# Shareholder Activism and Political Mobilization: How Activists Can Utilize the Structures of Modern Shareholder Corporations to Achieve Change

by

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This research is a literature review focusing on the history of corporations, efforts to alter corporations, and a contemporary example of corporations that have altered their mission. The main lenses of analysis for alteration focus on shareholder power, grassroots activists, non-governmental organizations (NGOs), and government regulation. This work aims to include a discussion of multiple forms of organizing. In the latter half of this research, I turn to an analysis of B-Corps in hopes of demonstrating that reimagining the purpose of corporations to treat profit as means rather than an end benefits revenue and productivity growth. I find that shareholders are imbued with a great deal of power and thus have a significant voice in determining next steps for corporate procedure. Moreover, grassroots activists are able to capitalize on public pressure to force executives to adopt changes they otherwise would ignore. NGOs represent an interesting intersection between grassroots activism and governmental regulation—they can function as an intermediary that supports governmental legitimacy or can work to hold antagonistic governments accountable for failures to follow commitments. Governmental regulation represents a promising, yet frustrating approach to limiting emissions. Governments have more power to enact change and overcome freeriding than activist groups or NGOs, but they suffer from gridlock and political quagmires that prevent enactment of popularly supported initiatives. Finally, through reviewing studies of B-Corps successes in outpacing non-B-Corp businesses, I demonstrate that the corporation is a reformable entity capable of serving more than its shareholders.

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Descriptive Statistics and *t* Values of Average Productivity Growth Rate of All Public Firms.

| | 2007 | 2008 | 2009 | 2010 | 2011 | 2007-2011 |
|---|---|---|---|---|---|---|
| Mean productivity growth rate[a] | | | | | | |
| B-Corps | 0.18 (0.10) | −0.001 (0.35) | 0.22 (1.51) | 0.09 (0.30) | 0.16 (0.69) | 0.15 (0.89) |
| Public firms | 0.10 (0.38) | 0.10 (0.44) | 0.03 (0.38) | 0.05 (0.40) | 0.03 (0.34) | 0.05 (0.39) |
| Number of observations | | | | | | |
| B-Corps | 3 | 4 | 30 | 40 | 32 | 102 |
| Public firms | 719 | 696 | 657 | 633 | 537 | 3,242 |
| *t* value | 1.41 | −0.55 | 0.72 | 0.76 | 1.06 | 1.12 |

a. Standard deviations are given in parentheses.
**p* < .10. ***p* < .05. ****p* < .01.

Source: Chen, B-Corps—A Growing Form of Social Enterprise: Tracing Their Progress and Assessing Their Performance, Journal of Leadership & Organizational Studies, 2015, Vol. 22(1) 102–114, p. 107

# Introduction

Antonio Guterres, the UN Secretary-General, has issued a warning that, “the world is far off-track on limiting global temperature rise to 1.5 degrees above pre-industrial levels” ([UN], 2022). Following this report, blame was to be assessed to some actor. Was it governments failing to implement legislation that should be held culpable? Was it corporations who continue to pollute with little to no sign of changing their practices? Blame, in some circles was to be assessed to corporations. Not only have a small number of firms emitted a majority of greenhouse gas pollution, according to the Carbon Disclosure Project (CDP), over 91% of all industrial emissions in 2015 can be traced to a small number of “carbon majors”, but they have in recent years, opposed changes that would limit their pollution (Ekwurzel et al., 2017; Grasso & Vladimirova, 2020).

This research begins with an analysis of the history of corporations in an attempt to discover how corporations’ missions have shifted from serving communities beyond their shareholders (stakeholder theory) to their current mission that serves solely their shareholders (Block, 2018). Stakeholder theory is based on the idea that corporations ought to include considerations for more than just share price maximization in their operational procedures. This is when “corporate managers pursued [efforts] to give their organizations a soul” (Davis, 2009, p. 69). Corporations have been chosen as the entity for change due to their sizeable contributions to climate change and the reality that any change in regulation or new standards will be passed through corporate leadership in its implementation (Block, 2018; Davis, 2009). In their research, Ekwurzel et al., noted that carbon majors can be directly tied to 42-50% of the rise in global surface temperature since 1981 (Ekwurzel et al., 2017). Considering the vast impact that this small number of companies has had on the environment and the health of the globe, one thing is certain: change needs to happen to avert the worst of climate change. These carbon majors are indicative of a broader shift in corporate pathology that disincentivizes stakeholder theory and pushes corporations towards prioritizing share price returns.

This work interrogates the question are corporations reformable entities? There exists much research that analyzes efforts to change corporate behavior for myriad reasons. Whether it is shareholders advocating for a divesture of an underperforming acquisition or a group of activists urging companies to reconsider investments in fossil fuels, there are plenty of examples of actors urging corporations to change. This paper analyzes four different actors that have tried to change corporate missions and concludes with an analysis of contemporary corporations that have adopted a more responsive attitude toward these calls for reform, B-Corps.

B-Corps are chosen as a contemporary example because these firms require less de-institutionalization compared to nexus firms when pressured to adopt more sustainable measures; this becomes especially apparent when considering that B-Corps' institutional pressures involve pressure *to* incorporate perspectives beyond just profit (Coupounas & Love, 2020; Davis, 2009; Den Hond & De Bakker, 2007; Reid & Toffel, 2009). B-Corps represent an entity that reconciles two different claims to legitimacy, both greener and more socially minded business practices *and* profit creation. Thus, B-Corps are highlighted as a model that corporations can be held to and pushed towards in hopes of altering problematic elements of the status quo.

Some scholars contend that public mobilization and pressure is the best way to initiate change. Scholars argue that, though the government's regulatory powers are strong, the most effective change is realized through public pressure. Activism, however, is some actor or group of actors advocating for a change in operation, whether business or governmental (Den Hond & De Bakker, 2007; Gove, 1961). Within the scope of activism, some are grassroots movements or loosely affiliated groups based primarily on shared belief or geography, while others are groups of shareholders either motivated through share price maximization or social cause. Moreover, how public pressure is applied and felt within corporations can vary greatly depending on tactics applied and the environments they exist in (Den Hond & De Bakker, 2007; King, 2008).

Others argue that central governments are the only entities with enough power to shift behavior in a way that prevents further climate degradation (Johnstone & Newell, 2018). This body of research argues that though social movements and popular mobilization are powerful tools, the only method that can yield necessary change is through governmental regulation. Here, researchers draw upon the regulatory power that states have and the legal constraints that governments can place on firms, or polluters at large, to constrain their behavior.

Scholars of contemporary corporate behavior highlight that the orthodox view of managers' behavior argues that "managers will not [nor] should not alter policies unless change favors shareholders" (King, 2008, p. 395). This assertion rests on an organizational sociological analysis of influences on managers in investor-driven capitalism. However, through an analysis of corporate behavior this notion that managers should not, nor will not adapt is shown to be a falsehood. Moreover, to analyze how corporations have been imbued with such power, this work will utilize Gerald Davis' analysis of the history of the corporation in the United States. This is because the United States is where most of publicly owned carbon majors is located.[1] Throughout this work organizational sociology and public political pressure analysis will be drawn on to analyze the motivations behind organizational changes and likelihoods of adoption.

Prior research on firms' responses to public pressure has shown that managers will divert from shareholder interests if there is sufficient pressure, contradicting preconceived notions about contemporary investor-driven capitalism (King, 2008; Wright & Ferris, 1997). However, in the case of public pressure surrounding climate change or other social issues, managers have rarely yielded to public pressure (Reid & Toffel, 2009). The origins for how and why this anomaly occurs will be analyzed throughout this work. Moreover, this research will implement institutional theory to analyze how a practice gains legitimacy and entrenches itself in the status quo (DiMaggio & Powell, 1983).

[1] In the CDP report detailing emissions, the largest singular emitter was Chinese coal. Chinese coal contributed 14.3% of global emissions of greenhouse gasses (GHG) from 1988-2015 (Griffin, 2017).

