. This is reflected in different disadvantages. One of them will be assessing the benefit to the society in a court of law. Which measure for evaluation will be used, compared to “traditional” businesses? How will the court interpret and judge the directors’ actions? Furthermore, Bend and King (2014) have concerns about raising capital, and how these capital providers will react.

### 3.4 The B Corp Community

As already mentioned above, the newly certified company enters a community made up of other B Corporations. This community helps members to stay connected with the other B Corps. It also help to spread the movement in their homelands and raise awareness among customers. It facilitate partnerships among companies in the same industry or in different sectors. As more and more companies decide to become certified B Corporations, the community’s power increases. This will result in stronger actions toward promoting legislative initiative in countries where the legal form of Benefit Corporation does not exist. Yet, this will help the emergence of the Fourth Sector as hypothesised by Heerad (2011)<sup>22</sup>. Nowadays, the B Corp community counts more than a thousand of companies involved in 121 different industries.

The B Corp community, however, can count on multiple global partners in supporting and serving the community itself. These global partners are: MaRS (Canada), Sistema B (South America), B Lab Australia and New Zealand, B Lab Europe, B Lab UK, IES – Social Business School. Yet, companies in different countries can count for several country partners, B Corps who decided to help other Corporations to join this movement. Nevertheless, the B Corp community organise events, with country partners, to raise awareness about the movement.

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<sup>22</sup> Heerad, S. (2011) “The For-Benefit Enterprise”, *Harvard Business Review*, vol. 89, pp. 98-104.

## 4 The Benefit Report

### 4.1 What is a Benefit Report?

In the light of this higher degree of transparency, which is one of the fundamental principle of a B-Corp and Benefit Corporation, a new tool was designed. Along with the financial report, every Benefit Corporation (the legal-form recognised in the United States) and some B-Corp publish every year a benefit report. A benefit report can be assimilated to a financial report, although its main purpose is to check the accomplishment of the public benefit through the past year. Furthermore, in the US, the stakeholders can check if the directors had fulfilled their duties. However, a B Corp or a Benefit Corporation before issuing this report needs to apply specific standards and procedures such as the financial counterpart.

### 4.2 Which standards are required?

The benefit report needs standards to apply such as in the financial counterpart. However, even though firms are freely to choose which standards adopt there are few guidelines to follow. This especially applies for the recognised legal-form in the US. Firstly, the standards are required to be designed by independent third-party actors. What is more, these third-parties actors do must not have any “material ties” with the issuing company. Secondly, the standard-setter needs to be credible and an expert to develop plausible standards. He needs to use a “balanced multistakeholder approach” (Model Act, 102 (a)) and it needs to be available to comment for at least 30 days. Nevertheless, since the Benefit Report requires a higher degree of transparency, its standards must be transparent too.

The company needs to inform anyone regarding the criteria used, the balancing among those. In case of any development and/or revisions the standard-setter needs to make them available to the public. B Lab, in its Model Act, give further detail which are useful for explaining more in detail about the third-party standard. However, the Benefit Corporation or the B Corp is free to choose any third-party standards that satisfy their requirements. The list of standard-setters is wide and contain different standard-setter such as: Global Initiative Reporting, Green-Seal, ISO2600, et cetera. Hiller (2013, p.292) argues that in the United States of America where the legal form of the Benefit Corporation is recognised, variations in State Laws could affect the effectiveness of this higher degree of review. These variations could also be problematic for stockholders and investors. They would need to review the entire report and asses how reliable it is.

### 4.3 Why is it required? Can the Benefit Report implement the transparency of the firm?

The Benefit Report is required in the United States of America for legally, incorporated Benefit Corporation. However, in the remaining American states where this form of corporation does not exist, or in Europe, the B Corp is free to issue its benefit report. The Benefit Report illustrates the public benefit accomplished by the company, any deviations from this achievement and an “assessment of the overall social and environmental performance against a third-party standard”<sup>23</sup> (Model Act, §401 (a)(2)).

