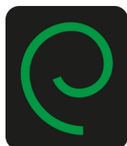

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Charles J. Coate Mark C. Mitschow

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BENEFIT CORPORATIONS AS A SOCIALLY RESPONSIBLE BUSINESS MODEL: THE ROLE OF ACCOUNTING

Charles J. Coate and Mark C. Mitschow

ABSTRACT

Benefit corporations are a form of incorporation that require management to pursue some specified social goal or benefit, even if this goal requires sacrificing profit maximization. Hence, benefit corporations are considered a new business model that explicitly incorporates a socially responsible component in the corporate mission. This alternative business model may offer investors and customers a more ethical corporate form due to the social responsibility motive.

Several states currently allow companies to incorporate as benefit corporations, and more states are considering such legislation. To be successful, benefit corporations will require either investment from the capital markets and/or favorable treatment from government entities. Thus, the potential success of benefit corporations is likely to rely on the general interest of private investors and citizens as well as the ability to communicate operational success.

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As with the evolution of the for-profit corporate model and of free market economic systems, accounting may be critical to the success of benefit corporations. Accounting systems will need to be able to measure and report both profits and social benefits to the market. Socially conscious investors must have reliable information if they are to choose the benefit corporation model over other alternatives (e.g., maximizing their return from for-profit investments and making individual donations). Citizens must also have reliable information to bring pressure on governments to support this model if it proves viable.

It is still too early to determine benefit corporations' long-term impact on society or even whether this business model will succeed in the marketplace. Our purpose is to offer a basic framework for evaluating benefit corporations relative to current substitutes and to consider characteristics that would contribute to benefit corporation success. Within this context, we consider accounting systems' role in assessing the social utility of this new business model.

Keywords: Accounting; benefit corporation; citizens; government entities; socially conscious investor

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Traditionally, both society and the economy have been served by three sectors: for-profit companies, not-for-profit entities, and government. Collectively, these sectors are charged with the ethical duty of serving all members of society. Traditional for-profit companies generally operate in free market systems allowing for liberty of exchange and the rule of law. Within this economic system, these firms create profit or shareholder wealth. In contrast, not-for-profit entities exist to meet a socially desirable objective or provide a socially desirable benefit. Governmental entities theoretically exist to serve the common good and protect the rule of law. In terms of social responsibility, government goals are linked to social benefits and transfer payments between citizens. Thus, society and the economy are served by all three sectors.

Recently, benefit corporations have emerged as a fourth (or gray) sector corporate form. This corporate form is partly in response to calls for expanded Corporate Social Responsibility. The benefit corporations provide a predetermined social benefit while also producing a profit for investors, thereby allowing socially conscious investors or customers a participation option in firms maximizing profit subject to a constraint

defined by a specific social benefit. Management is tasked with meeting both the profit and the social welfare goals. Thus, benefit corporations may be considered a business with a well-defined social responsibility objective. Benefit corporations could appeal to investors whose investment goals involve both profit and some type of charitable or benevolent activity. In addition, benefit corporations provide an alternative means to achieve a set of social goals currently undertaken by government entities.

Legislation permitting benefit corporations has already been passed in at least 27 states and is currently being debated in 14 others (Blanchard, 2014). At least two questions surround this new business model. First, will benefit corporations provide more effective and efficient societal benefits than current corporate and benevolence models? Second, will benefit corporations attract sufficient public or private investment to become viable in the marketplace?

Accounting is likely to play a substantial role in answering both of these questions. To the extent that accounting supports decisions impacting and measuring a firm's productivity, accounting will play a critical role in questions and answers related to operational effectiveness. For example, is the for-profit arm of a benefit corporation achieving a sufficient profit (after deducting its subsidy to the social good arm) to satisfy investors? To the extent that accounting data are relied upon by financial markets for capital formation, financing, and customer decisions, accounting will also play a role in questions and answers involving investors and customers. Yet, while benefit corporations are drawing interest in the legal and business ethics literature, they have received little attention in the accounting literature.

