The value of ESG planning to organisations, and how the B Corp framework can help

Developed by Ralph Tribe with Patrick Marsh for B-People

Introduction to ESG

ESG refers to three factors commonly used to measure the sustainability credentials of an organisation and/or investment. These three factors are: Environmental, Social, and Governance. Increasingly, companies are incorporating ESG considerations into their business decision making as it is seen as beneficial from an investment, brand and commercial perspective.

These three ESG factors are commonly defined as follows;

- E, environmental criteria, includes the energy a company takes in and the waste it discharges, the resources it needs, and the ecological consequences of doing so. Naturally the E encompasses carbon emissions and climate change.

- S, social criteria, addresses the relationships a company has and the reputation it fosters with people and institutions in the communities they serve. S includes labour relations, diversity and inclusion, and community value.

- G, governance, is the internal system of practices, controls, and procedures companies adopt in order to govern themselves, make effective decisions, comply with the law, and meet the needs of external stakeholders. Every company requires governance.

Why an ESG plan is increasingly important to companies

At the heart of the ESG movement is the idea that companies are more likely to succeed in the long term, and therefore deliver strong returns over a longer period, if they create value for all critical stakeholders; employees, customers, suppliers, wider society including the environment – not *just* their shareholders who historically have a narrower scope of interest.

Institutional investors are more-and-more focused on 'ESG investment', pivoting towards businesses which place broader long-range stakeholder considerations above short-term yields and profit hunting. ESG oriented investments are expected to reach $53 trillion by 2025.

ESG investments are attractive for many reasons (Why ESG Investing is Good for Business):

1. Risk management – Companies who prioritise ESG are now considered to be more resilient during societal and environmental crisis moments. By planning for such considerations by managing externalities and maintaining proper governance, a company is less likely to suffer as a result of events beyond their control. For example, climate change fuelled wild fires such as that which bankrupted PG&E (an energy company) in 2019 which the Wall Street Journal called "the first climate-change bankruptcy". Transparency laws now require companies to disclose their climate policies, and this is priced into a company's valuation accordingly.

2. Supply chain dynamics – Large companies increasingly require their suppliers to have their own ESG plan to do business. Many Fortune 500 and FTSE 100 companies' ESG credentials already rely upon managing and reducing carbon emissions for example not just within their own organisation but *throughout* their entire supply chain. These companies increasingly won't work with other businesses unless they have their own ESG plan as it undermines the

ESG progress they have already publicly committed to. This is even more important now the Security and Exchange Commission (SEC) requires companies to publicly report Scope 3 emissions for example (which includes all indirect emissions throughout the supply chain).

3. Innovation – Studies have shown that those companies who implement ESG plans are more innovative than those who do not. The reason for this is that ESG fosters diversity and equity, bringing a wider pool of experience and knowledge to the table. Overcoming climate challenges also requires significant creative thinking. As successful corporate evolution relies on innovative ideas, ESG is seen as a cornerstone of growth and subsequent investment.

As ESG considerations are now a critical investment consideration, businesses need to adapt and incorporate their own ESG plans / strategies in order to attract investment and growth.

Beyond just investment, the existence of a robust ESG plan tends to draw money towards it through:

- Consumers – Customers are increasingly factoring a brands ESG credentials into purchasing decisions. For example, studies show that those born between 1997-2012 are willing to accept a price uplift of 10% on sustainable products, and buy 6% more.
- Governments – A robust ESG plan is becoming an increasingly important factor when the government awards contracts to external organisations. As of 1 January 2021, the UK government uses a ‘social value model’ requiring a minimum weighting of 10% to be given to ESG objectives in each procurement project. In addition, any organisation bidding for any major UK government contract from 1 September 2021 must be able to demonstrate their organisation has a Carbon Reduction Plan (CRP) that achieves carbon neutrality by 2050 as a condition of tender.
- Employees – The younger generation particularly are increasingly factoring sound ESG credentials into their choice of employer. One study found that 64% of millennials would not apply to a company without strong corporate responsibility values, and 83% would be more loyal to a company which helps them contribute to ESG factors.

Overall, companies are now effectively internalizing the fact that what is good for people and the planet is more valuable from a long-term growth perspective than short-term return and yields.

So, it would seem that an ESG plan is good for business, but it can be daunting for many companies to know where to start when creating a robust comprehensive ESG plan. There are many ways to incorporate ESG considerations into business strategy, but we believe that using the ‘B Corp Framework’ to build a company’s ESG plan is one particularly effective way do this.