The Benefit Report can enhance the transparency of a firm encompassing different features. First of all, the publicly availability of this report makes possible to stakeholders to check the accomplishment of the social benefit. Secondly, disclosing this kind of information itself, enhance the transparency of the Corporation. Thirdly, in the United States of America, the role of the independent benefit director helps to compliance this higher degree of transparency. However, since in Europe this form of corporation still does not exist, the latter motivation may be inapplicable to the European certified B Corp. This higher degree of firm’s transparency will result in an enhanced trustworthiness toward the firm by customers. Disclosing more information helps the firm to be more reliable, and conscious, toward the society, the environment, customers and so forth.

Furthermore, a Benefit report can enhance the transparency due to its very specific nature. The Benefit report is able to provide detailed and more useful information to customers than other types of reports. A comparison between a Benefit Report and an Integrated Report highlights important differences. Firstly, the Benefit Report main focus is on benefits to the society and it wants to provide a higher degree of accountability and transparency. On the other hand, an integrated report is trying to focus on both financial and benefit results. This might result in a report which is difficult to understand from the outside and accessible to few people.

Secondly, the Benefit report is easier to read than an integrated report. A stakeholder, which lacks of business knowledge, might find time-consuming and worthless an integrated report than a Benefit Report. As a result, this could lead to a less-transparent report, due to the fact that tables, graphs and numbers, are more difficult to explain to an outsider.

Finally, since the Benefit Report relies on third-party standards this would enhance its transparency toward stakeholders. Those standards need to be specific about weight and the criteria used to formulate them. This would not give room to the firm to alter the report.

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<sup>23</sup> Model Benefit Corporation Version: June 24<sup>th</sup>, 2014 Available at: < <http://benefitcorp.net/attorneys/model-legislation>> [Accessed: June 26<sup>th</sup>, 2015]

#### 4.4 Can the Benefit Report be useful in the firm's activities?

The Benefit Report can be useful for companies in their everyday life. It helps in setting objectives to achieve and monitoring their accomplishment. Yet, this view is confirmed by a paper by Munch (2012)<sup>24</sup>. Nevertheless, it gives an incentive to be more transparent as possible. This, in turn, will enhance company's good practices and actions. What is more, the report can enhance the credibility of the Benefit Corporation in the eyes of stakeholders. The latter can check if the claims, advanced by the Benefit Corporation, have been realised and there are backed by evidences.

However, there is a major issue related to the results achieved by the company itself. The Benefits provided to the communities where the company operates cannot easily measured. Yet, we can measure the quantitative aspect as well as other "quantifiable" goals, such as the reduction of waste, the reduced use of electricity and such as. However, the Benefit Report tries to provide a metrics to evaluate and check those benefits achieved throughout the year. It checks whether the initial objective have been accomplished.

Notwithstanding, this report can be used by different managers to understand the business mission and provide an incentive to carry on that mission. This would also help shareholders to understand why there is a departure from the idea of value-maximisation of the firm.

Yet, the Benefit Report set objectives of company's Corporate Social Responsibility over the next periods. As a result, managers, employees, suppliers, and even customers, can check if the objectives, set by the company, have been completed. This will enhance the communication among the parties involved in value creation.

Munch (2012), nevertheless, argues that the Benefit Report will be useful in the managers-shareholders relationship. As the former cannot act at their own discretion in guiding the corporation, the latter benefit from this reduced agency conflicts. What is more, it enhances company's activities reducing possible lawsuit between shareholders and managers, thus establishing better relationships.

Finally, the Benefit Report can be used as a marketing tool. The company might struggle in communication to the outside world their commitment toward a more sustainable form of business. The Benefit Report can be used as a marketing tool to "advertise" the good-faith of the company and their responsible way of doing business. Still, Munch (2012) argues that being a Benefit Corporation creates a significant advantage in term of Branding.

