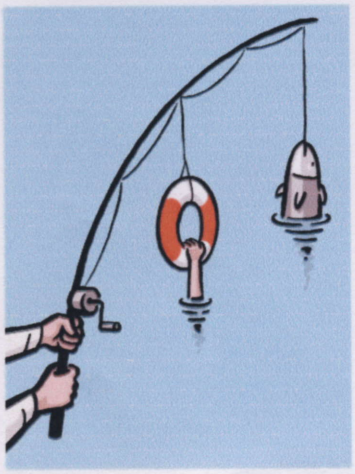
THE FINANCIAL PAGE

## COMPANIES WITH BENEFITS

In recent years, Warby Parker has become the eyeglass-maker of choice for hipsters. In a recent *GQ* taxonomy of the different varieties of nerd, all but one of the nerds were wearing a pair of Warby Parkers. The company's approach—selling stylish specs at affordable prices—seems obvious, but, in an industry where brand-name glasses cost two or three hundred dollars a pair, it counts as revolutionary. The company has a similarly unconventional approach to its corporate identity. Soon after starting Warby, the founders made it a "B corporation." B corporations are for-profit companies that pledge to achieve social goals as well as business ones. Their social and environmental performance must be regularly certified by a nonprofit called B Lab, much the way LEED buildings have to be certified by the U.S. Green Building Council. Many B corps are also committed to a specific social mission. Warby's production and distribution is carbon-neutral, and, for every pair of glasses it sells, it distributes another in the developing world, in partnership with a nonprofit called VisionSpring.



There are now more than a thousand B corps in the U.S., including Patagonia, Etsy, and Seventh Generation. And in the past four years twenty-seven states have passed laws allowing companies to incorporate themselves as "benefit corporations"—which are similar to B corps but not identical. The commitments that these companies are making aren't just rhetorical. Whereas a regular business can abandon altruistic policies when times get tough, a benefit corporation can't. Shareholders can sue its directors for not carrying out the company's social mission, just as they can sue directors of traditional companies for violating their fiduciary duty.

Why would any company tie its hands this way? Neil Blumenthal, one of Warby's co-founders, told me, "We wanted to build a business that could make profits. But we also wanted to build a business that did good in the world." That sounds pretty, but it's a kind of goal that can be easily discarded when running a for-profit business. Becoming a B corp raises the reputational cost of abandoning your social goals. It's what behavioral economists call a "commitment device"—a way of insuring that you'll live up to your promises.

Being a B corp also insulates a company against pressure from investors. Since the nineteen-seventies, the dominant ideology in corporate America has been that a company's fundamental purpose is to boost investor returns: as Milton Friedman put it, increased profits are the "only social responsibility of business." Law professors still debate whether or not this is legally true, but most C.E.O.s feel huge pressure to maximize shareholder value. At a B corp, though, shareholders are just one constituency. Patagonia doesn't need to worry about investors' opposing its environmental work, because that work is simply part of the job. For similar reasons, benefit corporations are far less vulnerable to hostile takeovers. When Ben & Jerry's was acquired by Unilever, in 2000, its founders didn't want to sell, but they believed that fiduciary duty required them to. A benefit corporation would have had an easier time staying independent.

In today's fiercely competitive business environment, one might assume that a company that thinks altruistically is doomed to failure. To a free-marketeer, a B corp is just a way to waste shareholder money on do-gooding whims. Yet Warby Parker has had no trouble raising money from investors. And Dave Gilboa, another Warby co-founder, told me that, at the operational level, having a social mission can offer distinct advantages. It's an important way for a company to attract and retain talented employees. Survey data show that workers—especially young ones—want to work for socially conscious companies, and will take less compensation in exchange for a greater sense of purpose. Such people often work for nonprofits, but B corps may soon become a more attractive option. Blumenthal himself came from the nonprofit world, having worked at VisionSpring before starting Warby. He says, "Your ability to have an impact on a large scale is just greater in the for-profit world, and that's chiefly because of the capital and the talent available to you." Having a social mission can also be an important selling point with consumers, as the success of the fair-trade movement makes clear.

It's easy to be skeptical of the mushy rhetoric surrounding B corps. Yet the desire to balance profit and purpose is arguably a return to the model that many American companies once followed. Henry Ford declared that, instead of boosting dividends, he'd rather use the money to build better cars and pay better wages. And Johnson & Johnson's credo, written in 1943, stated that the company's "first responsibility" was not to investors but to doctors, nurses, and patients. There were problems with this way of doing business: it was paternalistic and often inefficient. But what replaced it—the fetishization of shareholder value—has inflicted serious damage of its own, encouraging corporations to focus on short-term prospects and share price at the expense of everything else. The rise of B corps is a reminder that the idea that corporations should be only lean, mean, profit-maximizing machines isn't dictated by the inherent nature of capitalism, let alone by human nature. As individuals, we try to make our work not just profitable but also meaningful. It may be time for more companies to do the same.

—*James Surowiecki*

CHRISTOPH NIEMANN