Viability of Business as an International Development Actor: An Assessment of Benefit Corporations

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Abstract

Business plays a central role in international development as both an intentional and unintentional actor. This paper evaluates the role of business as an international development actor and considers the benefit corporation, a for-profit entity that holds in equal part public benefit and profit within their mandate, as a potential avenue for businesses to play an intentional positive role. The current role of business in international development is hard to define, but its effects are certainly mixed. What is clear is that the behaviours of businesses have significant impacts on both human and environmental security. Many development efforts are based on the belief that a strong private sector and competitive markets are essential conditions for development. This has defined business’s role in development as mostly geared towards wealth creation, employment, and providing goods and services. Business practices and their effects on communities globally have repeatedly demonstrated the need for a code of ethics and the importance of caution and impact assessments as businesses shift into intentional roles as development actors. The benefit corporation model provides an opportunity for businesses to operate internationally while playing a positive role in international development. This paper uses CSR theory, a framework of classification for development agents, and a case study of the benefit corporation Patagonia to evaluate the viability of the benefit corporations as international development actors.

Keywords: Benefit corporations, international development, corporate social responsibility, accountability, impact assessment

Introduction

Business plays a central role in international development, whether as an intentional or unintentional actor. It is clear that the actions of businesses in developing countries impact both human and environmental security. Business has historically played an ambiguous role in international development, with evidence of its impacts being mixed or inconclusive. Benefit corporations are one example of how the structure of a business can be reworked to incorporate values other than profit. However, to make structures that are appropriate for international development, the benefit corporation requires further reform by policymakers to heighten accountability and incentivize participation. Using corporate social responsibility (CSR) theory, a framework of classification for development agents, as well as a case study focusing on the benefit corporation Patagonia, this article will seek to determine whether the benefit corporation plays a role in international development. Ultimately, this paper will demonstrate that the benefit corporation, although in need of reform, presents a promising framework through
which businesses can play an intentional and positive role in international development.

**Business in Development**

To support this discussion of benefit corporations as development actors, an understanding of the role business plays in development must first be established. This section will present an overview of the current role of business in development, outline harmful business practices overseas, and present theories of corporate social responsibility.

It has frequently been argued, particularly by economic liberals, that a strong private sector and competitive markets are key to development efforts. This belief includes confidence that capitalism is a precondition for development and therefore focuses development efforts on implementing policies that will not hinder the market (Black and O’Bright 2016, 145). For this reason, business’s role in development has been mainly directed at wealth creation, employment, and providing goods and services (Blowfield and Dolan 2014, 22). In recent years, there has been less focus on policies simply aimed at enabling market growth and more focus on the connection between the private sector and development opportunities (Blowfield and Dolan 2014, 23). In part, the benefit seen in involving the private sector in development is in the potential funds private entities can contribute in a time of increasing demand and strain on traditional development organizations (Black and O’Bright 2016, 145). Market-oriented efforts and private sector involvement are on the rise although the impact of this is still unclear.

There is much disagreement on the effects of this new era of development (Black and O’Bright 2016, 146). Support for the involvement of the private sector is partially due to increased confidence and reduced skepticism in foreign direct investment (FDI) and transnational corporations (TNCs) that has come about since the neoliberal shift of the 1990s (Black and O’Bright 2016, 150). This support is based on the belief that the significant flow of capital to developing countries, from FDI in particular, will be beneficial to the recipient. However, there is very little evidence that this inflow of capital has led to significant progress in alleviating poverty or creating conditions for sustainable development. Rather, both FDI and TNCs have been proven to have negative impacts on development in some instances (Black and O’Bright 2016, 153). These impacts have raised concern but have been perpetuated by the lack of accountability businesses have had for their impact on development (Blowfield and Dolan 2014, 22). However, rather than contribute to a call for the elimination of these activities, the trend has been a call for TNCs to more actively engage in development efforts and to shift away from their historic role as unintentional actors. This call, as well as criticism from the public, have resulted in business taking a renewed role by focusing on new development approaches and establishing organizational structures that facilitate pro-poor business practices (Blowfield and Dolan 2014, 22). These approaches have attempted to rework the development goals of businesses to improve human and environmental security. While the issues of human and environmental security are far too vast to be addressed by individual businesses alone, their consideration is critical in the context of active development work. Human security refers to many different aspects of life and can be framed within seven dimensions: economic, health, personal, political, food, environmental, and community (Gomez and Gasper 2013, 2). More significant than these dimensions, however, is an understanding of context and what threats are being faced by people in communities in which work is being done, in this case by business. This means that practical definitions of human security will shift depending on the community in question, and the potential and actual effects of the work being done. Environmental security is similarly variable depending on context but broadly refers to the minimization of risk stemming from human-caused environmental degradation by addressing the factors contributing to that degradation (Barnett 2001, 129).

