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The Benefit In B Corps

In Vivo Explores B Corp Strategy And The Example Of Chiesi Farmaceutica

by Ben Comer

Privately held Chiesi Farmaceutica, a global health care and biopharmaceuticals firm headquartered in Italy, became a certified B Corporation in 2019. The B Corp impact assessment framework helped Chiesi demonstrate its mission of becoming a “double purpose” business, one that executes on business objectives but also works to protect the environment and promote social justice. Will other companies follow suit?

In 2016, Italy became the second country, following the US, to recognize a new legal status for the “benefit corporation,” or “società benefit” in Italian. Benefit corporations, or B Corps, are for-profit organizations committed to balancing the profit motive with positive societal impact, beyond company walls. B Corps are not the only organizations that strive to improve environmental, social and governance (ESG) issues, of course – trillions of dollars in assets are tied to the corporate ESG agenda, a figure that’s expected to rise as a younger generation of investors enters the market.

B Corps are distinct from traditional companies with ESG programs in two key ways: by legal status, and by reporting requirements. B Corps can also be certified as such, by the non-profit B Lab organization, or they can become benefit corporations without a certification (see *Exhibit 1*). For a company that wants to enshrine a social mission within its legal structure, one that can hold regardless of management changes, acquisition or a public stock offering, B Corp status can

ESG In 2020: Not A Tick-Box Exercise But A Strategic Opportunity

By William Looney

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The idea that public corporations have obligations that extend beyond the fiduciary responsibility to shareholders will be the

provide a degree of freedom from the drive to maximize a company’s value, potentially at a cost to its social mission. While US corporate law does not require an organization’s leadership to maximize shareholder value in terms of sheer bottom line, there is often pressure to do so; B Corp legal status makes an organization accountable to all “stakeholders,” an intentionally broad term that includes internal workforces and external communities impacted by a business’s operations, environmental and social. In doing so, B Corps have more leeway to pursue both profit and social mission.

dominant measure of responsible business behavior in the coming decade. Uncertainty about the extent of these commitments – commonly referenced as the environmental, social and governance (ESG) agenda – has produced equally variable responses from companies in the health care business. ...

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Exhibit 1.

Issue	Benefit Corporations	Certified B Corporations
Accountability	Directors are required to consider impact on all stakeholders	Same
Transparency	Must publish a public report of overall social and environmental performance assessed against a third-party standard*	Same
Performance	Self-reported	Must achieve minimum verified score on B Impact Assessment
		Recertification required every three years against evolving standard
Availability	Available for corporations only in 30 US states and D.C.**	Available to every business regardless of corporate structure, state, or country of incorporation
Cost	State filing fees range from \$70-\$200	B Lab certification fees range from \$500 to \$50,000/year, based on

revenues

Role Of B Lab	Developed model legislation, works for its passage and use, offers a free reporting tool to meet transparency requirements. No role in oversight	Certifying body and supporting 501c3, offering access to Certified B Corporation logo, portfolio of services, and vibrant community of practice among B Corps.
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* Delaware benefit corps are not required to report publicly or against a third-party standard

** Oregon and Maryland offer benefit LLC options

Source:

Source: B Lab

To become a certified B Corp, companies must submit performance records as part of the B Impact Assessment, administered by B Lab. Different assessment tracks are available according to industry sector, company size and location. The assessment measures business impact on workers, the community, the environment, and importantly, suppliers and other partners. Companies seeking certification must score at least 80 points on the assessment, out of 200 possible points.

The B Impact Assessment process was enlightening for [Chiesi Group](#), and helped the company identify areas in need of improvement, said Cecilia Plicco, shared value and sustainability, and Chiesi Foundation program manager, in an interview with *In Vivo*. It took Chiesi over a year to work toward those performance improvements, prior to certification. But the B Impact Assessment was appealing because it went beyond other, more vertical tools used for company assessment, said Plicco. It allowed Chiesi to measure itself “at 360 degrees, from an economic perspective but also from a social and environmental perspective. And it provided insight for how to continue to improve going forward – we measure ourselves against the [B Impact Assessment] standard on an annual basis.” B Corps must be recertified every three years, against an evolving standard. B Lab is currently reviewing B Corp certification performance requirements.

Value Of B Corps

B Corps do not receive government financial incentives, such as tax credits or benefits, for becoming certified. In the US, B Corps must still elect to be taxed as a traditional C Corp, or as a “pass-through” S Corp. But there are other benefits, beyond the aforementioned freedom to balance a company’s bottom line with its social mission. These benefits include expanded stockholder rights to hold a company accountable to sustainability or societal goals; talent

acquisition, particularly with regard to millennial workers seeking employment with socially conscious companies; protection of an organization's social mission following an acquisition or IPO; and increased access to private investment capital, based on the idea that a stable mission can create greater value in the long-term, according to a recent presentation from Grant Maynard, managing principal at Enterprise Legal Studio, a boutique corporate and commercial law practice.