The B Corp Movement

What is the B Corp movement?

B Lab (the organisation behind B Corp Certification) is on a mission to transform the global economy to benefit all people, communities, and the planet. This all started in 2006 with the non-for-profit organisation B Lab launching its B Corp certification. B Corps are businesses which uphold the highest standards of social and environmental performance, accountability, and transparency.

The 3 main purposes of this movement are:

- Equity (as opposed to a concentration of wealth & power)
- Regeneration (as opposed to extraction)
- Interdependence (as opposed to individualism)

Since it began, B Lab has officially certified 5,850+ companies in 85 countries across 158 industries and these companies are reflect the values held by the B Movement. B Lab's stated aim is to make business a force for good.

B Lab's theory of change imagines a world where *all* stakeholders are considered equally in business decisions, not just shareholders. This relies on a shift from shareholder primacy towards stakeholder governance. These stakeholders include (but are not limited to):

- Shareholders
- Customers
- Workers
- Community

The B Corp Framework

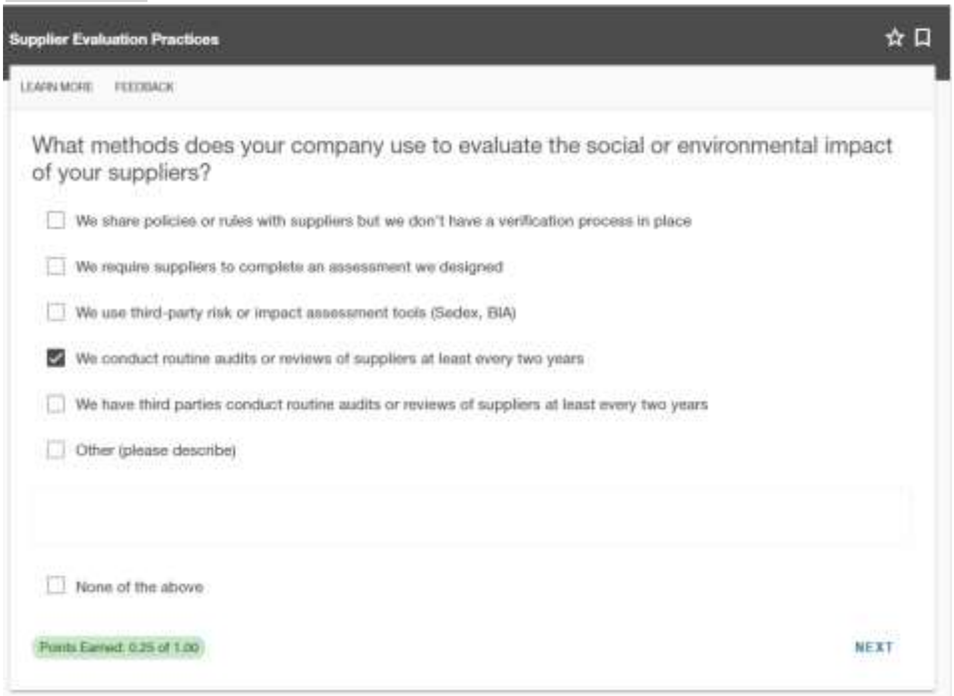
The B Corp 'Framework' aims to create a method of awarding companies full 'B Corp' status and involves a rigorous process of assessment and verification. The main aspect of this is the B Impact Assessment (BIA) which is essentially a detailed questionnaire to reveal the ESG credentials of a businesses. To date 150,000+ businesses have used the BIA to help identify and measure their ESG activity although only a small proportion of them (4%) have fully certified.

The BIA consists of around 200 well considered, relevant, meaningful and tailored questions under the headings, or 'impact areas', of:

1. Governance
2. Workers
3. Community
4. Environment
5. Customers

To give a sense of questions and format here are some examples from the BIA from each of the 5 sections:

Community


Supplier Evaluation Practices

LEARN MORE FEEDBACK

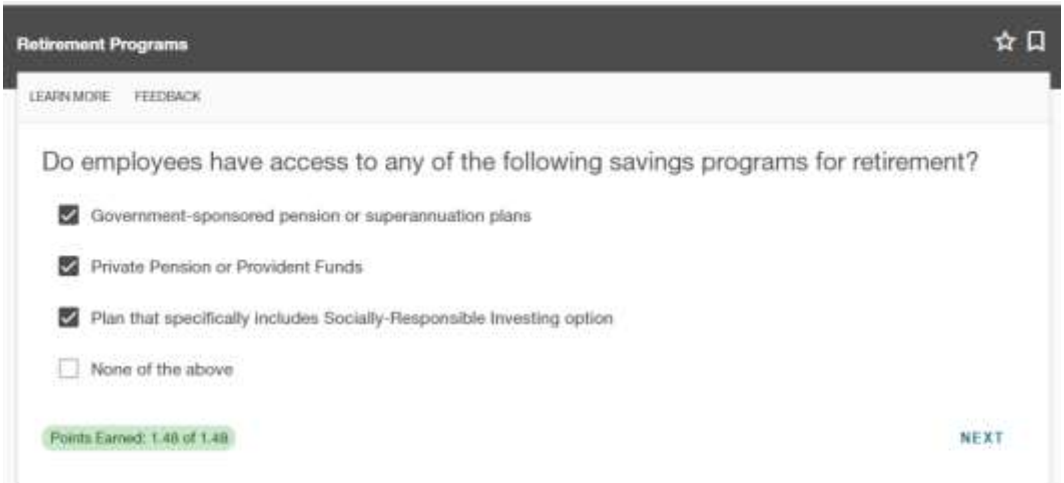
What methods does your company use to evaluate the social or environmental impact of your suppliers?

- [ ] We share policies or rules with suppliers but we don't have a verification process in place
- [ ] We require suppliers to complete an assessment we designed
- [ ] We use third-party risk or impact assessment tools (Sedex, BIA)
- [x] We conduct routine audits or reviews of suppliers at least every two years
- [ ] We have third parties conduct routine audits or reviews of suppliers at least every two years
- [ ] Other (please describe)
- [ ] None of the above

Points Earned: 0.25 of 1.00

NEXT

Workers


Retirement Programs

LEARN MORE FEEDBACK

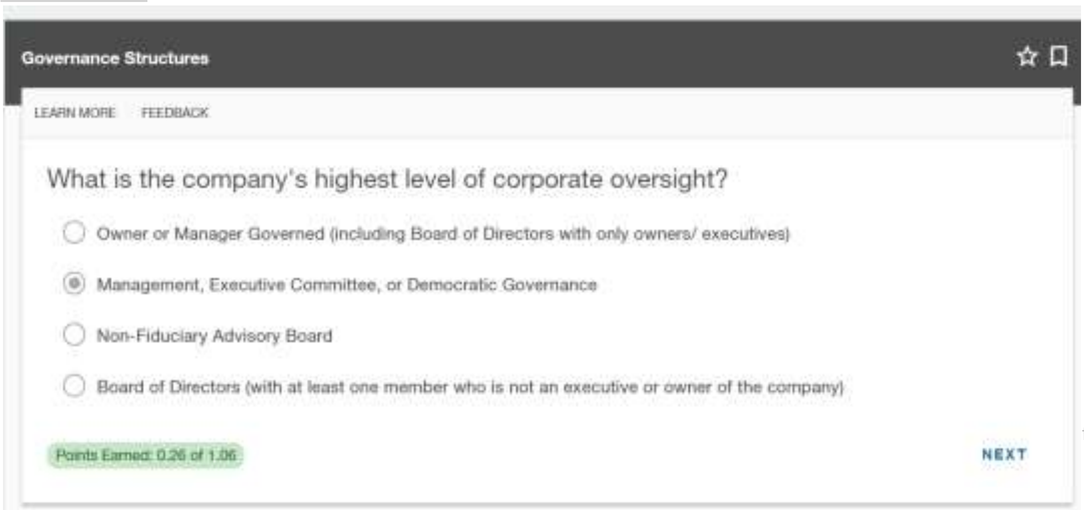
Do employees have access to any of the following savings programs for retirement?

- [x] Government-sponsored pension or superannuation plans
- [x] Private Pension or Provident Funds
- [x] Plan that specifically includes Socially-Responsible Investing option
- [ ] None of the above

Points Earned: 1.48 of 1.48

NEXT

Governance


Governance Structures

LEARN MORE FEEDBACK

What is the company's highest level of corporate oversight?