Understanding accounting's role in analyzing benefit corporations may rely on a number of more detailed questions derived from the two questions above. These questions include What is the current status of benefit corporations? Will benefit corporations attract enough socially conscious investors to become a meaningful business model? What type of socially conscious investor will be attracted to benefit corporations? What financial information will investors in benefit corporations require and how will accountants provide this information? How will accountants report benefit corporations' social benefits in a manner that is meaningful to potential investors and customers?

Currently, there are not enough data to answer most questions related to benefit corporations. It is unlikely that benefit corporations will supplant for-profit corporations as the major force in economy, but benefit corporations may fill a niche for a society searching for more efficient and socially responsible business models. The purpose of our paper is to offer a basic

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framework for evaluating benefit corporations relative to current substitutes and to consider characteristics that would contribute to the success of benefit corporations. Within this context, we then consider the role of accounting and the specific contributions required of accounting if benefit corporations are to provide a positive contribution to society.

The paper is organized as follows. The next section provides background information regarding for-profit firms, not-for-profit firms, government entities, and benefit corporations. This section also considers the ethical roles of these organizations in society. The section "Benevolence Models: Traditional, Government, and Benefit Corporation" discusses the role of accounting and reporting in each of these sectors with particular attention paid to the performance of benefit corporation social good arms. The section "The Benefit Corporation Investor Profile" explores the benevolence model's and the benefit corporations' respective investor profiles. Following this, the next section examines the role of financial reporting vis-à-vis the potential success of benefit corporations. After this, the next section outlines the implications for accounting practitioners and suggests potential research lines. The last section summarizes and concludes the paper.

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FOR-PROFIT, NOT-FOR-PROFIT, GOVERNMENT, AND BENEFIT CORPORATIONS

For-profit corporations exist to provide a structure whereby companies can accumulate capital and provide returns to investors or shareholders while meeting the general societal needs of both employees and consumers. When examining benefit corporations, we must therefore consider both the private (or closely held) and public corporate forms. Operation of a private (or closely held) corporation for the benefit of the shareholders (owners) is relatively direct since the utility of an owner (or smaller group of owners) can be known to management (often the owner). This tight managerial control allows direction of the company resources to meet the owners' utility functions. Those owners are free to pursue any balance of profit and social objectives.

In contrast, it is impractical for the public corporate form to balance the mixed objectives of multiple owners. The ethic guiding for-profit corporations is generally considered to be consistent with Friedman's (1970) article regarding the ethical mandate of profit or wealth maximization. According

to Friedman, only individuals have social responsibilities, not businesses as a whole. Furthermore, business executives' responsibilities are limited:

> That responsibility is to conduct the business in accordance with their desires, which generally will be to make as much money as possible while conforming to the basic rules of the society, both those embodied in law and those embodied in ethical custom. Friedman (1970)

Stieber and Primeaux (1991) and Primeaux and Stieber (1994) also place an emphasis on profit maximization by for-profit companies. However, they contrast the traditional understanding of profit maximization (i.e., marginal cost equals marginal revenue) with a behavioral approach where profit maximization is a process that efficiently meets the needs of both individuals and society.

Hence, public corporations serve society by efficiently producing products and services and facilitating exchanges among members of society. In doing this, they provide products to consumers, employment to workers, taxes to governments, and a return (i.e., dividends and capital gains) to shareholders. Of the three sectors, private and public for-profit companies offer the largest social benefits to society. In basic economic theory, this sector is regulated by market forces or some form of corporate Darwinism. That is, more efficient firms attract more customers, generate greater profit, and enjoy lower costs of debt and capital.

Not-for-profit corporations (NFPs) are established exclusively to serve a specific social objective (often charitable) and as such do not generate profits or have shareholders. NFPs include a variety of organizations with a range of objectives and differing levels of reliance on customer and donation mixes. For example, organizations in health care or higher education generate significant revenues from services, while other organizations such as Habitat for Humanity or Feeding America are more purely philanthropic. The NFP sector supplements the for-profit sector in service to society in that the services they provide are normally more directly related to a particular social mission. As with the for-profit sector, NFPs do face some market discipline. These organizations must compete for donors and customers regarding the quality of services they provide, the perceived value of their social goods, and their efficiency at providing these social goods. However, unlike for-profit corporations, NFPs do not have a single measure of efficiency (i.e., profit).