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<sup>24</sup> Munch, S. 2012, "Improving the Benefit Corporation: How Traditional Governance Mechanisms Can Enhance the Innovative New Business Form", *Northwestern Journal of Law and Social Policy*, vol. 7, pp. 170-195

## 5 An Italian Overview

### 5.1 The Italian Movement

In Italy the B Corp movement is at its first stages of development. Up to now, the number of certified Benefit Corporations is 8. However, at this moment, there are more firms who are willing to undertake this process. The pioneers of this Italian movement were Paolo di Cesare and Eric Ezechieli. Their journey started with an article from the Harvard Business Review where the B Corp was described. Now, after 5 years, something has changed. The public awareness toward Business Corporations is increasing. The Italian public opinion is starting to recognise these kind of companies, and lots of promotional efforts were carried on. The Italian companies, who have already received the certification, are: Fratelli Carli S.p.A., Nativa, Treedom, Equilibrium, D-Orbit, Habitech – Distretto Tecnologico – Trentino, Little Genius International and Mondora.

### 5.2 The Italian legislative initiative

Italy is the first country to discuss a bill where call for the creation of a legal form of Business Corporation. The first signer of this bill is Senator Del Barba. He presented this bill at the Senate last May. The bill calls for a minimum impact, it does not provide for a heavier state-intervention, nor heavier duties for managers. However, one of the few duties that the company needs to respect is to provide, as in the American legislation, an annual Benefit Report.

Yet, the bill has just been presented to the chamber, thus it will be scheduled for a discussion in a near future. Furthermore, Sen. Del Barba argues that a positive welcoming by the Italian civil society would faster the approval proceeding. Finally, Sen. Del Barba raises few concerns about the way it will be applied, but he is sure that Italy is a fertile country for this kind of business innovation.

### 5.3 Fratelli Carli S.p.A.

Fratelli Carli S.p.A. is a family company founded more than a hundred years ago. Their core business is to provide a high-quality olive oil to their customers. Fratelli Carli became a Benefit Corporation in July 2014, after a lengthy process.

At this moment, Fratelli Carli is one of the biggest Benefit Corporations in Europe. The Carli family owns the company, and Mrs. Claudia Carli, a member of the Carli family and a director of the Board of Directors, is the responsible for the Benefit Corporation themes. Mrs. Carli believes that a Benefit Corporation is the natural development for a company such as theirs. Nativa, the Italian country partner for B Lab, contacted the company and they discussed about the possibility of becoming a B Corp.

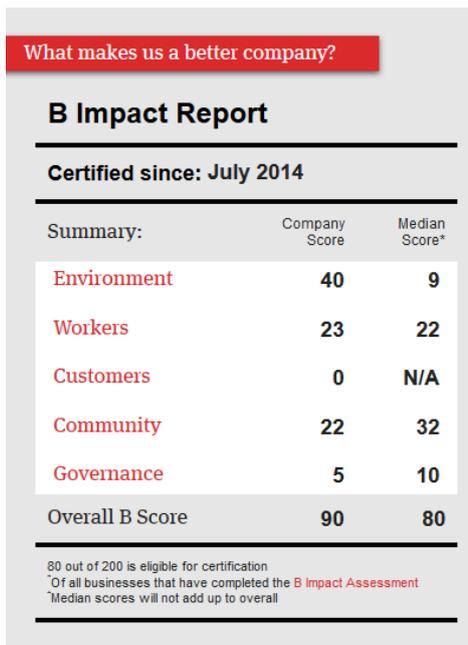


Figure 5.1

<sup>25</sup>As Mr. Carlo Carli said, Fratelli Carli has always been a Benefit Corporation since its foundation more than 100 years ago. Their Overall Company B Score is 90, with an outstanding result in the Environment Section where it achieved a score of 40 (Figure 5.1).

They are the first European company to publish a Benefit Corporation. Their Report has a twofold objectives. Firstly, they intend their report as a programmatic document. They set some objectives to achieve in a two years period. Secondly, they wanted to be more transparent as possible toward their stakeholders, such as suppliers, customers, employees and even customers. Their idea of report was to be clearer as much as possible. Their objective is to

communicate in a simple way, without any confusing graphs, their commitment. Before writing their report, Olio Carli analysed different Benefit Reports, to evaluate the best form for their report. Fratelli Carli and Nativa, their consulting partner, have developed specific standards to draw up their report. The analyses of different Benefit reports, helped them to develop the clearer and simpler form of standards. Their idea is to start giving their report to their customers. As a result, customers will be more informed about Carli's best practices and commitment.