# Chapter 1: A History of the Corporation in the United States

Corporations in the United States have organized their missions around differing definitions of success throughout their history. Fred Block and Gerald Davis recognizes four eras of corporate structures; these eras are distinct because of the juris prudential attitudes taken around corporate structure and because of the differing definitions of success that each era recognizes (Block, 2018; Davis, 2009). Though these eras differ in their legal and economic situations, they are by no means mutually exclusive. Instead, these eras are intended to highlight the most successful form of organization at the time. Over time, corporations have evolved into entities with power far surpassing the creation of goods and services. Corporations today are able to sway legislative agendas and facilitate the development of cities (Barley, 2010; Shepardson & Lanhee Lee, 2022). This influence, and its utilization, differs greatly from the function of early corporations in the United States.

Beginning in the 1830s until around 1900 corporations are best classified as public corporations. These entities were heavily constrained in their operational processes compared to how corporations today operate. Charters were given to businesses with very specific purposes. These entities functioned as a vessel for private capital to invest in public goods, things like the construction of roads, canals, and other projects. They functioned much like government bonds: an initial investment in a project would accrue some interest and at the completion of the project or time frame specified would be paid in full to its investor.

Public corporations were able to succeed through the introduction of limited liability. Limited liability is a concept that exists today and powers corporations to venture into areas where investor skepticism may otherwise prevent initiatives from taking hold. Limited liability allowed companies to default on their loans without risking investors' assets beyond what they initially invested. During this time, corporations were subject to high levels of regulation for their operational scope. Courts ruled against corporations on the basis of *Ultra Vires* or overstep of their charter. This kept corporations extremely narrow in their scope of operation.

However, this constraint was not permanent. Following a judicial shift in the application of ultra vires, corporations began to engage in mergers and effectively abandoned public theory. This era of the corporation can be defined as private financialized corporations and existed from roughly the 1880s to 1930. These entities were characterized by groups like the House of Morgan, Carnegie Steel, and Standard Oil. Through the introduction of investment banks and wealthy investors' influence, combined with an increasingly lax legal environment, these corporations effectively shed their previous definition as public corps. This was intensified specifically through the Great Merger Wave of 1898-1904 (O'Brien, 2009).

This wave of mergers and large monopolies controlling markets began to wane through the Progressive Era of the 1910s with the implementation of stricter antitrust laws. The implementation of stricter anti-trust laws finalized the transition out of the private financialized corporation in the 1920s and 30s with the Great Depression, the Wagner Act, and the SEC Act. The environment businesses operated in no longer allowed these monopolies to dominate entire markets. This shift in governmental regulation gave rise to the era of the stakeholder corporation (Block, 2018; Davis, 2009). As anti-trust legislation was introduced, businesses adapted to this new environment and began to engage in mergers across industries rather than solidifying

their holds in one.

The United States after WWII was the world's leading producer and consumer; its economy grew rapidly, and so did the businesses chartered there. Interestingly, businesses were not chartered by the federal government, instead they were chartered in individual states. This created incentives for states to create business friendly environments. The result was a beggar thy neighbor scenario when it comes to state taxes, regulatory oversight, and other metrics. As states competed for tax revenue, this beggar thy neighbor scenario loosened regulation for corporations around the nation. Moreover, this lack of federal oversight created immense problems for the prospect of nation-wide regulation. Federal regulators could not implement restrictions on charters the way that they had been when the corporation was a public corporation.

The United States also opened up its borders to free trade in a way that hadn't been seen since before the Smoot-Hawley tariff of 1930 (Brawley, 2005). Considering their surroundings, corporations during this era refocused from becoming a monopoly to achieving massive growth and economies of scale. Export surpluses were common as U.S. manufacturing asserted its dominance over the fractured post WWII world. This creation of wealth and prosperity in the United States contributed to pushes for greater average welfare within corporations. Stakeholder corporations modeled themselves on their surroundings. During the stakeholder corporation's era things like worker compensation and community involvement were a larger part of corporate considerations; the public began to conceptualize of corporations as having souls. Thus, they expected these entities to behave as though they had souls.

> By the 1950 s the soulful corporation came to dominance, and its reign coincided with rising wages and increased demands to enact social policies around equal employment opportunity, safe products, and environmental protection. (Davis, 2009, p. 63)

The goals present within stakeholder corporations are similar to a model advocated for today by scholars like Edward Freeman in his stakeholder theory (Freeman &

Velamuri). Freeman proposes corporations ought to integrate considerations for communities and individuals outside of their shareholders in their decision-making process.

Corporations today are best defined as nexuses of contracts. They are legal entities dedicated to producing the greatest possible return for their shareholders possible. These entities are nexuses of contracts because they have no combining force beyond share price maximization. As Gerald Davis notes,

> A business firm is simply a nexus of contracts among free individuals—a dense spot in a web of connections among suppliers of labor, capital, materials, and buyers of their outputs. To describe a corporation as an actor that encompasses its "members," or to imagine that it has boundaries analogous to national borders, is to reify something that is simply a useful fiction. (p. 60)

Where stakeholder corporations focused on maximizing growth across industries and within markets, nexus corporations are designed for maximizing share price. (King, 2008; D. G. Smith, 1998). These corporations are considered successful when they return large profits to investors. Nexus corporations often ship work overseas, buy back stock, and reduce workers' wages. These practices highlight a culture of business that has little prioritization for sustainability or long-term considerations (Davis, 2009).

When considering the sway that shareholders have over corporate behavior, it makes sense to consider pushing reform through shareholder activists. Shareholders can propose and vote on resolutions highlighting social issues like climate change. This has been a feature of U.S. corporations since 1942 when the SEC introduced a rule allowing shareholders to bring resolutions to a vote before the company ([SEC], 2020). However, shareholders rarely take up social issues and when they do, they are met with confrontation from executives within firms (Den Hond & De Bakker, 2007; King, 2008; Milton, 1970; Reid & Toffel, 2009).

The shift towards Nexus style behavior patterns can be traced to the stagflation of the 1970s. Stagflation happened when the growth of corporations, their previous definition of success under the stakeholder model, stagnated and inflation soared. In this macroeconomic climate, corporations were subject to hostile takeovers and greater pressure from their shareholders to specialize and reorient goals around share price. These calls to refocus and reorganize were tolerated because high level executives had their compensation restructured from traditional salaries to compensation tied more directly to share price. Thus, these executives heeded shareholder concerns with much greater attention (Davis, 2009).

These pressures forced many companies to shed divisions that were deemed ‘low efficiency’ by investors. This practice continues today. When institutional investors purchase controlling shares of companies, they often ask “managers to divest certain divisions or businesses as a means of enhancing the firm's strategic focus, thereby increasing shareholder value” (S. Chen & Feldman, 2018, p. 2727). By forcing managers to shave off portions of their companies, investors demonstrate the immense power they have over modern corporate operational patterns. Moreover, in their research, Chen & Feldman find that the market can reward investor driven divesture. Stock returns are greater for investor motivated divesture than manager driven.

Not only have shareholder-forced divestures continued past the 1970s, but continuing research has cemented the correlation between adoption of shareholder desires and share price increases. Research has shown that when firms adopt the measures that a group of shareholder activists desire, they are positively rewarded. Importantly, the inverse holds true that if a business fails to adopt measures sought by shareholders, their share price will fall (M. P. Smith, 1996). Thus, it becomes important to consider how and why shareholders would be compelled to act. Some argue that shareholders will act when persuaded through public pressure, others through threat of new governmental regulation (Den Hond & De Bakker, 2007; Haas, Kohane, & Levy, 1993).

Though the transition to nexus-style behavior seems permanent, this work aims to analyze the possibility of reforming corporations to include stakeholder theory once again, and how different avenues of applying pressure can contribute to this shift. This work will conclude with an analysis of contemporary businesses, B-Corps, that have shown a return to stakeholder theory is both possible and beneficial.