Is that enough to attract investors to B Corps? "I think the younger generation has definitely expressed an interest in using capital tools to promote social goals," said Les Funtleyder, health care portfolio manager at E Squared Capital Management, a fund that invests in public and private companies. "If you look at the growth of [stock trading] platforms like Robinhood and others, which are driven by younger investors, they are becoming a force to reckon with," said Funtleyder, a sentiment underscored by the recent run on GameStop shares in the US, fomented largely by young retail investors and social media activism.

Plicco emphasized the utility of the B Impact Assessment as a tool for improvement and noted the reputational benefit. "If you present yourself as a B Corp certified company, and then you explain what's behind it, you can really strengthen your reputation as a sustainability-minded company," she said. At Chiesi, employee retention is also an important benefit, said Plicco. "I think [B Corp status] can really become an asset for Chiesi in terms of attracting younger talent, but also retaining talent. What is still missing, however, is the awareness by the general public and by different stakeholders about what this certification really means."

Engaging Partners

For Chiesi, the most challenging aspect of B Corp certification related to supplier engagement, said Plicco. "The [B Impact Assessment] is precise and specific in asking about different actions and how you as a company engage with your suppliers in your journey. Chiesi has a supply chain with suppliers all over the world, and this was one of the areas where we said, 'Oh wow, we really have to work on these topics.'"

The company's global procurement function incorporated the B Corp supplier objectives and worked through them, leading the publication of a "[code of interdependence](#)," or a supplier code of conduct, said Plicco. The code is intended to help Chiesi's suppliers understand that "every decision you make is interconnected and can have an impact on other actors and stakeholders. Our plan is to engage all of our supply chain partners with this code, which we've translated into the languages of our Chiesi affiliates," Plicco said.

On the environment, Plicco says Chiesi was compliant with relevant laws prior to B Corp certification, but the B Impact Assessment helped the company rethink environmental impact. "We started to develop a different kind of attention to our environmental impact – across production, R&D and commercial activities – but also inside of our offices, and with regard to

individual behavior as Chiesi employees. It was a change in how we approach our environmental strategy; it gave us a more thorough view.”

Nativa, the B Lab country representative in Italy, offered crucial support to Chiesi in its mission to become a certified B Corp, said Plicco. “We started out by ourselves, trying to measure and conduct an assessment in Italy, but it was too complex. We asked for support from Nativa, and without their support, I think we would have still arrived at B Corp certification, but not in one year.”

Sustainable Development Goals

The United Nations (UN) 17 sustainable development goals (SDGs), adopted by UN member countries in 2015, provided Chiesi with a set of standards and points of reference, in contemplating B Corp certification. Plicco said that Chiesi ended up with a strategic plan that integrated B Corp certification requirements with targets related nine of the 17 SDGs, with specific targets the company deemed most suitable to what Chiesi could contribute. In 2020, Chiesi opted to try out the SDG Action Manager, a tool created through a collaboration between B Lab and the UN Global Compact, as a way to reassess and confirm which SDGs offered the most appropriate targets.

“We used [the SDG Action Manager] to measure ourselves toward all 17 of the SDGs, not only just the nine that we’d chosen, to see if the choices were correct,” said Plicco. “We found that the contribution we gave to SDG number 3 – Good Health and Well-Being – is the most relevant one for us. We also discovered that number 16 – Peace, Justice and Strong Institutions – is very relevant for us, particularly the importance of strong institutions” for companies operating in a highly regulated environment. “The nine SDGs were really important for our internal planning, to define our objectives, our actions and our strategy. All of the SDGs, in the end, are relevant, and we have the belief.” As B Lab works to update its certification requirements this year, it is possible that the UN’s SDGs will become a part of the assessment.

Nine UN SDGs Adopted by Chiesi

- #3: Good Health and Well-Being
- #8: Decent Work and Economic Growth
- #9: Industry, Innovation and Infrastructure
- #10: Reduced Inequalities
- #12: Responsible Consumption and Production
- #13: Climate Action
- #15: Life on Land
- #16: Peace, Justice and Strong Institutions
- #17: Partnerships for the Goals

Very few publicly traded companies have become certified B Corporations, but the numbers are growing. However, several large corporations, including Procter & Gamble, Coca-Cola, Gap and Nestle, own certified B Corp subsidiaries. As more industries take action on societal and environmental issues, B Corps may become another feasible option for companies looking for ways to set concrete goals, and measure progress toward them.