Government entities exist to serve the citizenry or the common good, and as such they should represent the entire populace. This is achieved by creating, following, and enforcing the rule of law. In this role, governments provide services

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to promote the overall well-being of society on multiple dimensions. In the market-based (for-profit) economy, government is tasked with enforcement of the rule of law including protection of property rights. Government also serves the commons by providing certain goods and services deemed more efficiently provided on a community level (e.g., maintaining roads) and provide a set of social benefits to specific segments of the citizenry through redistribution or allocation of wealth. In effect, these redistribution mechanisms are also charitable endeavors and compliment the for-profit sector by providing support to segments of society not adequately served (in either the short run or the long run) by market forces. Governments are often criticized because of their inability to adjust in a dynamic environment, their general lack of market discipline to ensure efficient use of resources, and/or their vulnerability to undue political pressures. Governments are disciplined by elections rather than market forces.

Andre (2012) refers to benefit corporations as "gray sector" or "fourth sector" organizations. Cummings (2012) describes benefit corporations as "… like a standard corporation in almost all respects but one: it is legally obligated to promote the public interest."

Benefit corporations thus rely on for-profit structures but include elements of the social benefits models of the NFP and government models. Shiller (2013) offers benefit corporations as an example of capitalistic financial innovation. In this context, benefit corporations offer a service to society if they can either fill a niche in the three-sector model or replace an element of the three-sector model.

Relying on the laws of Maryland, Vermont, and Pennsylvania, Andre (2012) presents benefit corporations as a corporate-centric fourth sector organization. In addition to generating a profit, a benefit corporation must also provide a general or specific public benefit. The general mission of a benefit corporation must include a positive and material impact on society as measured by an independent standard. Typical social benefits include preserving the environment, improving human health, promoting the arts, or promoting economic opportunity (especially in job creation beyond the normal course of business or in underserved market segments). Like for-profit businesses, benefit corporations will also be subject to external audits. However, these audits will presumably cover both the profit making entity and the social benefit component.

A Note Regarding B-Corps

While the terms "benefit corporations" and "B-corps" are sometimes used interchangeably, there are significant differences between the two entities.

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B-corp is a certification awarded by B-Lab to companies that meet certain standards for socially beneficial activities (Reiser, 2011). B-Lab also monitors B-corps for compliance with their stated social objectives. B-Lab certification as a B-corps is available to both for-profit and benefit corporations. In either case, B-corps certification provides investors with some assurance that a significant portion of company resources are going to the company's claimed social good. While much of the auditing of benefit corporations is currently done by B-Lab, a particular social compliance auditor is not specified by law. Hence, B-Lab is an option for a benefit corporation to meet the legal requirement of audit or independent measure of standard for the social benefit portion of the benefit corporation.

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ACCOUNTING ROLES IN THE THREE-SECTOR MODEL

In each of the three sectors, accounting's role is to provide a true and fair picture of the entity's performance and its financial position. The framework for such reporting relies upon authoritative pronouncements to guide the accountant; Statement on Financial Accounting Concepts #8 (FASB, 2010) in the for-profit sector, Statement on Financial Accounting Concepts #4 (FASB, 1980) in the NFP sector, and GASB 1 (1984) in the government sector. The characterization of benefit corporations as an example of capitalistic financial innovation (Shiller, 2013) suggests that these entities are most similar to for-profit entities. Therefore, we will focus primarily on accounting in the for-profit sector and briefly discuss the other sectors.

It is generally recognized that accounting has played a significant role in the evolution of the modern industrialized economy, although the specifics and relative contributions of accounting are debated (see Most, 1972; Sombart, 1913, 1919; Yancey, 1949). These works identify two critical elements of accounting systems as the ability to maintain records to support planning and control and the ability to compute or measure profits. These accounting system elements have value to both internal and external users. Early merchants were primarily interested in the internal functions of accounting. However, with the evolution of equity and the financial requirements of capital markets, the need to accurately communicate financial performance to external users has become increasingly significant. Consequently, this is the major focus of Statement of Financial Accounting Concepts Statement #8. Benefit corporations require capital investment, which implies that (as with for-profit entities) accounting will measure and

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report the performance of benefit corporations to external sources, which will in turn subject benefit corporations to market discipline.