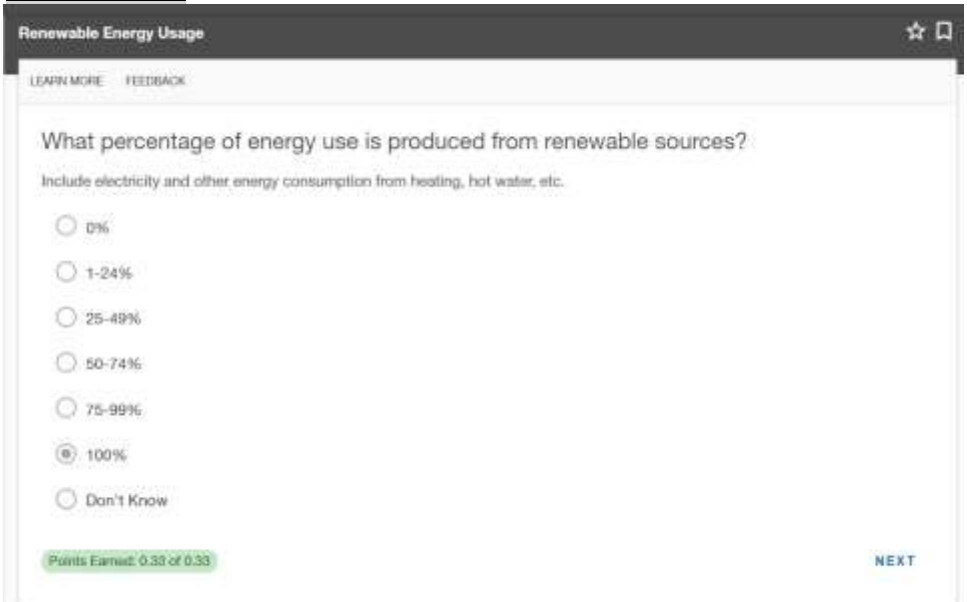
- ( ) Owner or Manager Governed (including Board of Directors with only owners/ executives)
- (•) Management, Executive Committee, or Democratic Governance
- ( ) Non-Fiduciary Advisory Board
- ( ) Board of Directors (with at least one member who is not an executive or owner of the company)