## Chapter 2: Efforts to Alter Corporate Behavior

Corporations' missions and their definitions of success have shifted throughout their existence in the United States. They mission has shifted from growth across industries and consideration for how their operations affect the communities around them, to funneling profits to shareholders. Fundamentally, this work exists to analyze whether the corporation is a reformable entity. This section will analyze the history of efforts to alter corporations from four different perspectives. Through analyzing different methods of change, this work seeks to analyze how movements attempt to accomplish change and whether or not they are successful. Grassroots activists and NGOs, while important, often fail to accomplish their goals because they fail to hold legitimacy in the eyes of their constituencies and the corporations they hope to change.

Den Hond and de Bakker note in their work the importance of delegitimizing elements of the status quo in order to accomplish change. However, if one is not viewed as a legitimate challenge by the corporation or institution one hopes to change, one cannot make change (Den Hond & De Bakker, 2007). Governmental regulation and shareholder activism fails to yield changes that align with desires for a reimagined status quo because they experience institutional forces to conform to the status quo. These actors not only have to overcome institutional forces within their organization, but they then have to reconcile a new image for corporate behavior with the status quo (Den Hond & De Bakker, 2007; Reid & Toffel, 2009; Rietig, 2016).

This section also analyzes how pressure from NGOs, governmental regulatory threats, and grassroots activists can affect the corporate decision-making process. There is a link between losses to social capital experienced by managers and an adaptation of corporate behavior. Moreover, the market has been shown to reward corporations who take note of public pressure and implement popular initiatives through corporate social responsibility (CSR) initiatives.

Throughout the history of the corporation, individuals have sought means to alter corporate behavior. Since the promulgation of SEC Rule 14a-8 in 1942, shareholders have had an opportunity to submit proposals for consideration within a corporation. Resolutions function as a possibility to highlight places a corporation's practices don't align with shareholders' vision. Whether activists push for higher profit margins, green business practices, or call on corporations to prioritize worker's welfare, corporations have been forced to interact with calls to alter their behavior since SEC Rule 14a-8 was passed. The passage of this rule provides a more institutional method of raising awareness for a targeted issue, though other extra-institutional tactics are both common and effective. Moreover, as activists took note of the power that shareholders have in creating resolutions, some have sought to disseminate their perspectives through the creation of a shareholder proposal (Den Hond & De Bakker, 2007).

**Shareholder Activism**

As corporations became financialized, shareholder voices were imbued with greater influence (Block, 2018; Davis, 2009; D. G. Smith, 1998). These voices, some argue, only push executives to implement strategies that increase their return on investment (King, 2008; Wright & Ferris, 1997). This belief about shareholder preferences is highlighted in the existence of activist investors and activist investor firms. Activist investors are either hedge funds that collect controlling stakes of shares for a given firm and advocate for changes or individual investors with goals to alter corporate practices (S. Chen & Feldman, 2018). This group of individuals have demonstrated the effectiveness that shareholder voices have in pushing businesses to adopt changes. Firms that fail to implement changes sought by activist investors are subject to market pushback (M. P. Smith, 1996).

Investor activists however, are either activists who have purchased stock or investors who are pursuing change within a firm or its associated sector (Den Hond & De Bakker, 2007). Investor activists represent an interesting crossroads. When they are aiming towards introducing greener business practices or CSR initiatives, they are holding two different forms of legitimacy: Both institutional pressures to create profit and pressures to adapt the contemporary corporation. Thus, if investor activists were present in greater numbers, they could be a pathway towards altering the corporation in a meaningful and lasting way. However, as this section interrogates, there are strong pressures placed both on investors to avoid CSR initiatives and on managers against integrating investor voices.

Though both exert their influence on corporations with the goal of altering corporate behavior, investor activists have capitalized on the momentum that activist investors have created by pushing for reforms beyond business operation. The SEC maintains that for shareholders to submit a proposal to a company, they must own either a) ≥$2,000 for at least 3 years, b) ≥$15,000 for at least 2 years, or c) ≥$25,000 for at least 1 year. These criteria place a noteworthy limitation in the ability of activists who aim to purchase stock with the intention of using proposals as a method of initiating short term change ([SEC], 2020).

By allowing shareholders to voice their concerns with a company through resolutions, the SEC opened the door for greater discourse on issues that management ignores. When at shareholder meetings, instead of balking at issues beyond company performance, shareholder resolutions place greater impetus on a company to take a stance on issues. By forcing consideration of issues beyond the scope of 'traditional business' resolutions pave a path for reform minded investors and activists to identify firms that may stray from accepted norms. Resolutions focused on social issues, however, do not have a high passage rate (Reid & Toffel, 2009). Pushback against business adaptation comes from myriad places. One that is analyzed through this work is institutions.

Institutions are "multi-faceted, durable social structures, made up of symbolic elements, social activities, and material resources" (Scott, 2001, p. 49). Institutions that form and drive business' operational procedures are powerful molds. Although top executives may face public political pressure to divest from polluting industries or reform polluting practices, they are met with strong resistance from institutional forces to maintain profits and revenue creation above all else. Institutions provide a sense of legitimacy to both firms and executives within a firm that can be hard to overcome. This pressure arises from sector wide hegemony in business operation (Scott, 2001). Scott proposes that firms glean legitimacy from their interactions with one another and thus, firms are under pressure to conform to how their sector counterparts behave. While this can have positive effects in maximizing efficient allocation of resources throughout sectors, this also creates barriers that prevent corporations from considering things beyond share price or revenue creation.

Some research that has focused on activist shareholders has analyzed how groups of shareholders can work to force executives to act in ways that may contradict institutional forces on them. It has been noted that groups of activist shareholders, particularly large groups of shareholders, can target firms and force them to adopt changes to their business practices:

> 72 percent of targets either adopted proposed governance structure resolutions or made changes sufficient to warrant a settlement. There is a significant positive stock price reaction for successful targeting events and a significant negative reaction for unsuccessful events (M. P. Smith, 1996, p. 227)

Though this research was specifically tailored to activist investors, investors who aim to take over a corporation and change its operational procedures with a hope of increasing returns, this phenomenon is important to note for activists. This research demonstrates that if shareholder opinion changes on a corporation's practices, failure to adapt to these new preferences yields negative market returns. Thus, should activists curry favor with a group of investors, they could initiate changes in business structure and operation through a more intra-institutional route. This demonstration provides a framework for shareholders to follow in pressuring companies to alter their practices. Another conclusion that Smith derives is that when shareholders pressure organizations to alter their organizational structure, not only does this have a positive effect on share price following the adaptation, but firms that fail to implement desired changes suffer from a statistically significant loss of share price (M. P. Smith, 1996). Smith's work demonstrates that shareholders both possess the tools and the logical foundation for pushing firms to alter their practices even if they stray from institutional norms. Considering shareholder motivations can stray beyond just share price maximization, it becomes important to analyze how shareholder pressures affect business operations.

In analyzing the interplay between social movements and institutions, den Hond and de Bakker elaborate on and define the necessary criteria for institutional change. Den Hond and de Bakker argue that there are many forms of change "including the genesis of an institution, its elaboration, its decline or abandonment (deinstitutionalization), and its replacement by another institution" (Den Hond & De Bakker, 2007, p. 905) Activists, they propose, are seeking some level of institutional change through their actions. Though these activists are able to organize and represent a collective interest for their group, there are strong reinforcements to maintain the status quo within and surrounding institutions. An activist group, to make lasting change, must first deinstitutionalize the practices in question. In order to deinstitutionalize, an activist group must affirm moral legitimacy over the firm or the practice in question (Den Hond & De Bakker, 2007). In the case of climate movements, this could take the form of a group questioning the moral basis a corporation has to emit carbon, worsening climate change. By placing the status quo in question, activists then insert their alternative operating process into the firm or industry and affirm their moral supremacy.