While this shift does suggest the potential for substantial benefits, the prospect of business playing a role in development has led to some harmful theories. One example, the bottom of the pyramid (BOP) proposition, suggests that multinational corporations should take the initiative to instigate selling to the world’s poor as common practice and as an ethical business goal. The essence of this strategy is that by selling to the poor, businesses can simultaneously turn profits and eradicate poverty (Karani 2007, 90). Aneel Karnani (2007) criticizes this strategy in his article “The Mirage of Marketing to the Bottom of the Pyramid: How the Private Sector Can Help Alleviate Poverty.” The BOP proposition is based on the assumption that there is unexploited purchasing power amongst the poor and that, by selling to the poor, private companies can reduce poverty. Karnani (2007, 93) argues that this framework is flawed, mainly due to its assumption that there is a significant amount of untapped wealth at the BOP. Also, the costs needed for a private company to sell to the BOP are very high because of geographical dispersion, cultural heterogeneity, weak infrastructure, barriers to marketing, and small size of individual sales.

One of the arguments supporting BOP is that targeting these markets will increase the number of choices available to consumers living in poverty, therefore increasing their welfare. However, Karnani (2007, 97) explains that this is unlikely to have an effect on poverty since a lack of sufficient income is more of an obstacle to poor consumers than a lack of choices in the market. Another concern is that companies can profit by selling products that contribute to worsening poverty, such as alcohol. While consumers of all
incomes have the right to choose what products to buy and consume, Karnani (2007, 98) argues that, in developing countries, there are often fewer social and legal mechanisms in place to protect consumers from overconsumption of harmful products. Foreign companies can exploit this lack of regulation as barriers to profits are reduced. The BOP theory demonstrates that, as businesses shift into an active role, caution and impact assessment are crucial. There is a real danger of mass exploitation masquerading as development effort in order for companies to open new markets for the sake of profit.

The BOP proposition has resulted in detrimental effects on development. One such example is the sale of the product Fair & Lovely, a skin whitening cream, in India. This product is advertised as a means of empowerment for women but, in reality, entrenches racial and sexual prejudice and can cause health problems. This is another example of where consumer protection is lacking in developing countries that are being exploited by external retailers (Karani 2007, 99). The company selling this product is condoned by the BOP proposition for its products' empowering and poverty-reducing characteristics. These examples demonstrate that the BOP proposition provides a guise of development work but leaves significant space for exploitation.

Other companies, not just those following the BOP strategy and marketing products to consumers in developing countries, also have negative impacts overseas. For example, Canadian mining companies conducting resource extraction in Latin America, are guilty of causing severe environmental degradation as well as threatening human security through actions including forcibly displacing communities, causing impoverishment, lying about economic returns to impacted communities, posing health risks, and even stealing property. Resistance to Canadian mining has been answered with further atrocities resulting in deaths and injuries to protesters as well as charges of sabotage, terrorism, rebellion, and conspiracy (Hill 2014). Many harmful impacts of business practices occur along the supply chain (Andersen and Skjoett-Larsen 2009, 77). One example of this is the extraction of conflict minerals (cassiterite, coloute-tantalite, gold, and wolframite) in the Democratic Republic of the Congo. These minerals are exported and used in electronics by almost every country, globally. Mineral mines are controlled by militias and the conflict surrounding extraction in the country is extremely violent (Mukeba 2015, 8). Another example is the Bangladeshi factory collapse that occurred in 2013 and killed over 1,100 workers. The factory produced garments for multiple companies including Joe Fresh and Primark (O'Connor 2014). These examples demonstrate the need for codes of ethics, especially "when firms engage in sourcing out activities to dependent affiliates (offshoring) or to independent suppliers (outsourcing) in developing countries" (van Tulder, van Wijk, and Kolk 2009, 399). These examples demonstrate that much of the harm done by business internationally is due to a lack of CSR along the supply chain. This inattention to impact can have detrimental effects on communities globally. The negative impacts resulting from business practices in the developing world were increasingly supported by evidence targeting specific companies, and this exposure instigated the shift from business as an unintentional development actor to an intentional development actor (Blowfield and Dolan 2014, 24). This led to the growth of the concept of CSR.

