

## Summary of Working Paper: *The Environmental, Worker and Overall Performance of Employee-Owned B Corps.*

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**Goal of Project:** To research the intersection of environmental sustainability and employee ownership.

**Initial Hypothesis:** We expected to find that employee-owned companies engage in above-average environmental business practices when the company also has a clear social mission.

**Underlying Premises:** Our research was premised on six groundbreaking postulates put forth by other scholars.

**Premise One: True sustainability requires operating within planetary boundaries, not simply doing less harm.** Kate Raworth<sup>1</sup>, Carina Millstone<sup>2</sup> and others argue that true sustainability requires that businesses, collectively and individually, operate within planetary boundaries.

**Premise Two: Inequality and environmental sustainability are inextricably linked.** James Boyce<sup>3</sup>, from the Political Economy Research Institute at the University of Massachusetts at Amherst, and Sue Holmberg<sup>4</sup>, from the Roosevelt Institute, have analyzed the macro-economic links between climate and inequality. Boyce and Holmberg cite data showing a clear and positive relationship between economic and political inequality and environmental harm, at the nation, state and local levels.

**Premise Three: The business case for sustainability, while important, will not get us to true sustainability.** A 2010 Report from Trucost<sup>5</sup> estimated that 3000 corporations were responsible for a third of all global environmental damage. Millstone, citing research by MIT<sup>6</sup>, argues that the business case is real only one-third of the time.

**Premise Four: Ownership design is a critical yet largely unexplored new frontier in sustainability thinking.** Most people do not understand the relationship between enterprise design and social and environmental outcomes. As Marjorie Kelly put it in *Owning Our Future*<sup>7</sup>,

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<sup>1</sup> Raworth, Kate, *Donut Economics*, Chelsea Green, 2017

<sup>2</sup> Millstone, Carina, *Frugal Value: Designing Business for a crowded Planet*, Routledge, 2017

<sup>3</sup> Boyce, James K, "How Economic Inequality Harms the Environment," *Scientific American*, Nov. 2018

<sup>4</sup> Holmberg, Sue, "Boiling Points; The Inextricable Links between Inequality and Climate Change," Roosevelt Institute, May 2017

<sup>5</sup> "Putting a Price on Global Environmental Damage," *TruCost News*, Oct. 2010.

<sup>6</sup> Kiron, David "Sustainability's Next Frontier," *The MIT Sloan Management Review*, Dec. 16, 2013.

<sup>7</sup> Kelly, Marjorie, *Owning Our Future*, Berrett-Koehler Publishers, 2012, p. 8

“Ownership is the gravitational field that holds our economy in its orbit, locking us all into behaviors that lead to financial excess and ecological overshoot.”

**Premise Five: Today's dominant ownership design cannot create sustainable and equitable enterprises.** Today's dominant company ownership model – shareholder ownership of publicly traded companies – is profoundly at odds with true sustainability. This model is short-term in its orientation, requires constant growth, measures success by profit and share price, and externalizes environmental and social costs.

**Premise Six: Redesigning corporate ownership and governance are necessary but not sufficient steps toward transitioning to a just and sustainable economy.** We do not believe that enterprise design alone can create the large-scale transformations needed to create a just and sustainable economy. The scale of systemic transformation required is massive and will require coordinated efforts on multiple fronts. However, business enterprises are essential elements in all economies, and redesigning enterprise is necessary for a sustainable future

## Our hypothesis

The question we asked was, “When does employee ownership of enterprises correlate with above average environmental business practices?” We did not perceive that employee ownership would automatically lead to superior environmental business practices; there are many employee-owned firms with average or below average environmental practices. Our hypothesis was that employee ownership and superior environmental performance mutually co-arise when there is a third element present- a clear and binding social mission.

## Our Research

In order to test our hypothesis, we created two samples of twenty firms each that were similar in both industry and size. The first set consisted of mission-driven employee-owned firms, the second set were mission-driven firms that were not employee-owned.

We used B Corporations as a proxy for mission-driven firms. We chose to focus on the universe of 1,184 US B Corps because B Corps voluntarily survey a wide array of environmental, worker, community, consumer, and governance practices using analytic tools created by B Lab. B Lab collects this data and condenses it into publicly available ‘scores.’ These scores provided us with the metrics we needed to compare mission-driven employee-owned with non-employee-owned firms.

In order to test our hypothesis, we compared the ‘Worker’, ‘Environment’ and ‘Overall’ B scores of twenty employee-owned with the same scores from twenty non-employee-owned firms.

