



BENEFIT CORPORATIONS: THE BEST FOR THE WORLD

by Paolo Rossi and Marinella Pellè

THE GREAT AMBITION OF A NEW ECONOMIC MODEL IS TO BE AN ALTERNATIVE TO THE OLD PROFIT-ORIENTED ENTERPRISE IDEA. IT TAKES A COMBINATION OF INGREDIENTS FROM THE OLD BUSINESS MODEL IN WHICH THE AIM IS TO PRODUCE PROFITS AND WEALTH, AS WELL AS INGREDIENTS FROM THE NON-PROFIT WORLD, WHICH CREATES A COMMITMENT TOWARDS THE COMMON GOOD. IS THIS NEW MODEL CONSIDERED MERELY A SKIN-SHEDDING, OR IS IT THE ANSWER TO TODAY'S NEEDS?

Today, more than half the world's population has a good standard of living, even when one takes into account that the projection of how one defines wellbeing has decreased due to the increasingly saturated market. At the same time, almost three billion people are in need of everything. In Italy, over the next fifteen years, almost 100 billion euro will be needed to cover costs of healthcare and other social needs. Until recently, many governments have managed this situation directly or through support of private entities, whose risks in taking up this role were pretty low. Thus, this model hasn't worked efficiently, and the first "loser" has always been the so-called "tax payer".

While the world's population needs keep growing and social demands increase, many governments experience the significant hardship of finding resources. Unmet needs represent an unsolved problem. New resources and new approaches must be found - different from the usual fiscal pressure increase solution.

Worldwide, entrepreneurs and businesspeople have ascertained that a marriage between enterprise and finance could be useful to generate more social wellbeing and satisfy involved stakeholders. Accordingly, to these "enlightened" groups of people, an enterprise undertaken from the social point of view can create resources and foster social impact, while a financial approach can have a multiplier effect of wellness.

THE BIRTH OF BENEFIT CORPORATIONS: USA COMES FIRST, BUT ITALY COMES SECOND!

Benefit Corporations originated in 2006 and were formalized in the United States in 2010, now existing in 31 states. The B-Corps expan-

sion has been a stimulus for the rise of their equivalent in Italy (*Società Benefit*, in Italian).

Indeed, in 2014, the first Italian certified B-Corps fostered a political and legal project whose output has been the introduction in Italian legislation of the Benefit Corporation as a new enterprise legal status with an ad hoc discipline. It came into force January 1st, 2016.

On February 26th, 2016, the first five Italian enterprises changed their legal status to adopt the Benefit Corporation. Since then, dozens of Italian enterprises did the same, and today there are more than 80. Worldwide, there are more than 2,000 certified B-Corps; it's estimated that 50,000 are applying to get the B-Lab certification.

Cities such as New York created projects like the "Best for NYC" to encourage social entrepreneurs to set up activities in their own country, enhancing the living conditions of the city and its people.

ITALY: FIRST IN EUROPE

For once, Italy has been a role model in Europe, establishing norms and procedures related to introducing the Benefit Corporation's legal status at the national level. The main aim of the Italian Parliament's initiative is to allow entrepreneurs, managers, shareholders, and investors to distinguish themselves in the market in innovative and virtuous ways, through an ad hoc legal status.

Benefit Corporations can be seen as the evolution of the enterprise concept itself: while a traditional company aims to create and distribute profits among the shareholders, Benefit Corporations integrate (even in their name) not only profit aims (Corporation) but also their social mission (Benefit). The aim is to achieve, through economic activity, a positive impact on society and the environment.

Different from other non-profit organizations (Social Enterprises, NGOs, Charities, Associations, etc.), Benefit Corporations keep a profit-making soul but add the pursuit of creating more positive effects (or, at least, the reduction of negative effects) on people, communities, environment, cultural and social goods and activities, organizations, and other stakeholders.

Thus, economic activity, responding to two souls and carried out in responsible, sustainable, and accountable ways, requires a strong balance between the shareholders' interests and community's interests.

A SHARED PROFIT

Historically, decision-making processes have been dominated by the primary objective of increasing profit. However, according to many, this phenomenon may represent an obstacle for long-term, value-added creation for all stakeholders and shareholders.

In fact, shareholders are more and more aware that behaviors not in line with clients' expectations can end up penalizing a business, as clients will not continue to buy more products or services.

The mechanism is very similar to what was seen in the organic product sector, where a few people started looking for healthier and environmentally-friendlier food products. Those few people became a real market sector.

Thus, Benefit Corporations go beyond a simple short-term model, taking into account all the stakeholders' interests in their decision-making process. This guarantees them the needed flexibility to generate value for all stakeholders in the long term, even in cases of partial transfers and buyouts, new managers or new capital entry, generation changes or stock market fluctuation.

NOT THE BEST IN THE WORLD, BUT THE BEST FOR THE WORLD

It is vital to note that new talents choose to work in companies having a positive social impact. According to 77% of millennials report that “the scope of the enterprise is a fundamental part of the reasons why they’ve chosen to work for it. The millennials (the generation born between the beginning of the 1980s and 2000) represent more than 50% of the future workforce, a percentage forecasted to grow up to 75% by 2025. (<https://www2.deloitte.com/content/dam/Deloitte/global/Documents/About-Deloitte/gx-millennial-survey-2016-exec-summary.pdf>)

Moreover, non-financial information became fundamental: most investors believe that companies are not transparent enough in relation to non-financial risks, and almost half of the investors exclude some investments on the basis of non-financial information (such as the impact on the environment, pollution and recycling, treatment of the employees - notably women, use of certified raw materials, no association with weapons production and sales, etc.) At the end, it’s not a matter of a company being “the best of the world”, but “the best for the world”. (<http://bcorporation.eu/what-are-b-corps/why-b-corps-matter>)

REDEFINE THE “VALUE”

Aristotle thought there was a “right price for everything”, while Marx stressed that the value was generated by labor. Today, most economists accept that the only meaningful concept of value comes from the interplay between supply and demand on the market: “everything has value only if someone is willing to pay for it”.

This last value definition forces economists to observe real behavior, rather than looking for hidden realities. Many voters are willing to pay taxes for police forces and primary schools, and many governments are able to provide those services. Many donors are willing to fund health care for children living in developing countries, and many local organizations are able to provide that assistance. (Mulgan, Kelly, Muers.)

In the mentioned fields, it’s not difficult to see and analyze the social value because there is a clear link between what the funder wants and what the supplier can provide. However, for other social issues, the link between demand and supply are lacking, and sometimes the actual demand may be missing if donors, politicians, or citizens do not deem the need urgent enough to justify the use of the resources.

THE AUXILIUM CONSORTIUM

In Turin in 2016, the Auxilium Consortium was funded by a group of entrepreneurs believing in Benefit Corporation and willing to promote a new cultural approach towards the issue of enterprise value, not exclusively based on profit.

Through the use of legal and financial tools dedicated to the Social Business world, they have the opportunity to explain to stakeholders and shareholders how resources invested in Benefit Corporations can contribute to reach results in alignment with their mission, simultaneously generating a positive social impact.

This spirit of mutuality and reciprocal interest are the main drivers for access to the Consortium, but also a shared objective to allocate a percentage of the revenue from exchanges promoted by the consortium to several kinds of social activities, starting within the local environment. In its first year, the Consortium provided jobs for disadvantaged families, promoted Italian language courses for the integration of migrants, activated training courses, financed social and international cooperation projects...and that’s just the beginning.

ABOUT THE AUTHORS

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