CSR is the foundational idea behind "maintaining a social license to operate" (Black and O'Bright 2016, 152). The essence of CSR is that both corporations and the societies in which they operate have responsibilities to one another, as well as to their surrounding environments (Black and O'Bright 2016, 152). Black and O'Bright (2016, 152) outline CSR by explaining that the delivery of products and services is the means to the end of maintaining legitimacy in terms of addressing the concerns of stakeholders. To understand how CSR takes place, Black and O'Bright (2016, 153) suggest four categories of engagement. The first of these is proximate and engaged initiatives, which address conditions in the workplace. The second is distant and engaged activities, which address conduct throughout the supply chain. The third is proximate and disengaged efforts, which refer to conducting "cause-related marketing in communities of operation" (Black and O'Bright 2016, 153). Finally, the fourth is distant and disengaged efforts, which also refers to cause-related marketing but is directed at distant beneficiaries rather than those closely engaged (Black and O'Bright 2016, 153). These requirements ensure that social responsibility applies to every aspect of public life that is affected by the company's actions.

A number of CSR theories apply to businesses interested in actively reducing harm and promoting human and environmental security along their supply chains and in the communities in which they operate. These theories fall into the categories of instrumental, political, integrative, and ethical. One such theory is the sustainable development theory. At the core of this theory is that sustainable development "is a process of achieving human development in an inclusive, connected, equiparable, prudent, and secure manner" (Garriga and Melé 2004, 62). The general goal in this theory is to follow the triple bottom line framework. This is the intention of the benefit corporation, the framework that is the focus of this discussion, and which is defined below, although the framework also allows for the double bottom line (Garriga and Melé 2004, 91). Sustainable development theory is formed around the central message of the Brundtland Report which argues that sustainable development intends to meet the needs of the present without compromising the ability of future generations to meet their needs (Garriga and Melé 2004, 62). It is for this
reason that this is the most appropriate theoretical foundation of CSR for benefit corporations. The concept of the benefit corporation participating actively in international development is an adjustment to the existing capitalist model in which practices continue to be oriented for profit, but which strive to mitigate the destruction often caused by traditionally growth-focused business practices. This theory of CSR does not maintain that capitalism is a precondition for development; rather, it seeks to create changes from within a capitalist system that it recognizes as unsustainable.

The benefit corporation is an example of an organizational structure that grew out of the concept of enhanced CSR. An explanation of CSR contributes to an understanding of how these principles can guide business decisions and action towards social good, which is ultimately tied to harm reduction and the participation of business in development.

What Are Benefit Corporations?

Benefit corporations are for-profit entities that hold in equal part public benefit and profit within their mandate. Companies incorporate as benefit corporations and are then legally required to consider the interests of stakeholders in addition to shareholders when making decisions. While according to tax codes and corporate law statutes, benefit corporations are for-profit entities, the legislation surrounding them is focused on social benefit alongside profit (Gibson Dunn n. d.). In the United States, legislation for benefit corporations has been passed in 34 states, with the six remaining states currently in the process of reviewing this possibility. (Benefit Corporations n. d.) In December 2015, Italy became the first (and to date the only) country outside of the US to pass legislation allowing companies to register as benefit corporations (B Lab 2015). There are currently efforts to move legislation forward in Australia, Argentina, Chile, Colombia, and Canada (Benefit Corporations n. d.).

