Public Benefit Corporations Come to Minnesota

Starting January 1st, 2015 Minnesota entrepreneurs will have a new option for starting business enterprises with a social purpose: Public Benefit Corporations. The passage of legislation to enable Minnesota benefit corporations represents the collective effort of individuals from different professions and disciplines. Sara Nobbs, Assistant Program Manager of the Center for Integrative Leadership, recently spoke with three such individuals – Jeff Ochs, a recent graduate of the Humphrey School of Public Affairs and the Carlson School of Management; Brett McDonnell, Professor of Law, University of Minnesota Law School; and Steve Spruth, Senior Lecturer, Strategic Management and Entrepreneurship, Carlson School of Management – to get their views on benefit corporations and the legislative process that created them.

Jeff Ochs provided good general background on the basic concept of a benefit corporation: “A benefit corporation combines elements of both a nonprofit and a for-profit organization. It’s a hybrid form. From the nonprofit side it has an official social purpose that it commits to pursuing and reporting against. From the business side, the ownership structure is similar to a for-profit organization. Owners have equity and can receive distributions of profit.” Brett McDonnell further explained the legal structure of benefit corporations: “Legally, a benefit corporation is closer to a for-profit than to a nonprofit. Mostly it adopts the same rules as for-profit with three differences: 1. The purpose is to pursue not just profit but also some social good. 2. The Directors are legally obliged to pursue those social benefits as well as profit. 3. They are required to file an annual report that describes how they did on the public benefit or social good.”

There are already many states that have created legislation for benefit corporations. Steve Spruth discussed the example of Warby Parker Eyewear: “A great example of a public benefit corporation is Warby Parker Eyewear. You buy glasses online from them and they charge $99 for a pair of prescription eyeglasses which is a third to a fifth the cost of regular glasses. For every pair they sell you, they donate a pair of glasses to somewhere in the world where they do not have access to glasses and where it will help someone improve their vision.”

Individuals in Minnesota have tried to pass benefit corporation legislation in the past but were unsuccessful. Both Ochs and McDonnell credit the cross-sector, collaborative group that represented many of the affected parties with the success of that legislation. McDonnell explains, “It was a really broad group of people who all worked together well to create and pass the benefit corporation legislation. Each individual brought their own perspectives. We made sure it worked for everyone which is why when it got to the legislature there was no opposition. In the polarized world this legislation appeals to everyone.”

Although all three men were hesitant to make any predictions about how benefit corporations would develop in Minnesota, they agreed that it can fulfill an important role in Minnesota’s economy. As Spruth observed, benefit corporations necessarily link objectives from the for-profit and non-profit sectors: “Public benefit corporations are a piece in the economic ecosystem of Minnesota. They might help us to better connect our for-profit and nonprofit communities. Rather than for-profit and nonprofit
being two insular sectors, with benefit corporations we have a way to talk about mission and execution across both sectors.” By crossing these boundaries, benefit corporations create a way for customers, suppliers and employers to work integratively and focus explicitly on public value as part of good business.