## Developing a Sample

The twenty companies in our sample were chosen from a total universe of 45 US employee-owned B Corps we were able to identify by cross-referencing lists of US B Corps (from B Lab),

ESOPs (from the National Center for Employee Ownership), and Co-ops (from the US Federation of Worker Cooperatives). We balanced our sample across industries to the best of our ability. So, for example, we included only two of the seven employee-owned solar companies that are B Corps. In the end we were able to include businesses from eleven different industry groups, ranging in size from 4,400 employees to 10 employees. This core group of twenty employee-owned B Corps was then matched for size and industry with twenty non-employee-owned B corps.

### Coding the Sample

We collected the 'Environment', 'Worker', and 'Overall' B scores of the twenty employee-owned B corps with those of the twenty non-employee-owned B corps of similar sizes and in similar industries. We hypothesized that the 'Environment' scores of the twenty employee-owned B Corps would not be significantly different from the 'Environment' scores of the similar set of non-employee-owned B. We further hypothesized that the 'Worker' scores of the twenty employee-owned B Corps would be significantly higher than the 'Worker' scores of the similar set of non-employee-owned B Corps. Finally, we expected that the 'Overall' B scores of the employee-owned B Corps would be greater than the 'Overall' B scores of non-employee-owned B Corps.

Additionally, we compared both of the B Corps samples with a group of self-identified non-B Corps companies that have participated in the B Lab survey, as a proxy for 'ordinary' businesses. We hypothesized that both of our sample groups would score higher on all measures than 'ordinary' businesses.

### Findings

The results of our research support our hypothesis that employee-owned B Corps have 'Environment' scores that are roughly equal to a similar set of non-employee-owned B Corps, and have significantly higher 'Worker' and 'Overall' B scores than the sample of similar on-employee-owned B Corps.

The average 'Environment' score for the sample of employee-owned B Corps was 23.06, compared to the average 'Environment' score of 22.45 for the non-employee-owned sample. This difference, of less than 1 point or 2.7%, is statistically insignificant. This supports Fifty by Fifty's hypothesis that there is no trade-off between employee ownership and environmental performance.

The average 'Worker' score of the twenty employee-owned B Corps was 43.27, in comparison with the average 'Worker' score of the matched non-employee-owned B Corps of 21.93. The employee-owned companies average score was 21.34 points, or 97.3%, higher. While we hypothesized that the employee-owned companies would outperform on this measure, we were surprised to see that their scores were almost double the scores of their non-employee-owned counterparts. It's important to note that the maximum number of points that a company can receive for 'employee ownership' in the 'Worker category' is 9, so a significant part of this outperformance must be attributable to other workplace benefits, like living wages,

family benefits, training and development, or flex time, that are apparently correlated with employee ownership.

The average 'Overall' 'B score of the twenty employee-owned B Corps in our sample was 112.875. The average 'Overall' B score of the twenty non-employee-owned B Corps was 93.355. The employee-owned businesses average score was 19.52 points, or 20.9%, higher than their non-employee-owned counterparts. This supports our hypothesis that the combination of employee ownership and social mission results in better overall enterprise performance without sacrificing environmental performance.

	<i><b>Average B Score</b></i>	<i><b>Average Worker Score</b></i>	<i><b>Average Environment Score</b></i>
<i>20 Employee-Owned B Corps</i>	<i>112.87</i>	<i>43.27</i>	<i>23.06</i>
<i>20 Non-Employee-Owned B Corps</i>	<i>93.35</i>	<i>21.93</i>	<i>22.45</i>
<i>Benchmark (US Ordinary Business)</i>	<i>55</i>	<i>18</i>	<i>7</i>

As hypothesized, both of the sets of B corps (employee-owned and non-employee-owned) scored above the benchmark for ordinary businesses, although it is important to note that the 'Worker' scores of non-employee owned B Corps were only 2.93 points, or 10% higher than the 'Worker' scores of ordinary businesses. This suggests that many 'B' Corps are achieving some measure of environmental improvement without significantly increasing the well-being of their employees.

## **Conclusion**

Our initial research, based on a small sample, suggests that employee-owned B Corps are just as environmentally sustainable as non-employee-owned B Corps, and that their workplace benefits are better than non-employee-owned B Corps. Businesses that combine B Corps certification and employee-ownership have better combined social and environmental outcomes than both ordinary businesses and B Corps that are not employee-owned.