The concept of the benefit corporation is relatively new. Maryland was the first state to pass benefit corporation legislation in October of 2010 (Benefit Corporations n. d.). The benefit corporation structure was developed by B Lab, which is a non-profit that certifies B Corps, a similar idea to benefit corporations but without the same legal structure. It is important to understand that there are structural differences between benefit corporations and B Corps. In both types of organizations, decisions must take into account the impacts on all stakeholders and the company must provide a report to the public that outlines their overall social and environmental impact (Benefit Corporations n. d.). B Corps and benefit corporations mainly differ in that while being a certified B Corp is a voluntary commitment to work towards certain standards of transparency, accountability, and performance, benefit corporations are legally bound to these goals once incorporated. While it is also voluntary for a company to incorporate as a benefit corporation, this structure holds accountability, transparency, and purpose as legal attributes equal to creating value for shareholders (Storper 2015). The benefit corporation was created to provide corporations with legal protection for their non-traditional mandates (Storper 2015). They were also created as a means to address the weaknesses of business in terms of public impact (André 2012, 135).

Benefit Corporations as Development Agents

A discussion of the structure of the benefit corporation will assist in analyzing what role it plays in development. While the legislation does vary from state to state, the benefit corporation has some key characteristics that remain largely uniform. Rae André (2012) describes benefit corporations as gray sector organizations (GSO) in her article “Assessing the Accountability of the Benefit Corporation.” GSOs have characteristics of both public and private organizations but can be fully categorized as neither. These organizations are mission-driven and have multiple bottom lines. For benefit corporations, the bottom lines are financial, social, workplace, and environmental (Skulnik et al. 2013). This is a key characteristic that sets them apart from standard for-profit corporations.

The most important structural feature of the benefit corporation is that they are legally protected via the stakeholder provision to “compromise private profit-making in order to pursue a more publicly-oriented CSR mission,” which means they can take actions in the interest of stakeholders other than shareholders (André 2012, 134). This legal protection is required to prevent lawsuits from shareholders if decisions are made that may not be profit oriented but rather focus on social or environmental concerns. André (2012, 133) outlines the “Ben & Jerry dilemma” as an example of the lack of flexibility in this area for regular corporations, or those not incorporated as benefit corporations. In this case, the Ben & Jerry’s ice cream company was forced to sell their company to the highest bidder rather than one they felt reflected their values. They did this due to a fear of backlash from shareholders if they had made a more socially responsible but less financially sensible decision.

Benefit corporations are privately owned and, for the most part, privately funded. However, in some cases, benefit corporations have been able to receive public and charitable funding. There is also speculation that benefit corporations will likely have access to more public funding in the future and this equips benefit corporations with a level of power not afforded to standard corporations which are
limited to private funding (André 2012, 137). Also, since benefit corporations are corporate-centric GSOs rather than government-centric, they do not have the limitations that come with being subject to political control (André 2012, 138). Government-centric GSOs are subject to political control by the government’s role in determining what funding and bursaries the GSO will or will not receive. Governments can also abolish government-centric GSOs at any time whereas they can only abolish corporate-centric GSOs when they break the law (André 2012, 138).

Another key feature of the benefit corporation structure is that they must assess their CSR performance based on third-party standards. While the benefit corporation itself chooses the third-party, the corporation is required to disclose the rationale for this selection. It is important to consider that there is not a specific third-party standard that must be adopted and there is no requirement for the benefit corporation to be audited (Benefit Corporations n. d.). However, the standard must be transparent, and information about criteria and relative weight of criteria must be publicly available. Also, it is significant that the requirements for the third-party standard vary by state. Some states do not require the standard to be comprehensive and others that do not require transparency (Hiller 2013, 292). The benefit corporation does not need to become certified by the third-party but instead is required to assess its own performance based on the standards provided (Ebrahim, Battilana, and Mair 2014, 86). However, there are no enforcement mechanisms in place to ensure that the objectives of profit and public good are balanced and the self-assessment process is not followed up by evaluation from government. The only standing of the legal framework here is that it requires the charter of the company to specify public good oriented goals (Ebrahim, Battilana, and Mair 2014, 86). This element of the benefit corporation shows a weakness in terms of accountability. While this lack of enforcement may not be an issue in corporations genuinely devoted to CSR and making genuine efforts to be transparent, those corporations who are less committed to this cause may not face consequences for the detrimental effects their activities may have on human and environmental security in the spaces in which they operate.