In the for-profit sector, accounting directly supports the ethical frameworks for both profit/wealth maximization (Friedman, 1970) and economic efficiency (Primeaux & Stieber, 1994; Stieber & Primeaux, 1991). Profit measurement requires accountants to translate economic activity into a common medium (i.e., dollars or other currency). The variety of business activities is condensed into a consistent measure of profit, which can be compared across periods and firms. Since profit is measured on a single dimension, it is also a proxy for operational or economic efficiency. Less efficient operations relative to benchmarks produce less profit and indicate lower economic viability. Hence, accounting profits provide investors a measure consistent with both the Friedman profit maximization and the Primeaux and Stieber economic efficiency metrics.

As economies grew and wealth spread to more people, the value of accounting information expanded to supporting the efficient operations of financial markets. Thus, accounting principles are guided by the need to support efficient capital markets (FASB, 2010). In addition, the main economic value of audit is reduced informational risk to investors. While financial information will also serve the needs of other financial statement users (e.g., company management, regulators), the primary user group consists of "existing and potential investors, lenders, and other creditors of a reporting entity" (FASB, 2010).

The primary purpose of accounting for NFPs is to disclose information to "members, contributors, taxpayers, and others who provide resources to nonbusiness organizations" that the resources they provide are used for their intended purpose (FASB, 1980). As with for-profit corporations, however, providing reasonable assurance against financial fraud is also important when accounting for NFPs. William Aramony led the United Way from 1970 to 1992 and built the organization into "an empire of charitable giving" (Shapiro, 2011). During that time, he also granted himself enormous compensation and used the charity's resources to support a lavish lifestyle and numerous extramarital affairs. He was eventually convicted of 23 charges related to financial fraud and was sentenced to seven years in federal prison (Shapiro, 2011).

Government entities can only spend money in compliance with legislatively approved budgets and ensure that current year revenues are sufficient to meet current year expenditures (Wilson, Kattelus, & Reck, 2005). Therefore, the government accountant's main objective is accountability, ensuring that monies are spent appropriately and in accordance with

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legislative budgets. In contrast with the for-profit sector, where transactions are recorded to determine a profit as a measure of output, the NFP and government sectors spend funds to produce services. Hence, financial statements provide no measure of output and merely report on how resources were applied.

Most NFPs and government entities lack a profit motive. The absence of this singular performance measure has generally caused these entities to be less efficient than for-profit businesses. By combining a for-profit entity with a designated social benefit, a benefit corporation may mitigate some of this inefficiency and provide more effective social services to society.

BENEVOLENCE MODELS: TRADITIONAL, GOVERNMENT, AND BENEFIT CORPORATION

In this section, we consider the traditional, government, and benefit corporation benevolence models. Here the term benevolence implies wealth transfers or redistributions either to individuals (e.g., food pantries or food stamp programs in the government context) or to society in terms of improving the commons (e.g., the arts or parks). Society supports wealth transfers in both charitable and government forms. Benefit corporations allow the social benefits to be incorporated into a corporate-centric organization. Thus, investors who value both benefit corporations' social and profit-making objectives will be attracted to this model.

We discuss the traditional benevolence model, the government model, and the benefit corporation model in very fundamental terms. All these models support social and charitable activity. Unlike the other models, however, the benefit corporation model attracts socially conscious investors by meeting both the financial and charitable elements of their utility functions. This suggests that the benefit corporations might find a market niche by attracting a specific type of socially conscious investor.