Mrs. Carli and Mr. Calzamia think that being a Benefit Corporation will reinforce the Carli Brand and will be an element of differentiation among their competitors.

Fratelli Carli has started a program of cooperation with its suppliers. The Benefit Corporation certification helped them to strengthen their partnerships with suppliers with the objective of being a responsible business. The creation of a local district, namely "Distretto Carli", helped them to develop mutual dependence and trust with their suppliers. Furthermore, this higher degree of cooperation will enhance Fratelli Carli's operations and trustworthiness among their supply chain.

The development of such "cluster" (distretto Carli) is helping the firm to create a Shared Value as hypothesised by Porter and Kramer (2011). The firm is advancing in economic terms (earning profit) while enhancing the local community where it operates (distretto Carli).

<sup>25</sup> Source: <http://www.bcorporation.net/community/fratelli-carli-spa>

## 5.4 Nativa



Figure 5.2

<sup>26</sup> Nativa was the first Italian company to be “incorporated” and certified as a Benefit Corporation. The two founders, Paolo Di Cesare and Eric Ezechieli, decided to become a B Corp after the reading of an article appeared on the Harvard Business Review. They were interested and willing to try this new form of business. That is why they decided to incorporate Nativa in 2012. Their Overall Company B Score is 108, with many section scores above the median score, where present (Figure 5.2). Their certification is the oldest one in Italy, dated back to February 2013.

Nativa is a service, consulting company, and country partner for Italy of B Lab. Up to now, Nativa did not publish a Benefit Report. However, they are seeking to write and publish it soon. They believe that the Benefit Report will help their company to enhance their transparency toward clients and stakeholders. They will realise their Benefit Report as an info graphic. Yet, this will help stakeholders, clients and other interested parties to fully understand the benefit report. They chose not to publish an integrated report because it will eventually defeat the purpose to be transparent. Mrs Anna Cogo (Benefit Unit Officer) believes that the Benefit Report needs to communicate to a wider audience, while the Integrated Report is aimed to capital providers.

Being a B Corp means being a responsible business. Nevertheless, it gives an advantage in terms of differentiation in the market. It provides the chance to consumers to choose the best product (in this case sustainable). Mrs Anna Cogo argues that entering the B Corp community is beneficial for enterprises. It can create market opportunities as well as significant relationships among members. Nevertheless, it can attract, and retain, talents interested in working for innovative and sustainable firms. Furthermore, being a B Corp improves relationships with employees. The latter will work to create a shared value, among workers, management and customers.

Mrs Cogo believes that the Benefit Corporation will be the new foreseeable standard for doing business. Yet, she believes that we are living an historic moment for the whole business world, and that the idea of shared economy will be the leading idea for the future.

<sup>26</sup> Source: <http://www.bcorporation.net/community/nativa>

## 5.5 Treedom

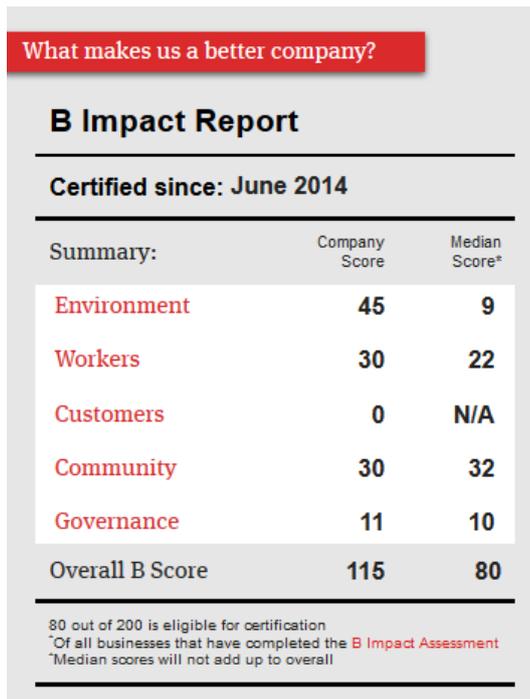


Figure 5.3

<sup>27</sup> Treedom is a company whose core business is reducing, and compensating, CO<sub>2</sub> emission. The company was founded in 2010, by Tommaso Speroni and Federico Garcia. It started as an innovative start-up, later transformed into a fully functioning company. Treedom has a twofold objectives. It plants trees to compensate CO<sub>2</sub> emission and enhance the lives of people in the rural areas where it operates.