The accountability of an organization plays an essential role in its effectiveness and appropriateness for participating in development. Therefore, it is important to consider the elements of a benefit corporation’s structure that are aimed at accountability. All benefit corporations are legally required to release benefit reports annually. This is a key component of the benefit corporation structure that aids in accountability to the public, consumers, investors, and other stakeholders (Nass 2014, 882). With the exception of Delaware, these reports must be released publicly and, as stated above, must use a third party standard to assess their performance (Benefit Corporations n. d.). These reports inform the public about the impact of the corporation and its progress on its mandates and inform directors so they can better guide decisions. Reports include descriptions of both general and specific progress towards public benefit goals, outline circumstances that prevented public benefit goals from being fulfilled, and provide a thorough explanation and reasoning in the case that the third-party standard used was changed. The report must also include contact information for directors, the names of major shareholders, as well as “the compensation paid…to each director in their capacity as a director” (Benefit Corporations n. d.). These measures are all directed at encouraging accountability of the organization to ensure stakeholders are fully informed.

Benefit corporations face two key accountability challenges due to their structure. These are accountability in balancing objectives and accountability to multiple stakeholders (Ebrahim, Battilana, and Mair 2014, 83). Having multiple objectives presents a challenge for organizations. The benefit corporation has tried to remedy this through the reporting requirement. However, this is insufficient because mission drift is monitored only by executives and not controlled by the legal framework. Having multiple principle stakeholders is also an accountability challenge for benefit corporations (Ebrahim, Battilana, and Mair 2014, 90). While this problem is not limited to the benefit corporation structure, it is certainly enhanced by it. At the core of this problem is determining how to align potentially conflicting or differentiated interests. This often requires making decisions about whose interests to prioritize. The benefit corporation attempts to address this through their stakeholder provision that allows directors to take the interests of non-shareholding stakeholders into account when making decisions. The stakeholder provision affords directors the opportunity to prioritize the interests of non-shareholding stakeholders but does not absolutely require directors to prioritize in this way. So, while it creates opportunities for businesses that choose to focus on social priorities, it does not necessarily incentivize focusing on non-shareholder stakeholder interests over shareholder’s interests. While this is undoubtedly a step towards heightened accountability, non-shareholding stakeholders do not have the power to reprimand the board when their interests have been neglected (Ebrahim, Battilana, and Mair 2014, 92). This indicates an opportunity for directors who are determined to actively incorporate social and environmental benefit into their business activities but does little to encourage directors without these goals to reconsider their priorities.

All the above characteristics comprise the benefit corporation’s organizational structure. Understanding this framework assists in understanding how benefit corporations can play a role in international development and help to identify what form that role will take. While CSR requires that companies extend their actions beyond their
primary purpose of economic gain, the benefit corporation takes this a step further by incorporating social good into the entity’s core purpose (Black and O’Brien 2016, 152). The idea, then, is that, rather than social responsibility being perceived as exceptional, it is perceived as required and expected to the same degree as profits.

Corporation Structure

In some cases, development efforts by companies have come out of a desire to improve conditions for its operations. Some argue that if a company is acting out of self-interest, it cannot be a genuine actor in international development. However, as Blowfield and Dolan (2014, 24) argue, without some degree of self-interest (namely profit-seeking), companies would be unable to survive and would, therefore, prove useless to development both in terms of proactive efforts as well as in their traditional role of wealth creation. Thus far, the role of business has been as a development tool rather than a development agent. A basic definition of development agents is “organizations that consciously seek to deliver outcomes that contribute to international development goals” (Blowfield and Dolan 2014, 22). Blowfield and Dolan (2014) outline three criteria for businesses to function as development agents.

Outlining the three characteristics of a development agent can help in understanding what role benefit corporations might play in development. The first requires that businesses put their assets towards development efforts (Blowfield and Dolan 2014, 25). The second criterion for being a development agent is that, when decisions are made, the well-being of affected poor and marginalized populations must be prioritized. This may well mean decisions must be made that will put a financial burden on the corporation; therefore, this requirement can be the element that reveals a corporation’s true colours in times of tough decisions (Blowfield and Dolan 2014, 26). Third, the organization must “consciously and accountably strive to address poverty and marginalization.” This includes ensuring that the local poor benefit from any development in the area and that the company remains accountable for the outcome of its development-oriented actions (Blowfield and Dolan 2014, 26). Based on these three criteria, the benefit corporation certainly has the potential to function as a development agent. Measuring the benefit corporation against these three requirements will assist in understanding what role it might play in development.

