Social Innovation in a New World: A Rapid-Fire Overview with Christopher Marquis and Benjamin Stone [VIDEO]

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During a recent discussion hosted virtually by Mintz, corporate attorney and former CEO Benjamin Stone invited Professor Christopher Marquis of the Cornell University SC Johnson College of Business to discuss his new book, Better Business: How the B Corp Movement Is Remaking Capitalism, and provide an overview of the emerging concepts and trends that are rapidly reshaping the social innovation landscape. Drawing upon professional experience and academic research, Stone and Marquis brought clarity to the often dizzying array of new buzzwords that have surfaced in the social innovation space – from “B Corps” to “impact investing” to “JEDI.” Marquis and Stone addressed these crucial concepts from the perspective of companies, investors, consumers, and working professionals.

Market Overview: A Changing World

Marquis and Stone opened by analyzing events and trends from the past several
years that have contributed to the recent sea change in the world of social innovation. Both Marquis and Stone remarked that the COVID-19 pandemic has rapidly changed perceptions about the role of business in society, laying bare the fragility of global supply chains that were originally designed for efficiency rather than durability. Stone and Marquis noted as well that the brunt of physical, in-person labor throughout the pandemic has rested on individuals in precarious economic positions. Likewise, the murder of George Floyd in 2020 brought the business world’s attention to the systemic nature of racism and discrimination, causing businesses to re-examine the impact of their work on broader society.

Looking further back in history, Marquis and Stone explained that events prior to 2020 also played a role in the movement toward great social responsibility for corporations. For instance, in August 2019, the Business Roundtable – a trade group of CEOs representing the 200 largest companies in America – changed its definition of the “purpose of a corporation,” acknowledging that corporations are responsible not only to their shareholders but also to other stakeholders including employees, local communities, and the environment. The Business Roundtable’s new definition of a corporation marks a dramatic shift from the theory promoted and popularized by economist Milton Friedman in the 1970s and 1980s, which supposed that the sole responsibility of a corporation is to maximize shareholder profits.

Social innovation from a company’s perspective

Against this rapidly evolving backdrop, a wide array of buzzwords and key terms has emerged to account for new understandings of a company’s responsibilities to its various stakeholders:

**Stakeholder Primacy:** According to Stone, this term underlies the entire social innovation movement. Whereas companies over the last several decades have operated under the model of shareholder primacy – a model in which a company’s singular goal is the maximization of shareholder profits – many companies are beginning to recognize additional responsibilities to civil society, employees, fellow businesses, and the environment. Christopher Marquis noted that the shareholder primacy model has exacerbated climate change as well as income inequality; since Milton Friedman’s influential 1970 *New York Times Magazine* article that is credited with starting the shareholder primacy trend, the average CEO-to-employee compensation ratio has risen dramatically from around 20:1 to around 350:1 in recent years.

Crucially, both Stone and Marquis advocated for the idea that stakeholder primacy is not to the detriment of shareholders. Rather, both argued, stakeholder primacy makes businesses more nimble, more sustainable, and ultimately more profitable. Notably, in the last few years, Larry Fink of BlackRock – one of the world’s leading investors – has written in his widely read annual letter to CEOs that focusing on climate and placing purpose at the center of business leads to better returns.

**Social Entrepreneurship and Social Innovation vs. CSR:** Marquis noted that CSR initiatives are typically projects that large companies take on in a philanthropic context that is separate from their core business functions. For example, employees at a bank might volunteer for a charity once a month as part of the bank’s CSR
program. On the other hand, “social innovation” and “social entrepreneurship” refer to projects and initiatives at the core of a business’ mission that deliver social impact. Examples might include solar panel producers, sustainable fashion companies, and more.

**Public Benefit Corporations:** Under Delaware state law, businesses can incorporate in the legal form of a “Public Benefit Corporation,” which is different from other legal forms such as C corporations and limited liability corporations (LLCs) for two reasons: (1) public benefit corporations maintain an avowed purpose beyond profit-seeking; and (2) public benefit corporations have a mechanism that ensures accountability and transparency as the company works to fulfill that purpose. Other jurisdictions, including around 40 U.S. states and several other countries, offer similar legal forms that are often simply called “benefit corporations.”

Legally speaking, the benefit corporation legal form gives a company’s Board of Directors additional leeway to be nimble and long-term-focused in its thinking. Stone remarked that corporate forms are not mere legal documents – they are also a communication device that creates alignment between interests and values and promotes fidelity to a company’s mission. For instance, financial shareholders owning certain percentages of a company can sue the company for failing to fulfill its stated social purpose.

Marquis referred to the period from July 2020 to June 2021 as the “year of the benefit corporation in the public markets,” as many well-known companies like Coursera, Lemonade, and Veeva Systems have either converted or incorporated to become benefit corporations during this time. Marquis and Stone noted that benefit corporations have experienced remarkable levels of acceptance among investors in both private and public capital markets, who hardly bat an eye as these relatively novel corporate forms grew in popularity this past year.