The Traditional NFP Benevolence Model

The traditional benevolence model can be characterized by a two-stage process where an investor first accumulates wealth and then has the option to donate or transfer a share of this wealth to specific social benefits or

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charities. Investments in the first stage focus solely on profit or wealth maximization and are consistent with the Friedman profit maximization model. This strategy may be pursued without regard to the investment's social desirability and even include investments in socially questionable industries (e.g., alcohol, tobacco, pornography). An investor's second stage would involve selecting a set of charitable or social benefit activities and donating some fraction of his or her wealth to social causes the investor values. Since the investor maximizes wealth in the first stage, greater wealth distributions via charitable donations are possible in the second stage. Investor maximizes utility based on the marginal reduction in wealth and marginal benefits from charitable donations (Shiller, 2013). This traditional benevolence model has existed for many decades, is well known to investors, and has generated enormous sums for charitable activities of all kinds (Nichols, 2012).

Investors' donations to specific NFPs are based on the social benefits supported by those organizations as well as the perceived efficiency of the organization. An investor may reduce or limit donations to insure the social benefits valued by the investor are supported; the investor may also periodically redirect donations. In addition, investors can often restrict donations to an explicit purpose (e.g., a scholarship fund for students from a specific geographical area or entering a specific major). Sustainable, long-term support can be provided by donations in the form of endowments. Thus, the market also disciplines NFP organizations as they compete for a limited quantity of charitable contributions.

While major donors can often have significant influence on NFPs, they generally do not exert managerial control. Therefore, donors must rely on other means to determine how or even whether the charitable donation is used as intended (Gilbert, 2011). In addition to restrictions on donations, investors may rely on audited financial reports of the NFPs to provide donors some assurance that their contributions were used as intended. While this information is valuable to investors, assessing NFPs' economic efficiency often remains difficult. Investors must therefore base much of their charitable giving to specific NFPs on the nature of the social benefit and perceived social value added by their potential contribution.

In summary, the traditional benevolence model is a two-stage process where the investor/donor first earns a profit on investments and then donates a portion to NFPs to support specific social benefits. Investors have limited managerial control over NFPs but may reduce or limit donations across periods based on the NFP's perceived efficiency or effectiveness.

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The Traditional Government Benevolence Model

The government benevolence model is a multistage process resulting in transfer payments between segments of the citizenry based on income, wealth, or consumption. These transfers may be to specific groups or citizens or in support of the commons. The distribution process itself involves elections, legislation, taxation, and spending budgets, and may be considered a collective compromise among the citizenry. The choice of funding (taxation) and of social (or charitable) benefit allocation in terms of amount and destination is removed from the individual citizens and transferred to an elected body and a bureaucratic mechanism. While individual citizens avoid search costs to select charitable beneficiaries, the compromise selections of government are likely not viewed as optimal by citizens. Amounts given in the traditional benevolence model often supplement government transfers and are thus generally tax exempt.

In summary, the government benevolence model is a political process that imposes a tax on income, wealth, or consumption and transfers wealth to achieve social objectives. These tax amounts are partially consumed by a bureaucracy (which is often believed to be inefficient) with the residual distributed to a subset of the citizenry as common goods or as social (or charitable) benefits based on legislation motivated by some perceived need.

The Benefit Corporation Model

The benefit corporation model is corporate-centric rather than government-centric. Hence, this model is generally considered to offer the efficiencies of the for-profit model and the services of the benevolence or government models. Benefit corporation legislation specifically requires management to sacrifice profit maximization in order to achieve a social goal or benefit (Halsey, Tomkowicz, & Halsey, 2013). As a corporate-centric organization, benefit corporations rely on capital markets for funding. Investors in benefit corporations will derive utility from the operations of benefit corporations through a combination of profits (generating capital gains and dividends) as well as personal satisfaction from the social benefits. Investors in benefit corporations are explicitly choosing to invest their resources in firms whose social benefits based on corporate charters are congruent with the social goals of investors (Akalp, 2011).