Interestingly, differences in the levels of change sought by a group of activists, or its classification as radical or reformer, has been shown to result in differing forms of legitimacy being brought into question. In Lounsbury et al. (2003), observations of efforts to increase recycling highlighted that difference. They noted that radical groups, or groups calling for highly divergent practices, were more likely to call on moral legitimacy as their method to deinstitutionalize. More radical reformers question the legitimacy of entire institutions rather than parts of an institution like their more incremental counterparts. In their research of recycling activists through the 20th Century, they noted that as governmental agencies began to adopt some adaptations, radical activists became further disillusioned with more centrist positions. More reform-oriented activists, that is activists aiming for less extreme adaptations, instead saw the adoption of any alterations as a positive (Lounsbury, Ventresca, & Hirsch, 2003). In den Hond and de Bakker's work, they note that more reform-oriented groups are able to find greater success compared to radical groups. This success, they argue, is derived from the flexibility that the status quo has to adopt smaller changes, rather than re-form entire institutions (Den Hond & De Bakker, 2007). This is not to say that large changes are impossible, or even unlikely; rather den Hond and de Bakker's work on legitimacy claims details how smaller changes are more easily integrated into existing institutions rather than forming new institutions.

Noting the power that shareholders possess in the modern corporation, some activists have purchased shares "of a contested firm in order to be admitted to speak at shareholder meetings" (Den Hond & De Bakker, 2007, p. 904). This practice of utilizing share purchasing to influence corporate behavior began in 1942 when shareholders first could introduce resolutions (Reid & Toffel, 2009; [SEC], 2020). Shareholder resolutions are a powerful tool both for raising awareness and making change. In the case of environmental and social change, shareholder resolutions can illuminate strategies that may be ignored in pursuit of profits.

In the case of environmental and social topics, these actions often fail to garner shareholder support: “shareholder resolutions on environmental and social topics have seldom received more than 10 percent of votes” (O'Rourke, 2003; Reid & Toffel, 2009, p. 1160). This passage rate is reflective of pushback to investor resolutions from decision makers in large corporations. Boards of companies and executives often feel that shareholders do not possess the necessary information or expertise to implement operational decisions. Thus, executives and boards rarely favor adopting shareholder resolutions that stray from status quo business operations. (Reid & Toffel, 2009). Thus firms, without proper deinstitutionalization from activist pressures, fail to alter their behavior (Den Hond & De Bakker, 2007).

Though these resolutions boast low passage rates, they are still an effective tool for activists to utilize because “activist resolutions can ‘identify and define problems for corporations’ and thereby ‘signal an emerging gap between a firm’s policies and stakeholder demands’” (Reid & Toffel, 2009, p. 1160). Ideally shareholder resolutions on their own would be an effective method for change. However, a shareholder resolution can be viewed not as the vehicle for alteration to corporate behavior, but as something that should be utilized to increase awareness both internal to a firm and external to the firm of an issue. Of note is the market reaction to corporations that fail to consider CSR initiatives. Research has demonstrated that corporations who adopt CSR initiatives receive a reward from markets (R. C. Y. Chen & Lee, 2017).

Shareholder demands can, and will, vary depending on the environment in which they exist. Research on the nature of modern capitalism, investor capitalism, and their interests has demonstrated that shareholders often prefer maximization of share price above other considerations (King, 2008; Milton, 1970, 2020). Thus, it would make sense that shareholders would not advocate adoption of practices aligned with stakeholder corporations without proof of share price increase. However, research has shown that in fact firms who engage in these practices (B-Corp certification, CDP reporting, etc.) find positive share price and revenue growth responses to these initiatives (X. Chen & Kelly, 2015; Matisoff, Noonan, & O'Brien, 2013).

**Grassroots Activism**

Grassroots movements are typified through bottom-up decision making and loose hierarchies (Gove, 1961). Grassroots movements often arise out of geographic location or shared desires for changes. These groups contrast hierarchical groups like corporations, governments, or even NGOs. Moreover, these groups are often much smaller than the bodies they seek to alter. Though this type of movement is an important consideration for researching, and in eventually implementing change, I argue that grassroots movements are not the most effective at producing change in corporations. Grassroots activists functioning alone have much less legitimacy in the eyes of corporations than other bodies (Abito, 2019; Den Hond & De Bakker, 2007). This presents them with an uphill battle as corporations consider reconciling their worldview with those of activists. As den Hond and de Bakker demonstrate, in order to change an institution a group must effectively bring its legitimacy into question. Thus, groups that have less legitimacy in the eyes of an institution they wish to change must work much harder.

Some scholars suggest that activists ought to invest their resources on organizing large-scale demonstrations over a sustained period of time, particularly at the domestic level. In the case of like-minded governments, this can pave a path towards realizing activists' ambitions in introducing new legislation (Rietig, 2016). Governments and targets of activists often are not in alignment with activists around implementation of new legislation or regulation. Thus, activists must engage in behavior that draws attention to the legitimacy of their desires. Research into how social movements can change organizational and legislative behavior has located a few key points namely, extra-institutional tactics, exogenous factors, and political mediation (King, 2008). These influences often intertwine as movements grow and develop.

Extra-institutional tactics are, broadly, tactics that are not embraced by institutional elites and work to undermine target institutions (King, 2008). These tactics are aimed at increasing attention surrounding a certain issue or including voices in a conversation that otherwise would not have had a seat at the table. An interesting combination of extra-institutional and institutional tactics comes into play when analyzing shareholder resolutions and shareholder activism. Some activists purchase shares in order to gain entrance to a shareholder meeting or some other institutional avenue. This allows them to blend extra-institutional tactics like sit ins and protests, with more institutional forms of dissent (Den Hond & De Bakker, 2007). Social movements often engage in extra-institutional tactics and find success in raising awareness of an issue. This is a powerful tactic because it allows for public airing of grievances against an entity. Not only does this increase credibility of a given social movement, it also can recruit individuals who may share similar beliefs.

The next type of factor, exogenous factors, are less structured than extra-institutional tactics or political mediation. Exogenous factors are, as their name entails, external factors that influence a social movement's momentum, effectiveness, and legitimacy (King, 2008). These factors can signal when to shift strategy or targets depending on external developments. Should an activist group encounter pushback from a public that does not agree with their desired changes, they will most likely have to pivot their operations or goals. These exogenous factors are incredibly important to groups or activists that rely on legitimacy provided by the public to assert themselves over an institutional status quo.

The third factor, political mediation, is similar to exogenous factors and proposes that "some movements are more influential in some contexts than others. The more open the target institution is to change, the more effective the mobilization of the movement will be" (King, 2008, p. 396). Through this lens, we can see that extra-institutional tactics and exogenous factors aren't additive, but instead interact with movements. "A movement's influence is moderated by the institutional proclivity to change," political landscapes and institutional openness to change has large effects on the ability of a movement to succeed (King, 2008, p. 396).

These three frames that King proposes all tie further into den Hond and de Bakker's analysis of social movements' likelihood to change. Within den Hond and de Bakker's research on activists' interactions with institutions, they identify that the likelihood of a movement's success is somewhat tied to the level of change they advocate. More reform-oriented groups push for smaller changes, while radical groups advocate for larger shifts in behavior. Advocates, they contend, ought to embrace incremental shifts should they want to avoid classification as radical and unrooted (Den Hond & De Bakker, 2007). This can be understood through the malleability that the status quo has to adopt some changes rather than embrace a complete tear down. Though some activists prefer a complete replacement of a given institution, that can be quite challenging to create the necessary support to create and implement a new institution.

One prominent grassroots movement advocating for climate justice is Extinction Rebellion. This group began as a typical grassroots movement in 2018; it has since grown beyond its British roots and is now considered a worldwide movement. It has seen success related to pressuring British politicians towards adopting climate friendly policies and questioning institutions' investments in fossil fuels. They use extra institutional tactics and have seen great success through capitalizing on exogenous factor shifts around the climate emergency.