**B Corps:** Unlike benefit corporations, which are structured under a particular legal form, “B Corps” are companies that have received a particular certification from the non-profit B Lab. “B Corp” designation is analogous to “organic” or “fair trade” certifications, but instead of certifying products, the label “B Corp” describes entire companies – namely companies that have demonstrated through rigorous examination that they meet appropriate standards relating to workers’ rights, corporate governance, environmental impact, and more. Critically, if a company is incorporated in a state where benefit corporations exist as a legal form, they must convert into a benefit corporation in order to receive B Corp certification – but companies incorporated in jurisdictions without such legal form may take on other legal forms.

**ESOPs:** Marquis and Stone listed several means for companies to grant employees a degree of ownership over their workplaces, including co-ops, stock option plans, and employee stock ownership plans (ESOPs). Not only do these tools help employees develop a personal stake in their companies’ performance, but they also help to overcome many inequality issues that relate to corporate ownership structures. Traditionally, Marquis explained, when a company does well, the lion’s share of gains go to the already-rich while employees make about the same salaries as before. Under ESOPs and other similar plans, however, employee wealth grows
DEI and JEDI: Both Stone and Marquis agreed that diversity, equity, and inclusion (DEI) programs – also often called “JEDI” programs to include the term “justice” – play a tremendously important role in the social innovation landscape. As Marquis pointed out, while discrimination is a key issue for policy and at the individual level, it is also historically intertwined with businesses – with examples including workplace discrimination and discrimination against customers of different backgrounds. Marquis and Stone noted that ESG assessments today often include sections on diversity in the workplace as it relates to gender, race, and other forms of identity – and companies are frequently surprised by the discriminatory practices they uncover during these assessments.

Investor-Side Social Innovation

ESG: Environmental, social, and governance (ESG) typically describes investments by large, publicly traded companies into causes that promote a healthy planet, sound corporate management, and the greater social good. Some companies factor ESG into their investment decisions as a means to manage risk and improve management quality, while other companies view ESG as an end in itself. Marquis listed a handful of notable ESG frameworks and assessments including the B Impact Assessment (BIA) from B Lab (from the same group that certifies B Corps); GRI (Global Reporting Initiative), a 20-year old framework developed in the Netherlands that is often cited in companies’ annual reports; and SASB (Sustainable Accounting Standards Board), the set of metrics that BlackRock CEO Larry Fink recommends.

Impact Investing: While ESG investing typically involves large, publicly traded companies, “impact investing” typically refers to private investment – often by venture capital firms, hedge funds, and private equity firms. However, like ESG investing, impact investing similarly pays close attention to the downstream impacts that investment decisions can have on community stakeholders and the environment. Well-known impact investing firms include Bridges Ventures in London, Triodos Investment Management in the Netherlands, and RSF Social Finance in San Francisco.

Consumer-Side IMPACT

Socially Conscious Consumerism: Another trend that both Stone and Marquis flagged is the rise of social consciousness on the consumer side, often known as “socially conscious consumerism.” In recent years, consumer surveys have found that customers – particularly millennial customers – express a strong interest in purchasing products that align with their values. Nevertheless, Marquis argued that other dimensions of social innovation are currently more advanced than consumption, both because it can be difficult for consumers to discern whether companies are truly making products sustainably and because consumer survey results do not always translate into real-life consumer behavior. Regardless of these roadblocks, Stone pointed out, one promising trend is that socially conscious consumption appears not to be sector-specific; in other words, consumers state preferences for value-aligned products in all sectors ranging from consumer goods to artificial intelligence products to software and more.
Careers in social innovation

Stone highlighted an article from the *Financial Times* explaining that companies have begun to view social innovation in part as a powerful tool to gain an edge in “the war for talent” – especially as more and more young professionals seek out careers that advance their values and generate positive impacts on the world. Both Marquis and Stone advised young professionals seeking socially impactful careers to develop both their “hard skills” (legal training, financial skills, and so forth) and their understanding of social impact sectors as a means to round out their professional profiles and skillsets. Marquis and Stone likewise noted that the social innovation space is rapidly expanding, providing more and more opportunities for socially minded employees to feel truly proud of their work.

Wrapping up: future trends

Stone and Marquis wrapped up the discussion by discussing their future projections for the social innovation space. From a legal perspective, Stone is eager to observe how courts will begin to address some of the novel legal issues surrounding benefit corporations. For instance, how does a court determine whether a company is truly pursuing or living up to the interests of its various stakeholders? Marquis seconded that he will be watching how benefit corporations develop in the coming years and added that he will also be curious to track ESG metrics and reporting trends. The new chair of the Securities and Exchange Commission has discussed requiring publicly traded corporations to provide more detailed disclosure of their ESG impacts, which will bring further transparency and public attention to corporate social innovation.

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