The mission of a benefit corporation, as well as the nature of the supply chain, plays a defining role in whether it can be classified as a development agent. If the corporation is Canadian, and its social mandate focuses on the well-being of labourers in Canada, it may be contributing to the development of the public, but it could not be classified as a development agent because of the definitional requirement of an international component. In contrast, if the corporation’s mandate was to ensure the well-being of labourers in an overseas factory, the corporation could potentially be defined as a development agent, depending on adherence to other requirements. This factor applies to all three criteria of development agents.

In terms of asset contribution, benefit corporations do not necessarily meet this criterion based on their structure alone. While it is highly likely that any company that incorporates as a benefit corporation will contribute at least some of its assets to its initiatives oriented towards the public good, one that was not adhering to its mandate might avoid this. It is probable, however, that such an action would result in a negative response from shareholders with an interest in the corporation’s social mission.

Regarding the second criterion for being a development agent, benefit corporations once again do not necessarily meet the requirements. Benefit corporations hold return to shareholders and CSR as equal priorities. While this is certainly a step beyond the mandate of traditional corporations, it does not necessarily meet the requirement of development agents. The nature of the benefit corporation is such that directors are given the legal protection to pursue social goals. Therefore, adherence to this requirement would vary depending on the director’s commitment to the CSR aspect of the corporation’s mandate. It is possible that some benefit corporations might meet this requirement; however, as stated above, this criterion is often the one where corporations will reveal whether their social purpose or search for profit takes precedence. Adherence to these criteria also depends on the third-party standard used by the corporation. This could dictate the corporation’s actions in certain cases, which could result in priority being given to the social cause.

Adherence to the final requirement takes somewhat the same form as the first two although, by definition, the benefit corporation was created for this very purpose. The final criterion calls for active pursuit of development goals. This also depends heavily on the third-party standard chosen, and decisions made by directors. Because of the case-by-case nature of this requirement, it cannot be concluded that benefit corporations necessarily fulfill it.

By comparing the structure of the benefit corporation to the criteria for a development agent, it becomes clear that, based on structure alone, benefit corporations cannot be classified as development agents. However, this structure could empower businesses genuinely committed to development to play the role of development agents by giving them the legal protection to make unconventional business decisions. Although a benefit corporation’s structure alone does not classify it as a development agent, this does not mean that this business model does not hold value in terms of working towards social
and environmental justice and international development. This model can reduce the harmful impacts of corporations as well as lend strength to other organizations doing more direct development work.

Case Study: Patagonia

A case study will be used to further explore the possibility of a benefit corporation acting as a development agent. The focus of this case study is Patagonia (n.db.), an alpine sports gear company that was established in 1973 and which incorporated as a benefit corporation in California in January 2012. The information for this case study is taken from their 2015 Annual Benefit Corporation Report, which is the report legally required by the benefit corporation framework. Patagonia has 28 factories throughout Southeast Asia, the Middle East, Central and South America, India, and the United States. They have 15 textile mills in China, Japan, Taiwan, the United States, and Europe (Patagonia n.da.). While Patagonia’s (2015, 5) primary mission is centered around environmental responsibility and the climate crisis, they also specifically site non-obsolescence, fair labor practices (including health care benefits and tuition assistance for student employees), and supply chain responsibility (including both environmental and social consideration of manufacturing and resource extraction) as company values. This mandate suggests a strong commitment to sustainability and the minimization of harm in some key areas where the company impacts the well-being of the physical and social environment. The report also outlines three separate areas of focus concerning supply chain responsibility. The first of these is Fair Trade USA, which strives for fair compensation for workers, particularly in apparel manufacturing. The second initiative is the establishment of migrant worker employment standards, which were established by the company in response to the discovery of the unfair treatment of workers in Taiwan in the form of human trafficking. This standard emphasizes that work conditions must be safe, fair, and legal, and is applied to the entire supply chain (Patagonia 2015, 15). The third initiative is the factory code of conduct, which is applied internationally and also includes a hotline for employee use. Another noteworthy initiative is the company’s “Punta de Lobos por Siempre” campaign, which is aimed at protecting Chilean coastal culture (Patagonia 2015, 7).