Extinction Rebellion has found success in challenging institutionalized perspectives on climate change. This movement is known for using high profile extra institutional tactics to raise awareness for issues they represent. Extinction Rebellion is, as Den Hond and De Bakker define, a radical group. They advocate for divestment from fossil fuels, veganism, and stringent restrictions on carbon emissions (Klein, 2019). Extinction Rebellion's pressure to shift behavior now categorizes them as radical. Contrary to den Hond and de Bakker's findings, Extinction Rebellion found success in deinstitutionalizing portions of the UK parliament's dialogue around climate change (Den Hond & De Bakker, 2007; Gunningham, 2020). During Extinction Rebellion's protests in the United Kingdom, UK media mentioned climate change more than the leadup to the ratification of the Paris Climate Agreement. This had a transformational effect on dialogue surrounding climate change in the UK Parliament. Extinction

Rebellion’s actions forced the UK, through public pressure, to initiate hearings on climate legislation and pass a motion declaring a climate emergency (Gunningham, 2020). Though Extinction Rebellion was successful in creating legislative changes in the UK, its goals of pushing corporations to adopt greener practices has yet to be realized. Its success in pushing governments to change demonstrates perhaps a glimpse of the influence these groups can exert over processes to achieve their desires.

Extinction Rebellion’s success can be connected to King’s model of political mediation. Though their extra institutional tactics lend themselves to the transformational media coverage they were able to achieve, their success in pushing the UK parliament to adopt a climate emergency resolution is more connected to their ability to capitalize on the proclivity of that body to change. Should the body have been full of climate change deniers that regard climate science as a hoax, the public pressure that was applied to them would have shifted the results of their protests (King, 2008).

The successes of Extinction Rebellion have allowed contemporary scholars to see the importance of grassroots activists for achieving meaningful climate action; some contend Extinction Rebellion and other movements like it ought to be the model that is replicated elsewhere. This sentiment is expressed in *Institutions of the Earth*, a work by legal scholars attempting to analyze the most effective method to usher in effective environmental protections. “If there is one key variable accounting for policy change, it is the degree of domestic environmentalist pressure in major industrialized democracies, not the decision-making rules of the relevant international institutions” (Haas et al., 1993). This attitude is reflective of a belief that grassroots mobilization is the key to facilitating changes to problematic behavior. Whether shifts are reached through forcing governments to implement restrictions on corporate emissions, or regulating corporations through direct action, Haas, Kohane, and Levy contend that a mobilized polity is a key to realizing necessary change.

The Sunrise Movement has had successes similar to those of Extinction Rebellion. Sunrise Movement, like Extinction Rebellion has focused on direct action centered around addressing legislative adaptations (Gunningham, 2020; Klein, 2019). This two-pronged approach has allowed Sunrise Movement to capture the attention of both legislators and the populace at large. Sunrise Movement' philosophy for engaging the public through Erica Chenoweth's research showing that 3.5% of a population needs to be mobilized to topple a dictator (Chenoweth, 2017). While Sunrise is not mobilizing against a dictator, it claims the threat it is facing has the same magnitude and need for mobilization. It sees the most hopeful routes to addressing change is through governmental regulation (Klein, 2019). Though direct action targeted towards firms can yield some changes, the entity with the power to constrain corporations in the way that is needed, Sunrise argues, is the government.

Should the public mobilize around environmentalist demands, their pressure can be applied to corporations directly by bypassing legislatures with hopes of altering corporate behavior through direct pressure. The public has mobilized against managers of corporations they target as harmful in the past. As managers face public political pressure, Wright and Ferris show that they implement changes to operating procedure with little consideration for shareholder value. This contradicts previously held beliefs about managers' actions. Namely that managers would act purely to maximize share price without external considerations (Davis, 2009; Milton, 1970; Wright & Ferris, 1997). Instead, Wright and Ferris show that managers balk at the hegemonic considerations for their operations and shift corporate strategy such that they minimize losses to their social capital (Wright & Ferris, 1997).

This connection is strengthened in more contemporary research. As Chen and Lee show in their research, while corporations are largely tied to maximizing their share price, they are also cognizant of the implications of public pressure. In their review, Chen and Lee demonstrate that corporations will adopt aspects of corporate social responsibility even when met with increased overhead (R. C. Y. Chen & Lee, 2017). Abito's research notes that in situations similar to Wright and Ferris's, where managers have public pressure applied (threat of boycott, damage to reputation, etc.), they can be pushed to implement business operations that contradict pure share price maximization (Abito, 2019). There is a gain that markets demonstrate to firms who embrace public opinion. Vogel shows in his work that firms who implement CSR initiatives along the lines of public opinion have found positive market rewards (Vogel, 2006). Moreover, in their work Dubey et al. noted the positive relationship that exists between external stakeholder influence and managers' adoption of sustainability benchmarks (Dubey et al., 2017). This research shows that external stakeholders can use coercive pressure, protests targeting individual leaders within a corporation or on the corporation itself, on a firm and expect that firm to implement greater sustainability benchmarking without harming share price.

Opponents of adopting sustainability benchmarks or managers adopting policies to satiate public pressure can be reassured that adoption of green business practices are able to financially benefit firms. The Carbon Disclosure Project (CDP) is one avenue of encouraging corporations to disclose their environmental practices. In a longitudinal study of response type and numerical data input to the CDP, authors Matisoff, Noonan, and O'Brien look to see if public pressure influences a given firm's carbon outputs. What they found is that if a firm performed poorly, they would opt to keep the information private, thus only informing current shareholders of potentially troubling news (Matisoff et al., 2013). Though this shows that firms can benefit from free riding on positive performers, the authors propose that firms may disclose through other avenues. Interestingly, firms in the United States have decreased their transparency since the inception of the CDP, while firms in Japan and Europe have increased their transparency. Instead of American firms prospering from this seclusion, they have not grown at the same rate as their counterparts in other countries (Matisoff et al., 2013). Thus, firms may be viewed positively through their disclosures to the CDP, because they could be more adaptive to new governmental regulations. Disclosure allows actors to invest without fear that new regulations would evaporate their returns (Kim & Lyon, 2011).

The roots for American firms suffering from a lack of transparency has some connection to broader consumer opinions on green business practices. Research on consumer attitudes towards green business initiatives has demonstrated that "68 million U.S. consumers have a preference for dealing with [green] firms" (X. Chen & Kelly, 2015, p. 105). Though most of the firms that are identified as carbon majors do not produce direct consumer goods, consumers have shown a preference for greener firms in all aspects of their purchasing. Activists have noticed the power that corporations have over their own operations. Through targeting a firm and taking advantage of a political mediation model, deinstitutionalization, and capitalizing on the powers imbued to shareholders, activists can find avenues to force companies to change (Den Hond & De Bakker, 2007; King, 2008; Reid & Toffel, 2009).

Though important to the ultimate success of new ideas about corporate missions, grassroots activism is limited in its failure to demonstrate legitimacy in the eyes of the institutions it wishes to adapt. As den Hond and de Bakker pose, in order to implement changes, one must demonstrate the moral legitimacy and superiority of their proposed measure. This is challenging, if not impossible, without at least some legitimacy in the eyes of the institutions one hopes to change. Were grassroots activists to gain legitimacy in the eyes of both corporations and the polities they represent, their voices may prove to be more powerful than they have been thus far.

### Non-Governmental Organizations

Broadly, NGOs as a group are a *tabula rasa*; "[p]recise definitions vary as to what constitutes an NGO, and the challenge of analyzing the phenomenon of NGOs remains surprisingly difficult" (Lewis, 2010, p. 2). Their definition relies heavily on the specific NGO that is being studied. For the purpose of this research, NGOs will be characterized as nonstate actors pursuing strategies to attract the attention of government representatives with the hope of altering policy prescriptions or as actors aligned to deliver services to those in need (Lewis, 2010; Rietig, 2016). Past research has identified three main types of NGOs: Implementer, catalyst and partner (Lewis, 2010). Implementer NGOs focus primarily on allotting resources to groups that need them, this type characterized by emergency relief groups or human rights organizations. Catalyst organizations function as their title would suggest, catalyzing movements. This type of NGO will be analyzed further throughout this work as their work to mobilize people around a group of ideas lends itself to the scope of this research. The other type of NGO this work focuses on is the partner NGO. This organization partners with either governments or non-government actors and seeks to engage in capacity building, as Rietig mentions in her work.