Investments in benefit corporations are equity investments and provide the investor rights to vote, to share in profits, to influence the social benefit

arm, and as a residual claimant. This implies that these investments are long term in that the investments are used to provide a stream of profit and social benefits for multiple future periods. Social benefits may be viewed as an operating expense reducing reported profits; consequently, these expenses will also not be available to provide governments with tax revenues. While this is similar to an investor's charitable contributions, the expense is incurred prior to corporate taxes. However, these expenses are also seen as contributing to social benefits that are attractive to investors. Total profits earned from benefit corporations will have three objectives: provide a wealth return to shareholders, provide a social benefit defined in the corporation's charter, and provide funding to sustain both the business and social operations of the corporation. Benefit corporations will thus not be as dependent on a steady stream of donations as are NFPs.

Benefit corporations will need to compete for the socially conscious investors' dollars both with each other and with NFPs (charities) funded through the traditional benevolence model. Benefit corporations may also in some ways replace traditional government benevolence models associated with transfer payments. To compete for these dollars, benefit corporations will need to pursue social missions that investors and citizens value. Attracting equity and debt financing in addition to customers will also require benefit corporations to demonstrate an ability to produce a combination of profit and effective production of social goods. If these goals can be done synergistically, then benefit corporations offer added social returns to investors and citizens.

However, benefit corporations may prove attractive not only because they provide a profit and a social benefit but also because investors may see value in organizations functioning in a market-driven environment. Given that the for-profit sector is the main driver of economic growth, training in this economic environment may offer long-term skill sets to those beneficiaries who are traditionally served in NFP or government environments. These environments are often seen as less efficient and less able to enhance long-term human capital. Benefit corporations will wish to measure efficiency of performance; such measures will help society determine whether inefficient transfer payment systems (some NFPs and government programs) should be supplanted.

In summary, benefit corporations is a single-stage benevolence model where an income producing investment also offers a social good. This investment provides long run returns, offers some level of management participation, and allows investors the ability to exit the investment. To the extent that benefit corporations are start-ups, they also offer an

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entrepreneurial opportunity. Benefit corporations will thus be attractive to investors if they can efficiently earn profits, provide the stated social benefits, and prove sustainable.

THE BENEFIT CORPORATION INVESTOR PROFILE

For the benefit corporation model to succeed in the marketplace, it will have to fill a niche not currently occupied by the traditional and government benevolence models. What type of investor will be attracted to the benefit corporation model, and how do they differ from investors who remain with the traditional benevolence model? Differences between the benefit corporation model and the traditional benevolence model suggest that there could be several significant differences in the utility functions of the respective investors.

First, a subset of investors would likely prefer the benefit corporation model to the government model. These investors presumably derive utility from redistributions of current tax allocations. Hence, the tax implications at both the investor level and the substitution of government transfer payments will motivate these investors. Investors would be provided choice of the social benefit projects; investors would select those projects that provided them the most consumption value to their charitable investment. As corporate-centric entities, benefit corporations may be more efficient than NFP or government organizations. This efficiency would also include the ability to adjust charitable strategies in a business environment rather than a political one. Finally, investors are likely to consider economic opportunity programs in a for-profit business context with investor control to be preferable to government program.

Relative to the NFP models, investments in benefit corporations are business investments in equity with long-term implications; that is, investors are shareholders. When compared to a donation, the investment would have less current period impact but a more sustainable long-term impact. When compared to an endowment, the investor retains ownership and some level of managerial control but may defer positive tax consequences. Managerial control and ownership reduce the cost of monitoring the initial investment. Also, benefit corporation investors might derive personal utility from knowing that they have helped establish a more financially sustainable charitable element of an organization. Benefit corporation investors might also derive personal utility from establishing a synergy between the

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for-profit and charitable aspects of the company (i.e., "doing well by doing good"). Additionally, investors may gain utility from retaining the ability to abandon a social benefit by selling ownership shares and recovering their investment or investing in a different social benefits.

Major shareholders have the ability to influence company direction (subject to the social goods dimension of the benefit corporation) via voting and board membership (Resor, 2012). Thus, it appears that major investors in benefit corporations could derive more utility from personally controlling the entity's social benefit programs than do major investors using the traditional benevolence model. We speculate that when compared to traditional benevolence model donors, benefit corporation investors are likely to have relatively larger resource pools and value the opportunity for managerial control over the company's social benefit programs. These investors may also have the resources to singly accomplish a social benefit.

