

The Case for Doing Well by Doing Good in Franchising

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There is no question franchising is “doing good.” You can find many stories about franchisors and franchisees helping to feed the hungry, donating PPE to front line workers, and engaging in other charitable acts for those in need. Most importantly, franchising provides opportunities to those who want to start their own businesses, and it employs many people so they can earn a living and participate in the growing economy of the United States.

But is franchising doing enough to combat climate change with sustainability efforts and environmentally safe policies, better known as “corporate social responsibility” (CSR)? Are franchisors and franchisees taking quantifiable steps to diversify their ownership and workforce, and provide equal pay and advancement opportunity? You don’t really see too many stories about these efforts in franchising, but they are happening.

For those who may not know, CSR is a business approach adopted by companies whereby they set out policies and practices that contribute to sustainable developments in order to deliver economic, social and environmental benefits for all. Brands that participate in CSR generally see stronger market performance, increased goodwill and consumer loyalty, and stronger retention and attraction of top talent.

Such increased brand value from CSR can be calculated in several ways: (a) a cost approach which looks at spending/cost of replacement, e.g., the cost of converting to sustainable sources; (b) a market approach which looks at comparable values of transactions in the marketplace to acquire or sell companies that practice CSR vs. those that do not; and (c) an income approach which looks at revenue and projected cash flows of companies that practice CSR vs. those that do not. Aside from CSR, there are many other factors that impact brand value, such as expected future cash flows attributable to a brand; marketplace and consumer recognition of a brand; advertising/promotion; social media activity; and stakeholder perceptions and behaviors.

The question is: Are there any incentives for franchisors and franchisees to promote their CSR stories more prominently in the marketplace, and seek more formal recognition that they are practicing CSR or perhaps are certified for meeting certain standards for their CSR activities?

One such certification is the “B Corporation” which is awarded to companies that meet several of the highest standards of verified social and environmental performance, public transparency, and legal accountability, and aspire to use the power of markets to solve social and environmental problems, including diversity in hiring, equal pay and community giving. Companies wishing to seek certification initially begin by completing the B Impact Assessment located at <https://www.bcorporation.net>. After completing the

B Impact Assessment, the B Corporation Lab (the B Lab) will assess whether your company meets the 80 point threshold for B Corporation certification. The B Lab will also coordinate meetings with your company to validate and verify your company's compliance with the certification standards. Companies that achieve B Corporation certification will need to update and verify their compliance with the B Corporation standards every three years. Depending on the size of your company, the B Corporation will determine your annual certification fee, which ranges from \$1,000 to \$50,000 for companies with annual sales between \$0 up to \$1B.

Those involved with franchising should be aware of some very important consumer data trends that should incentivize franchisors and franchisees to actively participate in and promote CSR, including to consider seeking certification as a B Corporation, or acquiring some other certification that indicates socially responsible products/practices, e.g., "Cradle to Cradle," "a globally recognized measure of safer, more sustainable products made for the circular economy."; see <https://www.c2ccertified.org/>. Here are some of those marketplace data trends from a recent Nielsen survey of 30,000 consumers across 60 countries:

- Millennial consumers (born between 1980 and 1996) focus on experiential shopping, conduct research before most purchases, and prefer brands that share their values. Gen Z consumers (born between 1997 and 2010) are focused on saving money, heavily impacted by social media/influencers, have no need for brick and mortar stores, are ok with second hand products, and prefer brands that feel authentic. Gen Z consumers already make up 30% of the world population.
- Millennial and Gen Z consumers share increased societal expectations. CSR is increasingly playing a crucial role in brand value and meaning to these consumers who are researching whether brands, including franchise brands, are participating in CSR before making their purchasing decisions.
- Millennial and Gen Z consumers will pay more for brands that are participating in CSR.
- 66% of global consumers are willing to pay more for brands committed to positive social and environmental impact. Millennials are leading the charge with Gen Z right behind them.
- Consumers under the age of 34 continue to be the most willing to pay extra for sustainable offerings, in fact globally almost 3 out of 4 respondents are willing to do so.
- 42% of global consumers want more new products in the market that are socially responsible and environmentally friendly.

- Brands with a purpose set on improving the quality of life of others outperform the stock market by 120% (*Interbrands—Best Global Brands Report, 2019*).

As a result, more companies are now taking notice and acting on these growing consumer trends and becoming, or considering to become, “better” corporate citizens. To this end, over 3500 companies have become certified “B Corporations” in 70 countries across 150 different industries. But, this author tried to find franchise brands who have sought certification as a “B Corporation”, and could only find a few—Ben & Jerry’s; The Body Shop and Online Training Academy. There may be others, but, in general, neither CSR or the fact of certification for such activities appear to be something that franchisors are marketing or promoting to increase brand recognition or consumer loyalty. The B Corporation certification is clearly setting a high standard, but with a B Corporation certification companies have shown increased brand value, perception and recognition, with the result being that brands acquire loyal and growing consumer bases that want to support the brand because the brand behaves in a way that meets their expectations. In a recent CSR study by Cone Communications 87% of Americans will purchase from a company that advocates for an issue they care about.

But, whether pursuing CSR policies and practices or becoming a certified B Corporation, franchisors should be aware that legal risks are still present even when doing good to generate brand value and meaning to consumers. Careful attention should be placed on building strong compliance programs taking into account local laws and industry regulations; knowing your supply chain (up and down the chain) and assessing potential risks for non-compliance; making sure you have strong enforceable contractual terms with franchisees and franchise vendors, licensees, distributors, manufacturers and suppliers; and confirming you have trademark protection in the jurisdictions in which your system is making, selling and advertising your franchised services and branded products.

investor and employee expectations are continuing to shape CSR practices even in the absence of legal requirements, and franchise brand owners should respond. Most companies recognize that CSR is good for the brand and society as a whole and that risk management is one key component to instituting successful CSR programs, along with quality-control practices and procedures. Those involved with franchising need to understand these new CSR opportunities and help their companies align their CSR objectives and business transactions with the legal compliance requirements as well as consumer and market expectations as they continue to evolve.

In the words of Warren Buffet: “It takes 20 years to build a reputation and five minutes to ruin it. If you think about that you will do things differently.”

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