While both NGOs and governmental regulations have shown promising results, when combined they have a possibility of producing much greater change than either actor on its own. When collective action is combined with NGO voices, governments are more likely to abide by the demands from either group (Rietig, 2016). This is not to say that NGOs and government are always in agreement about changes to implement or how to get there. Importantly there is a distinction between NGO interaction with a 'friendly' government and a 'foe' government. This distinction is made between governments whose objectives either align with or run contrary to an NGO's objective (Rietig, 2016). A 'friend' government allows "NGOs [to] enter… collaborations with governments as welcomed helpers in the areas of capacity building, providing information, or simply strengthening the government's legitimacy" (Rietig, 2016, p. 272). Here, NGOs function as almost another wing of a government or as an external agency. These tactics are dissimilar in nature to the actions of activists engaged in extra-institutional tactics or in other confrontational approaches. The difference between the groups disappears when governments are considered to be 'foes.' "In the case of nonaligned objectives, NGOs pursue a confrontational approach by maximizing public pressure via demonstrations and persistent lobbying" (Rietig, 2016, p. 272).

NGOs pursue differing strategies depending on both the classification of the agent it is targeting and its composition. Some use extra-institutional tactics, hoping to gain traction through protests and demonstrations. The protests aim to create a poor image of a the target through holding “[them] accountable by publicly exposing the disparity between reality and rhetoric” (Rietig, 2016, p. 274). Similar to grassroots activist groups, protestors hope to place pressure on groups through political pressure (King, 2008; Rietig, 2016). When directed towards initiatives that affect corporations, protestors can create enough pressure to force decision makers to adapt their strategies (Abito, 2019; Wright & Ferris, 1997).

The importance of demonstrations is underlined throughout research analyzing NGOs and their capability of achieving the change that they aim to. Whether a government plans to initiate stricter regulation on corporate emissions prior to a demonstration or not, “decisionmakers react when they realize that their electorate is concerned about an issue and this requires the government to take appropriate action” (Rietig, 2016, p. 281). Thus, we can see the how popular protests and NGO influence can raise awareness similar to shareholder resolutions. Not always do these awareness raising initiatives result in change being implemented, however a rhetoric change can precipitate legislative changes. The next chapter will explore in depth an NGO that works as a partner organization and pushes businesses to change: B-Corp. This NGO combines government like regulation with an attention to public desires for corporations and their operating procedures and creates a regulation service that, as research demonstrates, creates greater revenue generation than traditional business practices (X. Chen & Kelly, 2015).

Differing from activists, NGOs often have greater access to institutional forces and actors. They can take advantage of lobbying in a way that activists rarely can. This draws on the expertise that NGOs have in capacity building. Importantly, the ethos that an NGO has is tied closely to the friend status of the government it aims to lobby. If it is aiming to lobby a foe government with a position that contradicts an NGO's goals, its possibility of achieving change is diminished greatly (Rietig, 2016).

NGOs broadly can garner the attention of central governments through similar tactics to activist movements. Whether a government present itself as a friend or a foe, sustained protests and demonstrations are effective at creating change at the domestic level. Research shows that NGOs are most effective "when they choose strategies allowing information provision, capacity building, and advisory activities to the extent of joining government delegations at international negotiations" (Rietig, 2016, p. 284).

This inclusion in negotiations does not come without risks to the NGOs reputation; should negotiations fail to yield results that are favorable to the NGO, their reputation stands to be harmed. NGOs represent a crossover between the legitimacy that activists possess among other activists (as changemakers) and in the eyes of governments (as institutional actors). However, their failure to be considered legitimate in the eyes of corporations lends itself to its position as helper to movements rather than the ultimate catalyst for change (Den Hond & De Bakker, 2007). As den Hond and de Bakker pose, in order to initiate changes, institutions must first have their legitimacy challenged in order for them to be reformed. Thus, an actor that possesses legitimacy in the eyes of changemakers and corporations stands to be the most effective.

## Governmental Regulation

This section is not to analyze the effectiveness of regulation, rather it hopes to see if regulation of the corporate mission is possible to attain through activist, NGO, and shareholder actions. Though many groups are working to initiate governmental regulations, this section finds that governmental regulation both has to pass through corporate decision makers in its implementation (some firms have shown a willingness to embrace fines if the revenue generation is significantly higher) and that governmental legislation is a slow and often impotent avenue. One of the main complications that changemakers in the United States face is the fact that businesses are chartered in states rather than at the federal level. This means that passing regulation at the charter level is incredibly challenging, if possible, at all.

Many changemakers desire to enact more stringent governmental regulation. Whether activists demonstrate outside of a capitol hoping to pass a cap-and-trade bill, or an NGO hires lobbyists to work with legislators, groups often hope to recruit central governments to be the agent of their change. This focus is reflected in the markets too; as governments propose new regulation shareholders reward firms that show themselves to be nimble and able to embrace new regulation (Matisoff et al., 2013). Beyond a market mechanism to reward agile firms, as governments face pressure from activist groups to enact change, managers sometimes embrace those same pressures and make change in anticipation of coming regulation (Reid & Toffel, 2009).

One example of legislation that various changemakers want is the Green New Deal. This package of legislation is focused on reducing emissions, increasing investments in green energy production, and other green investments. On their website, Sunrise Movement, a prominent activist group, claims that they want the Green New Deal to be passed and implemented into American life (Movement, 2020). Importantly, many scholars and activist groups find that just shifting corporate behavior is not powerful enough to ensure meaningful change; they assert that only the powers of the state are enough to limit carbon emissions enough to stave off the worst of climate change (Johnstone & Newell, 2018; Reid & Toffel, 2009). This belief, they argue, is rationalized through the low participation in current environmental regulations. Though organizations like the CDP or B-Corp are actively working to alter corporate behavior, the voluntary nature of their regulation means that their changes are not substantial enough. Some argue that attention should be directed towards governments because they have the power to create enforcement mechanisms. Though a single firm targeted by activists or an NGO may offer concessions, these groups take long periods of time to create the necessary political power to alter corporate behavior (Den Hond & De Bakker, 2007). Taking this into consideration, some activist groups and NGOs have shifted their attention towards passing legislation that they see as powerful enough to enact change.

There is substantial public opinion in favor of forcing corporations to adopt greener business practices through legislation; "the Green New Deal remains highly popular, enjoying a 31-percentage-point margin of voter support" (Deiseroth & Blank, 2021). Even though the Green New Deal is favored by the American polity, it has failed to pass. Within this group of legislation, the major shortfall in governmental regulation is demonstrated. Even popular initiatives fail to pass depending on the political climate that a country is operating in. Moreover, the speed with which governments can pass legislation is a problem for some (Gunningham, 2020). Though governmental regulation presents itself as an opportunity to enact drastic change that is enforceable beyond market mechanisms and public pressure, the downside of dealing with political quagmires and hostile gridlock is a dissuasion for many groups seeking change.

Fred Block details the decision-making process for corporations facing regulatory shifts. He notes that if a cost benefit analysis is run and a firm comes to the conclusion that a penalty is less than the potential rewards (in both revenue gain and social capital loss) then the corporation will continue with its rule breaking (Block, 2018). Block does not argue that regulation is a moot point. As the next section demonstrates, firms that buy into B-Corp's mission and consent to its regulation benefit from greater revenue and productivity growth than their non-B-Corp counterparts (X. Chen & Kelly, 2015).