Patagonia’s main focus areas aside from their environmental initiatives (which are extensive) are workers, customers, community, and governance. In terms of the well-being of workers, the company focuses on offering childcare, health and retirement benefits, maternity and paternity leave, and tuition assistance. They acknowledge the decentralized nature of much of their employee community and, in response to this, implemented the Global Code of Employee Conduct (GCEC). The GCEC is a framework that attempts to ensure that workplace practices internationally are “in line with local laws, respectful of regional customs and standards, and always transparent” (Patagonia 2015, 14). In addition to this, they have established a confidential hotline to provide employees with an avenue to report any workplace issues of concern (Patagonia 2015, 13-14).

Patagonia uses the third-party assessment standard from B Lab, and they are also a certified B Corp. In Patagonia’s (2015, 18) benefit report, they claim that their score has been independently audited by B Lab which suggests the scores are reliable and accurate. The company receives a score in their five categories of focus, as well as an overall score. Out of a possible 200 points, Patagonia scored 116. The median overall score is 80, which is the score required to be certified as a B Corp. In the environment category, Patagonia scored 35 out of a possible 105 points. While this seems low, it is important to note that the median score in this category is 9. In the worker well-being category, the company’s score was 26 out of a possible 40 with the median being 22. In the community category, they scored 31 out of 45 possible points, slightly under the average score of 32. Finally, in the governance category, they scored a full 17 out of the possible 17 points, while the average score is 10 (Patagonia 2015, 18). Data is not available for the B Corp score in the customer category. It is important to note that in the governance category, being registered as a benefit corporation earns the company additional points, resulting in its full score by B Lab’s standards (Patagonia 2015, 18). While this data demonstrates that Patagonia generally scores above average according to B Lab standards, it is clear there is still much room for improvement.

While this report provides an extensive list of the corporation’s efforts to work for public benefit throughout their practices, its lack of specificity and limited nature is unbalanced due to a lack of information about any tangible impacts these initiatives have had on communities internationally. This limits the ability to analyze the real impact of Patagonia as a benefit corporation and leaves the discussion of its role in international development inconclusive. However, it is clear from the report that the company does contribute its assets to internationally-based public good initiatives, particularly surrounding their supply chain. Also, it is clear that the company is making a conscious effort to work towards its goals of environmental, workplace, customer, and community well-being, as well as good governance. It is not clear, however, whether the company makes the poor a priority in their decision making. Lack of evidence for this final criterion of development agents suggests that Patagonia cannot be classified as a development agent, although it is clear that the company takes CSR seriously.
Potential Benefits and Risks

The benefit corporation framework presents opportunities for both positive impacts and risks regarding the role of business in international development. One of the most evident risks from the analysis presented above is the possibility that the benefit corporation framework could be used by companies to give their business a socially responsible image without them taking any substantial measures to improve their CSR (Gibson Dunn n. d.). No element of the framework prevents the BOP proposition from occurring, for example. However, through the reporting requirement, it would be more difficult for businesses to sell targeted harmful products to the poor when facing a transparency requirement. The benefit corporation is better suited for those directors who are less concerned with selling directly to the poor and more concerned with how they are affecting communities with their supply chain conduct. This is a risk mainly due to the accountability challenges discussed earlier as well as the lack of enforcement mechanisms built into the benefit corporation framework. Accountability and enforcement challenges are also major gaps in the existing framework (Hiller 2013, 297). Hiller (2013, 294) recommends benefit enforcement proceedings (BEP) be a required aspect of the legal framework of the benefit corporation to ensure legal action can be taken if public benefit duties are not fulfilled. At this time, some states have incorporated a BEP into the structure; however, this is not uniform throughout. This lack of uniformity is a problematic characteristic of benefit corporation legislation. While locally differentiated regulations should continue to be valued in recognition of diversity, there should be limitations on this so that important provisions, such as the requirement for transparency, cannot be omitted from legislation.