To the extent that benefit corporations can identify social benefits that are synergistic with a business activity, the benefit corporation model is superior to the traditional benevolence model. Investors in benefit corporations realize social benefits and eliminate the need for (and transactions costs of) a two-stage process. Benefit corporations also offer investors a greater return on combined investment in profits and social benefits. To demonstrate this synergy, benefit corporations will need to provide verifiable financial output measures of the social benefits and efficiency.

Both benefit corporation investors and traditional benevolence model donors attempt to maximize their personal utility. However, we suggest that they have significantly different utility functions, resources, and strategies. These differences may allow the benefit corporation model to find a viable market niche.

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FINANCIAL REPORTING AND ACCOUNTANTS' ROLES

For-profit companies have the mission to operate efficiently and maximize profit. This mission requires accounting systems to focus on profit measurement. Benefit corporations, in contrast, have an explicit responsibility to meet the needs of multiple stakeholders, trading some profit to achieve their social objective (Resor, 2012). Investors will wish to monitor management's purported claims regarding the efficiency of benefit corporations' social benefits, a task challenging to current NFP (Glassman & Spahn, 2012). While benefit corporation investors will expect a balance between

the competing demands of profit and social claimants, it is likely these investors will demand efficient use of all corporate resources.

Financial reports will have to simultaneously demonstrate that the company has generated sufficient revenue, earned an acceptable profit, and that sufficient resources have been allocated to and effectively used in the corporation's social objectives. As Cummings (2012) advocates, transparency will be critical to ensure that those resources have been used effectively so that investors realize the corporation's reduced profit was not due to some management failure.

The above discussion implies that the preferred accounting treatment may be a hybrid of for-profit and NFP systems where for-profit accounting has a dominate role. While it is logical that financial report formats will match for-profit reporting, the financial reports should also report and disclose the social objectives achieved by the benefit corporation and the financial resources dedicated to the social objective of the benefit corporation. The nature of these reports should be determined by the informational needs of "existing and potential investors, lenders, and other creditors" (FASB, 2010, p. 1).

As the corporate accountant's financial reporting role expands, so too will the independent auditor's role in the benefit corporation. External auditors will remain responsible for attesting that the benefit corporation's financial statements conform to GAAP and that it has effective internal controls (Kieso, Weygandt, & Warfield, 2012). As they currently do with NFPs, the independent auditors will also need to attest that resources have been applied to the benefit corporation's social mission (FASB, 1980). In addition, external auditors may need to attest to the quantified aforementioned social objectives achieved.

Benefit corporations have both profit-making and social functions; investors will expect lower profits as a result. Since managers will be responsible for both functions, there may be an increased opportunity for fraud. That is, unethical managers could misdirect resources from either earnings or social benefits and attribute the shortfall to profits or social missions. Developing control systems to prevent misdirection from either goal and to provide reasonable assurance against fraud will pose additional responsibilities on corporate accountants and external auditors, respectively.

The external auditor's increased responsibilities to a wider set of stakeholders may in turn increase the auditor's liability exposure (Halsey et al., 2013). For example, beneficiaries of the benefit corporation's social mission may conceivably be able to sue the external auditor if resources applied to the social mission are used inefficiently. This increased exposure could in turn increase the external auditor's insurance costs.

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Major benefit corporation investors may also have responsibilities beyond those experienced by socially conscious investors who use the traditional benevolence model. As with traditional for-profit entities, major investors will have significant influence over benefit corporations' business activities. Major investors will also have control over benefit corporations' social activities, something that generally does not exist in the traditional benevolence model. In contrast to the benevolence model, major investors in benefit corporations may assume a more direct management role. This direct role may also serve as an information source to smaller investors who may rely on the major investor's "brand name" (e.g., Ben and Jerry's).

IMPLICATIONS AND RESEARCH TOPICS

The potential success of the benefit corporation model raises important questions for the accounting profession and policymakers. The accounting profession will face many new opportunities and responsibilities if the benefit corporation proves to be successful. This will in turn provide academic accountants and related policymakers with important new research topics. We focus on three possibilities.