Thus, though governmental regulation presents itself as a tantalizing cure-all for many groups of changemakers, the problems that arise in the introduction process for legislation ultimately prevent governmental regulation from being the cure-all it could be. As demonstrated in the Green New Deal, even popular legislation can become stuck in political gridlock. And finally, corporations are chartered by individual states, thus, country-wide legislation to regulate corporations is a challenging endeavor.

# Chapter 3: B-Corps

Throughout this work, legitimacy has been interrogated as a key element in the introduction of changes to institutions. As den Hond and de Bakker assert, for an institution to change, its legitimacy must be effectively challenged. It is hard for actors who are not viewed as legitimate create change. Therefore, activists and NGOs often struggle to push corporations to change alone. B-Corps represent the best example of an entity that has legitimacy in both the eyes of changemakers (their businesses are greener and more sustainable than non-B-Corps) and in the eyes of other corporations. B-Corps are able to reconcile calls to change business operations while also demonstrating that those changes would not cripple profit generation or productivity growth (X. Chen & Kelly, 2015).

Today, according to B-Corp's website, there are 4,394 registered B-Corps in the world. These businesses range in function from Swiss banks to bottled water producers to ice cream manufacturers to flour companies. B-Corp goes into detail as to how a corporation can apply for B-Corp certification. Corporations, if they so desire, can demonstrate their adherence to different regulations. These regulations involve, among other things, higher compensation for employees, lower greenhouse gas emissions, and various other sustainability benchmarks. Corporations that apply to B-Corp are not ignoring profit creation, instead they are reconciling interests in sustainability and in profit creation. This differs from many contemporary perspectives of the corporation that say corporations ought not to consider things beyond maximizing its share price. If a corporation were to stray from this mission, thinkers have proposed that this divergence would be punished by the market (King, 2008; Milton, 1970). However, as

Chen demonstrates in his work, those firms that consider profit as a means rather than an end benefit. Thus, this section demonstrates that it is both possible and beneficial for corporations to bow to the desires of the groups mentioned throughout this work.

Though B-Corps demonstrate that the corporation is reformable, and in fact benefits from reformation, there is selection bias present in B-Corps as a group. To become a B-Corp, a business must apply to be certified. Thus, firms that already contribute to greenhouse gas emissions or other areas that activists want to change will most likely not adhere to these standards of their own volition. Combining changemaking forces with a tangible example of how corporations can adapt would be a formidable force in pushing corporations towards changing problematic tendencies.

A B-Corp is a company that has voluntarily applied for certification through B Lab. B Lab is the certifying arm of the B-Corporation model. Their mission "is to certify businesses that wish to have an independent attestation to their commitment to socially and environmentally responsible activities" (X. Chen & Kelly, 2015, p. 105). This attestation is a process by which corporations can signal to consumers and investors that they are interested in following stakeholder theory and adapting to governmental regulation, activist desires, and shareholder demands. To gain B-Corp certification, a company must score at least 80 points out of a 200-question survey (X. Chen & Kelly, 2015; Corporation, 2022). Although this research has documented other forms of regulation and demonstrations of commitment to greener business practices, B-Corp certification is the only certification that represents a truly all-encompassing regulatory body that doesn't require companies to balk at more 'traditional' goals (like profit generation and productivity growth).

Though it may seem that B-Corp certification is intended for a small niche of companies and industries, B Lab has created a certification process for organizations in a wide range of industries from petroleum production to zoos (Corporation). Detailed on their website are requirements that industries must meet. Their requirements for fossil fuel and energy companies are some of the strictest that are provided by B-Corporation's website:

> Fossil fuel and energy companies are disproportionately responsible for greenhouse gas emissions that contribute to climate change. Companies involved in the production and sale of fossil fuels, including those that generate or sell energy derived from fossil fuels, are eligible for B-Corp Certification if they are not engaged in specific prohibited practices regarding extraction, lobbying, and financial incentives; have successfully transitioned their energy portfolio to be at least 50% carbon free; and have committed to make progress towards transitioning to a fully carbon-free portfolio within specified timeframes.

Considering the large impact that fossil fuel companies have, it follows that their guidelines are highly restrictive. Hugely important to this work, not only have B-Corps adopted stricter standards for pollution across all industries, but they have also *outperformed* competitors within their 4 digit SIC code (X. Chen & Kelly, 2015; Corporation; Matisoff et al., 2013; Stubbs, 2017).

Corporations, some argue, ought to be dedicated to solely providing returns to their shareholders. This form of agency theory argues that social causes and external motivations are counterproductive and represent a failure to allot resources in the most efficient manner (Milton, 1970). This falls in line with previously mentioned definitions of shareholder goals as proposed in Wright and Ferris's work, den Hond and de Bakker's work, and King's work. Companies that subscribe to this definition of agency theory model their operational procedures purely on market considerations fail to recognize a large segment of the market that demonstrate a desire to patronize corporations that have sustainable business practices (X. Chen & Kelly, 2015).

B-Corps represent a tangible example of corporations that have demonstrated a willingness to adopt stakeholder theory. This stakeholder theory contends that,

> the management of a firm [ought] to conduct itself with a view toward the well-being of all of the stakeholders of the firm and not only that of the shareholders of the firm. Furthermore, it views management's responsibility over time as that of creating value for the shareholders and balancing the interests of the stakeholders (X. Chen & Kelly, 2015, p. 106).

B Lab, the regulatory body that certifies B-Corps, has integrated this theory into its certification process. Not only do corporations need to demonstrate a commitment to corporate social responsibility in their entrance survey, but in their checkups with B Lab, they need to demonstrate tangible examples of how they embrace CSR initiatives (B-Corporation, 2022).

B-Corps have implemented a great number of corporate social responsibility initiatives. One example in climate change demonstrates this commitment, one report noting that of the firms that are certified as B-Corp, over 500 pledge carbon neutrality by 2030 (Coupounas & Love, 2020). This figure demonstrates that B-Corp certification pushes firms to utilize their positions to shift towards green business practices. Moreover, "B-Corps treat profit as a means to achieve positive social ends" (Stubbs, 2017). B-Corps treating profits as a means to achieve ends rather than just the end goal, is reflective of a broader shift in corporate thinking that Porter and Kramer note in their work. They find that firms seeking success ought to see social responsibility as an opportunity rather than as a damage control mechanism (Porter & Kramer, 2006). This is furthered in research that demonstrates when corporations implement CSR initiatives, they are likely to incur a positive market reaction (R. C. Y. Chen & Lee, 2017).

Treatment of profits as a means allows managers to interact with pressure from social movements and incorporate ideas or operational practices that stakeholders would've otherwise prevented. Using den Hond and de Bakker's analysis of corporate adaptations, these firms require less de-institutionalization to adapt compared to nexus firms; this becomes especially apparent when considering that B-Corps' institutional pressures involve pressure *to* incorporate perspectives beyond just profit (Coupounas & Love, 2020; Davis, 2009; Den Hond & De Bakker, 2007; Reid & Toffel, 2009).

Table 1:

Descriptive Statistics and *t* Values of Average Productivity Growth Rate of All Public Firms.

| | 2007 | 2008 | 2009 | 2010 | 2011 | 2007-2011 |
|---|---|---|---|---|---|---|
| Mean productivity growth rate[a] | | | | | | |
| B-Corps | 0.18 (0.10) | −0.001 (0.35) | 0.22 (1.51) | 0.09 (0.30) | 0.16 (0.69) | 0.15 (0.89) |
| Public firms | 0.10 (0.38) | 0.10 (0.44) | 0.03 (0.38) | 0.05 (0.40) | 0.03 (0.34) | 0.05 (0.39) |
| Number of observations | | | | | | |
| B-Corps | 3 | 4 | 30 | 40 | 32 | 102 |
| Public firms | 719 | 696 | 657 | 633 | 537 | 3,242 |
| *t* value | 1.41 | −0.55 | 0.72 | 0.76 | 1.06 | 1.12 |

a. Standard deviations are given in parentheses.
$^{*}p < .10$. $^{**}p < .05$. $^{***}p < .01$.