Treedom, as confirmed by Mrs Anna Ciattini, is thinking to write and publish a Benefit Report in the foreseeable future. The company is evaluating the right set of standards to use for their Benefit Report. Mrs.

Ciattini, referred that a possible set of standard that can be used is the GIIRS set. What is more, their Benefit

Report would be a unique example of the latter. The challenge may result in assessing the Benefits generated by the company in terms of reduction of CO<sub>2</sub> emission, as well as providing work opportunities to rural farmers in less-advanced areas of the world.

## 5.6 Little Genius International

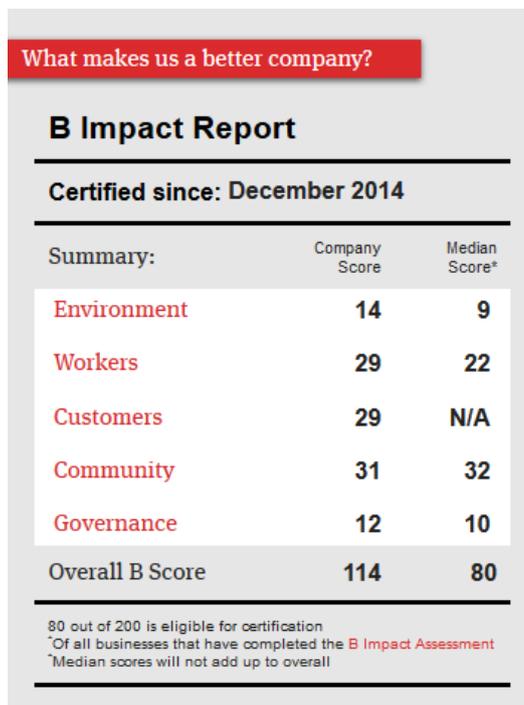


Figure 5.4

<sup>28</sup> Little Genius International, an international school for children, was founded in 2005 by Ruhma Y. Rinaldi and Nicola Christian Rinaldi. The school is located in Frascati (RO), and it became a B Corp in 2014.

Its overall company B Score is 114, and its company scores are above the median level in almost all macro-areas (Figure 5.4). The owners wanted to innovative in several fields: starting from the children development process up to the business corporate form. The school was able to create a new teaching method for children called ICE ®: Infinite Child Evolution.

<sup>27</sup> Source: <http://www.bcorporation.net/community/treedom>

<sup>28</sup> Source: <http://www.bcorporation.net/community/little-genius-international>

The company embraces the Benefit Corporation's ideals in different ways: for example when it comes to choose between suppliers, the school prefers local companies instead of their rivals. Moreover, the school is in a building which respects the environment, and it uses recycled materials and promote a conscious recycle process. As what happened for Fratelli Carli S.p.A. the certification was a natural, and official, development in their life. Mr. Rinaldi affirms that this certification was the chance to make official their commitment and show this embedded characteristic. What is more, Mr. Rinaldi believes that the Benefit Corporation has all the key characteristics to develop and sustain a new phase in history, both in a business context as well as in a social framework.

In the end, Mr. Rinaldi affirms that sustainability, profits and social welfare are not in conflict with each other. Rather, he believes that mixed together, these three elements, could become the driving force toward an advance both in the economic world and in the social world. This is what Little Genius International ® has done since 2005. The B Corp certification was just a formal way to prove their commitment started 9 years ago. Finally, Mr. Rinaldi affirms that this business model is needed more than ever.