Points Earned: 0.26 of 1.06

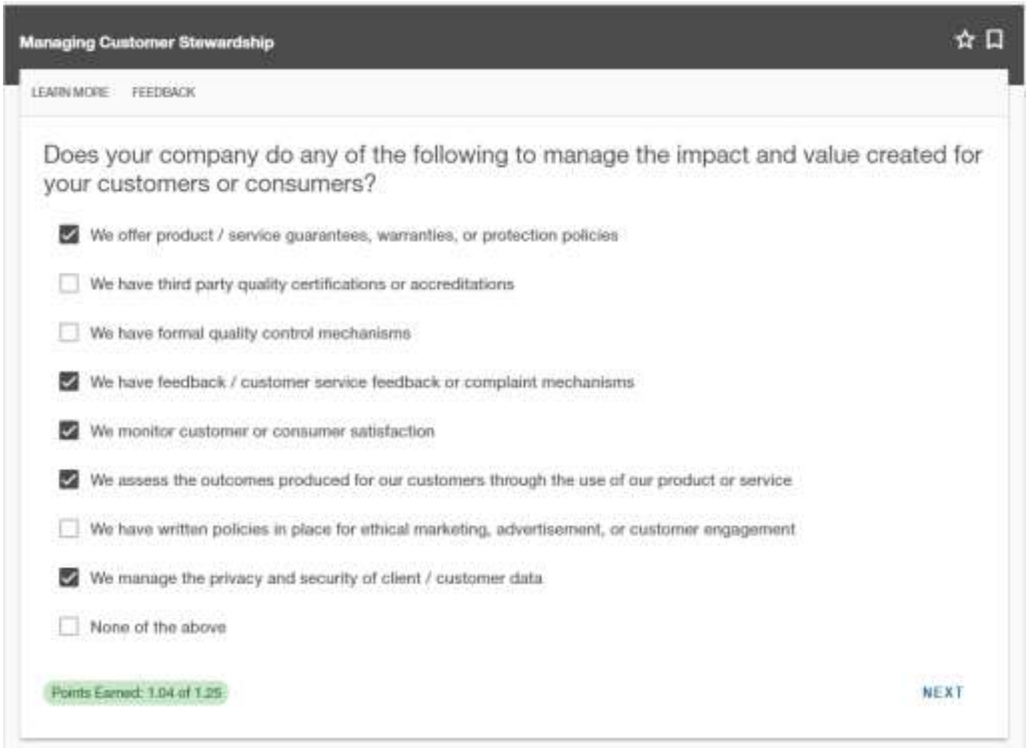
NEXT

from B-People

Environmental



Customers



As you can see from these examples, each question requires detailed information about the way a company conducts and governs itself with reference to ESG standards. Answering the questionnaire drives organisations to think deeply about the ethical nature and sustainability of their practices. The BIA comprehensively covers all bases from an ESG standpoint, so we believe the framework is an excellent place to start when creating an ESG plan for more or less any company irrespective of their intentions to progress to full B Corp certification (there are certified B-Corps in 185 industry sectors to date which somewhat supports this point about breadth of potential application).

Another useful aspect of the BIA is the inbuilt 'Improvement Report' which is available to access once a company has completed the questionnaire. This allows companies to look at areas within their organisation where they may not have achieved a high score, and it is possible to access specific questions which achieve 0 points. Looking at their Improvement Report, businesses should be encouraged to make ESG improvements in areas where they would like to do better.

Should a company wish to pursue full B Corp certification the process is as follows;

1. Register for the free and confidential B Impact Assessment.
2. Use the Legal Requirement Tool to determine how your company can integrate stakeholder consideration into your governance structure, which will depend on your location and corporate structure.
3. Complete the Risk Review and baseline requirements for multinational corporations if applicable.
4. Gather your supporting documentation and data, and get ready to record your answers.
5. Take the B Impact Assessment online. You can save and return to your assessment at any time.
6. Establish a company profile—you will be prompted once you fill out the majority of the Assessment—and start the Disclosure Questionnaire. At this point you will learn your baseline score; if it is under the 80-point benchmark, re-evaluate and prioritize improvement areas.
7. If you're over the 80-point benchmark, submit your B Impact Assessment for review.
8. You'll next wait in the Evaluation Queue, as an analyst from our team reviews your company's eligibility for B Corp Certification.
9. Once eligibility is determined, you enter the Evaluation phase. An analyst from B Lab Global will look over your company structure, any controversial industries, as well as your answers to the entire Assessment.
10. You'll then enter the Verification Queue, where you'll be asked to provide information about your employees and any suppliers.
11. During Verification, you'll have your review call with an analyst, go through your verification report, and provide all documentation backing up your answers to the Assessment.
12. If you meet the verified 80-point threshold, you'll enter the Post-Verification stage and sign the B Corp Agreement.
13. You've now reached Certification! In order to meet the transparency requirement for B Corp Certification, you'll need to publish your public profile in the B Corp Directory, including your company's score and impact report.
14. The final step in your B Corp journey will last the longest. You'll prepare for recertification every three years, and use the B Impact Assessment and the certification process as a tool for continuous improvement.

The Case for B-Corp Certification

(and/or using their BIA tool for ESG Planning irrespective of full certification intentions)

1. B Corps are more resilient and growth-prone:
   - During the coronavirus economic downturn, B Corps were 63% more likely to survive when looking at other companies of similar size and industry.
   - Between 2015-2018, B Corps grew at 14% a year compared to the national economic growth of 0.5%, meaning B Corps grew 28 times faster.

2. B Corp status is a recognised and respected external certification:
   - Being able to provide stakeholders with external verification for claims with regard to your ESG credentials is a valuable tool. B Corp certification is an effective way to give supporting evidence supporting in this regard, particularly to investors.
   - B Corp status is increasingly close to being regarded as one universally recognised ESG gold standard, and it is an exponentially growing phenomenon.

YEAR OVER YEAR GROWTH IN NEW B CORPS

Year	Number of new B Corps certified in a given year (includes those who are now inactive)	YOY growth
2007	71	
2008	86	21%
2009	98	14%
2010	161	64%
2011	159	-1%
2012	257	62%
2013	308	20%
2014	384	25%
2015	480	25%
2016	631	31%
2017	605	-4%
2018	573	-5%
2019	682	19%
2020	742	9%
2021	951	28%

3. The B Impact Assessment questionnaire is:
   - Comprehensive – covers all basis of ESG and provides scoring.
   - Objective – uses an independent Standards Advisory Council and relies on relevant third-party certification.
   - Tailored – the questions content and weighting are based on the specific business / industry sector and updated every 3 years.
   - Educational – provides information about best practices to support new thinking.