This nimble adaptation lends itself to the conclusions drawn by Chen and Kelly. Their work focuses on an analysis of "whether socially and environmentally responsible firms can perform at a level comparable to that of their public company competitors" (X. Chen & Kelly, 2015, p. 103). In their analysis they gathered publicly available information on both mean revenue growth rate and mean productivity growth rate between B-Corps, large and small public firms, and small private firms. This comparison was done through pitting companies within the same 4-digit SIC code against one another and comparing their revenue and productivity growth means.

As demonstrated in table 1, their research showed that there was a statistically significant increase in B-Corp's mean revenue growth compared to the revenue growth displayed by non-B-Corp firms from 2006 to 2011. (X. Chen & Kelly, 2015). During this time of economic tumult, non-B-Corp firms experienced volatility in both their revenue creation and in their productivity measures. B-Corps on average saw a "50.48% revenue growth rate during the [same] period" (X. Chen & Kelly, 2015, p. 107). During the same time, large companies in the comparison group experienced a large drop in revenue. When comparing B-Corp's revenue growth to that of the small public firms (i.e., less than $100 million in annual revenue), the same relationship is demonstrated.

The other lens of analysis conducted by Chen and Kelly was on employee productivity growth. Their research did not find statistically significant differences between B-Corps and non-B-Corps. As an explanation, they note that since B-Corps were on average newer companies their growth in employment caused a significant downward bias. When the authors compared B-Corps against small to medium private firms however, they were unable to find a significant difference in revenue generation or productivity increases. One explanation offered is that consumers may prefer to patronize smaller private firms no matter their B-Corp status.

B-Corps present a tangible example of businesses that take heed of the pressures analyzed throughout this work and demonstrate that it does not, contrary to established ideas, hinder the growth and success of these firms (Davis, 2009; Milton, 1970). Chen's work demonstrates that, corporations are fundamentally a reformable entity—their mission can shift to consider profits as a mean rather than an end with an *increase* in revenue and productivity growth (X. Chen & Kelly, 2015; Coupounas & Love, 2020).

## Conclusion

This research has demonstrated that legitimacy is integral to the prospect of reconciling conflicting ideas for the status quo and that B-Corps are the entity most representative of a contemporary entity that possesses legitimacy in the eyes of changemakers and other corporations. Though activists, NGOs, governments, and shareholders possess legitimacy in varying arenas, many of them struggle to hold legitimacy in the eyes of both changemakers and in the institutions they wish to change. This is where B-Corps stand supreme.

The nexus (contemporary) corporation is a legal entity dedicated to returning profits to investors with little to no consideration for elements beyond this objective (Block, 2018; Davis, 2009). This fundamentally diverges from the mission of previous iterations of the corporation, specifically stakeholder corporations. The stakeholder form, and stakeholder theory more broadly, is based on the idea that corporations ought to include considerations for more than just share price maximization in their operational procedures. This is an attempt to harken back to an era when "corporate managers pursued [efforts] to give their organizations a soul" (Davis, 2009, p. 69).

These attempts were removed from corporations as shareholder power increased. Shareholders, to increase their power relative to other considerations, reorganized corporations so that top executives, usually the CEO, would receive compensation in the form of stock options and benefits. This prompted CEOs and executives to prioritize share price increases above other elements and engage in practices like stock buybacks rather than other investments in corporate development (Davis, 2009; Lazonick, 2014).

Following rule 14a-8's promulgation in 1942, shareholders could pass resolutions and force companies to heed their voices ([SEC], 2020). These resolutions combined with the increased influence that shareholders possessed following the stagflation of the 70s and early 80s presented an opportunity for activists to pass resolutions on social and non-traditional business issues. Reid and Toffel note that even if a shareholder resolution on a social issue is proposed, they boast a measly 10% passage rate (2009). Moreover, executives experience intense institutional pressure to remain on course with other firms engaged in practices with little consideration beyond share price through the process of institutionalization of business procedures (Den Hond & De Bakker, 2007). Turning to activists, these groups of people motivated and organized most often through a shared set of ideas, have demonstrated the power to influence operational decisions (Gove, 1961). Through leveraging losses to social capital, activists have been shown to push executives and managers to shift operations (Wright & Ferris, 1997).

Non-governmental organizations (NGOs) have demonstrated the ability to blend the interests of state and activist actors by functioning as an intermediary. NGOs in particular are powerful in that they can assist in fostering greater governmental legitimacy or, if met with resistance, can reduce perceptions of legitimacy (Rietig, 2016). Thus, while not targeting corporations directly, they can influence legislators to introduce legislation that aligns with the NGO's mission. This passage of legislation can be reflected in market prioritization of firms who are deemed effective at navigating a changing regulatory landscape (Matisoff et al., 2013).

Governmental regulation functions as a goal for many activist and NGO groups. They note that central governments have much greater power in both introducing and enforcing ‘good’ behavior in businesses (Johnstone & Newell, 2018). Though activists, shareholders, and NGOs are able to affect single corporations these alterations are often short lasting and require immense mobilization and sustained public pressure (Den Hond & De Bakker, 2007). Thus, passage of regulations that could alter the behavior of entire countries presents a large opportunity. However, the process to introduce new legislation is often a lengthy and often impotent exercise. Moreover, in the United States, regulation of businesses is challenging to implement on a nationwide scale because businesses are chartered by individual states rather than at the national level. These challenges mitigate the large a power that governments possess.

Though Nexus firms present formidable pressure against adopting new sustainability measures and a return to stakeholder theory, efforts to alter corporations are not for nothing. Research into green business practices shows that they can produce positive shareholder returns (R. C. Y. Chen & Lee, 2017; X. Chen & Kelly, 2015; Matisoff et al., 2013). With the introduction of the Carbon Disclosure Project (CDP) and the SEC’s own carbon disclosure methods, corporations are now being called on to provide information for a) how much carbon they emit and b) what their plans are to limit this emittance. Research holds that, “if firm managers do not provide credible information, investors will either assume the worst or will have to spend more time collecting information from other information sources and stock prices will decrease” (Matisoff et al., 2013, p. 3).

Further introductions of corporate social responsibility produce positive correlations between engaging in CSR and operational success. This behavior involves the introduction of corporate political activity (CPA) or engaging in corporate social responsibility (CSR). CPA is when a firm tries to influence political institutions or actors such that they implement favorable legislation to the firm. CSR is denoted as when a firm engages in some social good with the goal of garnering a positive reputation.

The success of these endeavors has been recorded by researchers over the last 20 years. Of the 214 studies done on the interplay between nonmarket strategy and operational success, 155 found a positive correlation (Mellahi, Frynas, Sun, & Siegel, 2016). Research shows that firms practice CSR at a much higher rate than CPA. Thus, pushing corporations towards adopting CSR style operational practices is a fruitful endeavor—even for corporations seeking nothing beyond share price maximization like the modern nexus corp. However, Abito's work shows that firms do not yet willingly integrate social welfare initiatives without the proper conditions "welfare gains are more likely to arise when the social marginal benefit of abatement is high and when the marginal cost curve of abatement is flat" (Abito, 2019, p. 112). Thus, unless businesses are incentivized through gains to their social reputation, the likelihood of adopting CSR initiatives remains low.

B-Corps as a group represent organizations that possess legitimacy in both the eyes of changemakers and in fellow corporations. This research has demonstrated that it is possible, perhaps beneficial, for firms to adapt their behavior and return to the stakeholder form of the corporation. B-Corps represent a contemporary example of firms who dedicate themselves to a mission beyond profits. They demonstrate corporations who have listened to the public pressure that has been applied through shareholders, activists, NGOs, and fledgling legislation. In response, consumers have rewarded them for their commitment with higher revenue and productivity growth compared to non-B-Corps even when the economy as a whole is in recession (X. Chen & Kelly, 2015). The corporation is a reformable entity that in fact *benefits* from alterations rather than suffers as conventional theories of investor capitalism would suggest.

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