## 6 Further Challenges and Frameworks

### 6.1 A criticism about the B-Corp – Benefit Corporation

Scepticism about Benefit Corporations exists. The main concern is about the delivery of benefits stemming from this form of Social Responsibility Program. Hiller (2013) identifies three main issues: (i) whether the Benefit Corporation is just a for-profit perversion of those programs; (ii) a concern related to the non-accountability of the Benefit Corporations' actions regarding public functions; (iii) the risk stemming from promoting the adoption of statutes by private entity (B Lab and B Corp) for its self-interest, a conflict of interest.

In a paper, Baur and Schmitz (2012)<sup>29</sup>, argues that actions of companies with programs of Corporate Social Responsibility may result in co-opting of those programs for earning profits or using them for strategic business purposes. This would be harmful to the achievement of stakeholder interests.

Hiller (2013) affirms that the idea developed by André (2012, p.147), which suggests that Benefit Corporations “undermine the very free-market economy that their advocates suggest they embody”, has not foundations.

Secondly, Hiller (2013), responding to the non-accountability concern, debates that “the Benefit Corporation is created within the concept of a market business entity”. Critics about the undermining of public functions are unfounded. Benefit corporations are not trying to substitute the governmental actions. They are rather trying to support, implement and cooperate with their predisposed authorities. Nevertheless, Benefit Corporation can accomplish goals where public authorities might struggle. Yet, Hiller (2013) argues that the Benefit Corporation refers “to the footprint of a corporation being a positive value to the society”. Nonetheless, Hiller (2013) argues that the Benefit Corporation must take into account stakeholder interests, which can be resembled to the duty that a government as with its citizens.

Finally, the goal of the Benefit Corporation legislation is not intended to greenwash companies' reputation. What is more, Benefit Corporations need to provide a general public benefit, as well as a specific societal benefit, on society by reporting and the transparency requirements (Clark and Vranka 2012)

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<sup>29</sup> Baur, D. and Schmitz, H.P., 2012. “Corporations and NGOs: When Accountability Leads to Co-optation”, *Journal of Business Ethics*, vol. 106, pp. 9-21.

## 6.2 The impact of the Benefit Corporation

The impact of the Benefit Corporation on the business world is still uncertain, and needs to be evaluated. This new form of corporation has the potential to revolutionise the concept of corporations. Yet, the rate of adoption of this form needs to be improved. The Benefit Corporation gave the opportunity to directors to deviate from just pursuing a value-maximisation goal. As more and more people repute businesses responsible for their lives, a more sustainable corporation is needed. In spite of these recent developments, the Benefit Corporation is not the only solution to these issues. Other forms of corporations, Corporate Social Responsibility programs et cetera, may solve this struggle.

However, in just nine years from the development of the Benefit Corporation certificate 1,288 businesses adopted this idea. As a result, the Benefit Corporation concept has room for its expansion and adoption, signalling a good rate of adoption.

## 6.3 A European reform?

With the foundation of the European counterpart of B Lab, companies can expect, in the future, to incorporate, legally, themselves as a Benefit Corporation. As the last chapter pointed out, the first country to discuss a potential law to let companies to incorporate as Benefit Corporations is Italy. Yet, we can expect other countries, or even the European Commission, to follow this path. The main concern about future moves will be about the adoption of this legal form. Up to now, companies hold just a certificate, which cannot be used for future legal suit by the stakeholders. However, the legal form can give the right to third-parties to cite the company in front of a court arguing that the company did not achieve their benefit mission. As a result, companies may expect to incur difficulties whether they do not accomplish their benefit mission, which will affect their businesses.

## 6.4 Research Implications

The increased adoption of this form of corporation raises questions worth to answer. Firstly, researchers will need to understand if the rise of Benefit Corporations is linked to a rise of the fourth sector, as hypothesised by Heerad (2011). Furthermore, we need to understand whether a public company (listed on the stock exchange) is able to successfully incorporate itself as a Benefit Corporation. Yet, which consequences will bring this incorporation? Will the Benefit Corporation business model be the future standard for companies? Will governments provide a unique set of standards for the benefit report? How this will affect the transparency of the Benefit Report?

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