First, what new ethical arguments will arise for and against the benefit corporation model's efficacy vis-à-vis the traditional benevolence and government models? The social value of, or ethical support for, the benefit corporation model relies on an assumption that this model can provide social good in a more effective manner than the benevolence or government models of the current three-sector system. Identifying the specific shortcoming of the three-sector model and articulating why benefit corporations can meet these shortcomings will therefore become important. Benefit corporations will operate in a free market system; hence, the perspectives of persons with resources and persons in need of resources must be considered. These arguments are likely to be based in some theory of social responsibility.

Second, optimal tax and public policy incentive systems needs to be researched. One current assumption is that financial resources directed to a social mission will reduce corporate income, which means these resources are provided by pretax corporate and personal dollars. If other incentive mechanisms are to be applied, they will need to be understood in the context of both a tax environment with the objective of maximizing societal benefit and an investment environment with the objective of maximizing the investors' societal and personal objectives.

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Third, benefit corporations are unique in that they balance for-profit and social benefit motives. What are the appropriate accounting treatment, reporting, and disclosure practices for benefit corporations? What information will financial statement users require to assess benefit corporation performance? In a for-profit corporation, sales measure the market value of products and service this sector provides to society. Net income measures not only the return to the owners but also the efficiency of the organization but measuring the expenses generating (matched to) the sales. In a benefit corporation, societal contributions include both profitable sales and the related social good. In current NFP accounting, the focus is on assignment of expenditures to functions. Measuring the value of social contribution may provide the greatest value to investors and the greatest challenge to accountants. Future research will therefore need to address the "best practices" for quantifying the effectiveness of the benefit corporation's social expenditures, with a specific focus on the needs of potential investors.

SUMMARY AND CONCLUSIONS

Legislation permitting benefit corporations has been passed in at least 27 states, and over a dozen other states are considering similar legislation (Blanchard, 2014). Unlike for-profit corporations, benefit corporations are established to both make a profit and the serve a particular social good. Benefit corporations also explicitly consider the demands of multiple stakeholders and are permitted to sacrifice profit maximization in order to provide the corporation's stated social benefits. We hypothesize that vis-à-vis traditional benevolence model investors, benefit corporation model investors will gain more utility from the organization's social mission, from managerial control over the organization's social mission, from "doing well by doing good," and relatively less utility from pure profit maximization.

Success of the benefit corporation model will likely depend on the ability of these corporations to attract investment dollars in the capital markets. As in the for-profit sector, relevant and faithfully represented information will be characteristic of financial reporting (FASB, 2010). These reports will need to address benefit corporations' new responsibilities to major investors, managers, corporate accountants, and independent auditors. Management will have to explicitly balance the competing demands of multiple stakeholders, ensuring that sufficient resources are devoted to benefit corporations' social goals while still generating an acceptable profit to investors. This will require managers to demonstrate that funds devoted to

social objectives are used effectively and corporate accountants to appropriately measure various social objectives. In addition to performing the usual for-profit audit, independent auditors will also be required to attest to the quantified benefits of resources diverted to social goals.

The benefit corporation model and benefit corporations are in their infancy, so consequently this manuscript has many limitations. First, benefit corporations are not permitted in all states, and most states that have passed such legislation did so only very recently, so we do not know if the benefit corporation model will have long-term success. Furthermore, since so far only a few (mostly small) companies have chosen to adopt the model, current hypotheses regarding benefit corporations are by their nature speculative. Potentially, this will change over time as the number of benefit corporations increases. Second and potentially more important is that benefit corporations may also serve as a more efficient means of providing many current government services. This avenue will also need to be explored.

Benefit corporations potentially represent a new model of capitalist-based social development. Before the model can achieve market success significant questions and challenges will need to be resolved by investors; many of these questions and challenges will revolve around providing the appropriate information to investors. As it was with the for-profit sector, the accounting profession will likely play a critical role in the development of benefit corporations. The purpose of this manuscript is to provide some preliminary, albeit necessarily speculative, insight as to the nature of these potential questions and challenges.

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