4. The B Corp Framework gives you improvement guidelines:
   - The B Corp Framework is not merely an ESG reporting tool, or a means to measure ESG performance, but it offers active improvement measures.
   - B Labs offer several improvement systems including – Best Practice Guidelines, B Impact Report, Improvement Report, Bookmark Report, and a Questions Filter.

5. The B-Corp framework gives you access to multiple benchmarks. This link to the B Corp website allows you to filter companies by industry sector, geography, size, date of assessment, etc. and then allows you to view the full details of all their BIA scoring in every segment of the assessment.

6. The B Corp Framework is easy to use and understand:
   - While the BIA may require a process of team building, information gathering, and application, it is not terribly arduous nor bureaucratic.
   - The sections of the BIA are easy to navigate and avoid jargon-filled terminology.

Other ESG tools and frameworks

Of course, the B Corp framework is not the only tool available to organisations considering their ESG impacts and intentions. However, it should be noted these are typically higher-level strategic frameworks (e.g. The UN's Sustainable Development Goals) or more one-dimensional reporting frameworks (e.g. SASB), often with a distinct bias towards environmental impact reporting (just the E, rather than the E the S and the G). As such, we believe they offer less in the way of practical 'full-scope' ESG planning support in the way B Corp resources do.

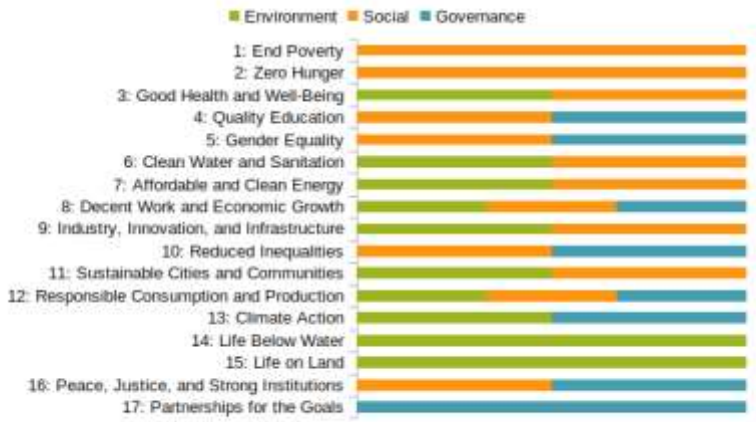
We've included details of three other widely used frameworks here, along with some relevant points of comparison with the B Corp framework. We've chosen these three on the basis they offer reasonable/good planning resources, and better cover the full scope of ESG relative to others, as does the B Corp framework;

The UN Sustainable Development Goals (SDGs)

The SDGs were introduced in 2015 as part of a United Nations 2030 agenda for sustainable development and created 17 specific goals with 169 associated targets for completion by 2030.

The SDGs relate to ESG as they direct the focus of investors towards socially responsible investments. By outlining 17 pivotal areas of impact, they effectively offer a practical framework to complement and support ESG considerations. ESG and SDG have much in common:

- They aim to create long term value for society and business.
- They aim to merge market potential, societal demands, and policy action.
- They believe in the idea of economic growth and well-being being synergetic.



This graph aims to link ESG to each of the 17 SDG goals.

As can be seen, the SDGs can act as a common medium to shape and articulate ESG proposals. The universality of the SDGs is unrivalled. However, there are several aspects which differentiate the SDG concept and the B Corp Framework:

- The SDGs are simply a loose set of goals which businesses can aim for to boost their ESG credentials, they are not a framework as such as they do not offer tailored improvements / standards to follow as the B Impact Assessment does.
- The SDGs do not directly link to businesses, they were created as a global set of objectives all parts of society should aim for. In other words, the SDGs offer a more thematic assessment of ESG rather than being corporate centric as the B Corp Framework is.
- SDGs offer strategic societal goals, whereas B Corp Framework offers tactical solutions that deliver beneficial ESG impacts.

It is worth mentioning that it is possible to get external certification from the UN Global Compact Initiative if a company complies with SDG ideals, provides a letter of commitment, and offers annual progress reports to provide evidence of their commitment to such principles. This provides companies extensive materials to help reach the SDGs while gaining trust from investors, consumers, etc. Currently this has 17,000+ signatories.