This idea of consistency also extends to the third-party standard and the reporting requirements of the benefit corporation. While the concept of using external measurements and disclosing information to the public is undoubtedly an appealing quality of the benefit corporation, there is currently too much flexibility to ensure that benefit corporations stay dedicated to a mission of public good. As noted earlier, there are differences among states regarding what is required of the third-party standard. This is a major flaw in the benefit corporation structure as it implies the presence of loopholes and could lead to a lack of confidence from shareholders who may be uncertain about the reliability of reports (Hiller 2013, 292). Policy should strive for consistency, barring differences of locality, to ensure the benefit corporation structure is serving the purpose of the organization. This could also ensure that corporations are being assessed on their impact on international communities. In terms of improved reporting requirements, Patagonia's 2015 public benefit report can be used as an example. Although the report outlines multiple initiatives being pursued by the company, the information presented was minimal. Merely providing a report on social impact is not enough for a company to be perceived as socially responsible or as pursuing a developmental mandate (Greenwood 2007, 317). Rather, reports must be detailed, transparent, and should contain all elements recommended by the benefit corporation framework. Weak reporting can also be a form of self-sabotage to benefit corporations as potential investors may be deterred by a perception of high risk and low accountability (Gibson Dunn n. d.).

Also, the voluntary nature of this framework suggests that the benefit corporation framework can do nothing to reduce the harm of companies that are unconcerned with their impact on communities internationally and, therefore, uninterested in reincorporating. However, there are reasons not based on morals why businesses do not want to be negatively associated with poverty. One of these reasons is that, although often businesses will exploit weak governance systems to their benefit, a lack of the rule of law and strong government policy can negatively impact a company in its operations. Examples of this include poorly educated consumers and workforce, inadequate infrastructure, and widespread disease (Blowfield and Dolan 2014, 27). All of these challenges will mitigate the effectiveness of benefit corporations in their international development efforts.

Despite this list of challenges, benefit corporations do show potential to have some advantages over traditional corporations. While it is noted above that companies might use this framework to brand themselves as socially responsible, the branding component of this framework can also have positive implications for the business and its development work. Frederick Alexander (2015) argues that "aligning governance structure with mission is a powerful tool for accelerating performance." He states that this is a strong signal to stakeholders and investors that the company is committed to its mission. Although it is noted above that this organizational structure can deter some investors, it also has the potential to do the opposite and appeal to investors who might not hold financial return as their sole purpose for investing (Gibson Dunn n. d.). This is noteworthy because it outlines why governance structures are so crucial to the effectiveness of an organization to work towards its goals. From this, it is clear that benefit corporations are a promising new organizational structure, but one that requires some reform to ensure both that the format itself is not exploited by those looking for positive imagery, and to ensure that the corporations can work towards their social mission in a truly impactful and socially responsible way.
The benefit corporation provides a valuable avenue for those businesses with an interest in enhancing their CSR practices and participating in development in a meaningful way. There is potential for this model to entice those directors who have previously been discouraged to make socially beneficial business decisions in the past. As has been outlined in this paper, for directors genuinely committed to their dual mission, benefit corporations have strong potential to play a significant role in international development through enhanced CSR.

Finally, even if businesses are not the most effective entities for development, the transformation of capitalist structures into new forms that incorporate social and environmental consciousness and accountability can be an effective method for shifting attitudes and harm reduction. There is value in incorporating social and environmental responsibility into systems that do not traditionally value these things. By marrying these efforts to the financial benefits of business, those who are not willing to commit fully to development and social good can reduce their harm and promote good without abandoning desires for profits. Although this method does not abandon neo-liberal capitalist structures of the global market, it is one strategy for making change within the existing system and shows potential as an initial step toward the transformation of business and ultimately the capitalist, profit-driven system of today.

Conclusion

While the current model of the benefit corporation is not without flaws, there is potential for a reformed structure to enable businesses to become agents of development and participate proactively and positively in international development. This requires changes to the model that will ensure enhanced accountability, adherence to mission, and positive, ongoing, efforts for the public good. This emerging concept of the benefit corporation opens up many new avenues for research. Further research into how to promote enhanced accountability, incentivize businesses, deliver effective enforcement, and improve reporting will contribute to the development of a reformed framework for benefit corporations. There is also little research regarding the actual effects on the public good of benefit corporations, and on possibilities for its growing relationship with international development. Whether or not business can ultimately be the most effective agent of international development, efforts to incorporate social mandates, impact assessment, and accountability into business will not be wasted. These efforts are crucial to managing risks and reducing the harm of existing practices. Just because something does not seek to dismantle current systems entirely does not mean it does not hold value in terms of development and social and environmental responsibility. Benefit corporations provide a tangible way of incorporating positive action into non-traditional actors' operations. The benefit corporation framework provides a new avenue for genuine development work to be pursued and, although reform is needed, represents a renewed position in development for business.
References List


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