Helpfully, B Lab understands the significance of the SDGs, and has subsequently partnered with the UN Global Compact to develop an SDG Action Manager. This free to use tool acts as an impact management solution which helps businesses set goals, track progress, and stay motivated on specific actions to support the SDG. It also creates linkages between the SDG's and B Lab standards.

Specifically, it helps businesses:

- **Find a Starting Point:** Learn which SDGs are most relevant to your business, understand your existing contribution, and find out how to take action today.
- **Understand and Share Impact:** Analyse operations, policies, and business models in terms of potential positive impact and risks, as they relate to the SDGs. Communicate about your learning journey and about the impact improvement actions you are taking.
- **Set Goals and Track Improvement:** Use the dashboard to visualize and realize progress towards your goals, and use our benchmarking feature to compare against other businesses in your industry.
- **Collaborate With Colleagues:** Keep track of your progress as a team through one company dashboard.

EcoVardis

EcoVardis acts as a supplier assurance initiative whereby companies achieve a sustainability rating which is then shared throughout the value chain. In addition, EcoVardis offers ESG insights and improvement mechanisms both internally and across supply chains. This is done in the hope of building a network of companies which can work together to drive resilience, sustainable growth, and an overall positive impact.

EcoVardis method – the EcoVardis Sustainability Assessment;

- Based around 7 principles:
  1. Evidence based
  2. Industry, location and size matters – tailored
  3. Diversification of sources – rich stakeholder input
  4. Technology utilised – for confidentiality and efficiency
  5. Assessment by international sustainability experts
  6. Traceability and transparency – of documentation
  7. Excellence through continuous improvement

- Involves answering a questionnaire across 21 sustainability criteria over four topics. Performance is assessed based on a company's policies, actions, and results, as well as inputs from third-party professionals and external stakeholders.

- Built on globally recognised sustainability standards of:
  1. Global Reporting Initiative (GRI)
  2. UN Global Contract (UNGC)
  3. International Organisation for Standardisation (ISO) 26000 (social responsibility)

The EcoVardis method differs from the B Corp Framework in several ways:
- EcoVardis is more supply chain focused, with an interactive network for collaboration throughout the supply chain whereas the B Corp Framework is focused principally on growth within the participating company.
- EcoVardis aims to make ESG transparent by using a global network whereas BIA score is kept confidential until you are a certified B Corp (although scoring transparency it is then a requirement once certified).
- EcoVardis improvement mechanism, the 'Corrective Action Plan', relies on buyer and supplier collaboration to establish benchmark practices and enable improvement whereas B Labs improvement Report is personal to the participating business, and created by B Lab.

- The B Corp Framework offers greater company participation as it tailors to relevance, materiality, size, sector, and geographic market, whereas EcoVardis only tailors for industry, size, and base country.
- EcoVardis charges anywhere from $400 - $8400 per year to access their network / platform, whereas the BIA is free to use, charges only apply if a company choses full B Corp certification. B Corp certification charges can be found here.

SASB Standards

There also exists a variety of ESG reporting standards which are worth mentioning as they can act as useful ESG information planners. SASB is one of these standards.

The SASB Standards aim to guide the disclosure of *financially material* sustainability information (in other words, ESG information) of companies in order to satisfy various stakeholders, primarily shareholders. Financially material information is information which is likely to affect the financial performance of typical companies within specific industries. These standards are tailored and available for 77 different industries and they identify a subset of environmental, social and governance issues which are *most relevant* to the financial performance of each industry.

SASB Standards are one of the most universally used ESG Reporting Standards, and the International Sustainability Standards Board (ISSB) encourages preparers and investors to support and use SASB Standards.

Other standardized ESG reporting standards have been made such as the Global Reporting Initiative (GRI), but SASB Standards are good as they are industry specific, made to be:

- Relevant
- Reliable
- Comparable

SASB guidelines are relevant to ESG planning as they can:

- Be used to identify areas which a company can focus on when creating an ESG plan.
- Allow companies to ensure their ESG plan is financially beneficial if your focus is investment and growth.
- Allows businesses to compare and analyse others ESG credentials along a standardized set of criteria.

However, SASB Standards cannot be considered an ESG planning framework in and of themselves. They differ as they simply provide specific, detailed, and replicable requirements for what should be reported under the headings of ESG, including metrics. Therefore, SASB Standards should be used to guide frameworks, and are a very helpful tool for ESG reporting.