A Method to Launch Sustainability Reporting in SMEs: The B Corp Impact Assessment Framework

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As sustainability reporting and management rapidly increase in importance, SME managers must learn how to integrate sustainability issues and reporting into their businesses. This paper offers an overview of an accessible organized approach that SME management can use to begin. The B Lab's "B Impact Assessment" offers a method that could suit resource constraints typical of many SMEs with its presentation of key sustainability issues in a format oriented toward smaller companies.

INTRODUCTION

Small-to-Medium Enterprises (SMEs) face increasing pressure for heightened awareness of sustainability and to engage in concomitant sustainability reporting. External sources of pressure for awareness and then action include customers, competitors, regulators and other stakeholders. Managers of some SMEs see this sustainability trend as a mandate and already have started on the path of integrating sustainability considerations into their decisions (Brammer, 2012) though overall SMEs have been seen as reluctant to wholeheartedly jump into the sustainability movement (Schaper, 2002).

The reporting aspect of sustainability is an important accounting consideration for SMEs. The clear trend is toward required integrated reporting and mandated reporting standards for various economic sectors under the direction of organizations such as the Sustainability Accounting Standards Board and the Securities and Exchange Commission (Schooley & English, 2015; Romero, Lin, Jeffers, & DeGaetano, 2014). There are many benefits to environmental and social reporting such as reducing costs and risks, revenue growth and access to capital, responding to consumer preferences for environmentally friendly products, employee recruitment and retention, branding, innovation, and competitive position (Chen & Kelley, 2015; Ernst & Young, 2013; Ernst & Young, 2014; Leonidas, Christodoulides, & Thwaites, 2014). For this reason, it is important that SMEs that have not yet responded should be aware of this trend and begin to take action to start their own programs of measuring, tracking, goal setting, and reporting.

Beginning sustainability reporting, however, involves gathering relevant information, assessing the company's current sustainability performance, and starting programs to take actions to improve performance. Given the scarcity of human and financial resources that tend to plague SMEs (Nicholas, Ledwin, & Perks, 2011; Gadenne, Kennedy, & McKeiver, 2009), this can seem like a monumental task at the outset. SME managers must not only learn about sustainability issues germane to their business but then must develop or identify performance measures and subsequently learn how to track performance in a regular and systematic fashion (Shields & Shelleman, 2015).

Despite its importance, there is little startup guidance for SME managers on how to begin to undertake this critical endeavor. It is useful given the lack of resources of SMEs and especially micro-SMEs to have a structured approach as a starting point. This paper addresses this gap by discussing the application of one such method that may be well suited to SMEs, the "B Impact Assessment". This framework was developed by B Lab, a nonprofit that provides companies with designation as a Certified B Corp.

Next, we review key issues related to sustainability reporting in SMEs and then discuss the B Corporation concept and the B Impact Assessment.

SUSTAINABILITY AND SUSTAINABILITY REPORTING IN SMES

SMEs are independent non-subsidiary firms whose definition varies by country. They can range in size from a single self employed owner-operator to some greater number of workers, such as the 250 employee threshold used in the EU (OECD, 2005). Alternatively, they may be defined by some upper limit of financial assets. SMEs comprise more than 90% of all firms worldwide and provide at least 50% of all employment worldwide (International Finance Corporation, 2012). As such, SMEs are integral to local and regional economies, job creation, and innovation (Gasiorowski-Denis, 2015). They are important partners in international trade and drivers of not only poverty reduction in developing nations but crucial economic prosperity around the globe.

In a speech centered on climate change, financial policy maker and governor of the Bank of England Mark Carney issued a stark warning at the insurer Lloyd's of London: "…the catastrophic impacts of climate change will be felt beyond the traditional horizons of most actors…once climate change becomes a defining issue for financial stability, it may already be too late". He highlighted the uncertainty of climate change that goes beyond traditional business and political cycles by calling it the "tragedy of the horizon" (Irwin, 2015). Carney's words, made in a business rather than a scientific context, emphasize the challenge to and urgency for SMEs to begin to address sustainability concerns.

"[D]evelopment that meets the needs of the present without compromising the ability of future generations to meet their own needs" is the widely accepted definition of sustainability that was adopted by the World Commission on Environment and Development (1987). A restatement of this for a business context is that a sustainable business "meets the needs of its stakeholders without compromising its ability to meet their needs in the future" (Hubbard, 2009). These definitions imply an orientation toward the management of future impacts of operations that typically has not been emphasized by traditional concepts of business management.

What's more, the so-called triple bottom line increases the complexity of learning about and implementing sustainability practices for SMEs. It explicitly adds social and environmental performance to the traditional one-sided notion of economic performance, expanding and building on longstanding premises inherent in traditional business policy and corporate social responsibility. Sustainability encompasses social, environmental, and economic factors.

Sustainability reporting, the process of making public reports on an organization's social, environmental, and economic effects (GRI, 2017), is an important foundation for sustainability focused action by businesses. Reporting practices and frameworks for sustainability have been in the making for several decades. On a global scale, the participation of large companies has helped to stimulate the pace and scope of reporting, along with public pressure. The importance of sustainability reporting has been expanding. Not only have entities such as the Securities and Exchange Commission and the Sustainability Accounting Standards Board created requirements and standards for integrated and economic sector reporting (Schooley & English, 2015; Romero, Lin, Jeffers, & DeGaetano, 2014), now some countries, such as Sweden, mandate company sustainability reports (Schooley & English, 2015). In 2016, there were

383 sustainability reporting instruments, 248 mandatory and 135 voluntary, across 71 countries and regions (KPMG, 2016).

According to the Big Four accounting firm KPMG (2015), sustainability reporting among the largest companies is now at nearly three quarters participation (73% of the N100 across 34 nations). In the Fortune Global 250, it stands at 92% participation (KPMG, 2015). These corporations cite reasons such as branding issues, ethics, reputation, risk management, and cost savings, among others, as rationales for their efforts at making voluntary reports on environmental and social performance measures (Ernst and Young, 2014; Bonini & Bove, 2014; KPMG, 2011; McKinsey and Company, 2010).

The Global Reporting Initiative (GRI) is the most well known and well formulated framework for sustainability reports (KPMG, 2015). Among the largest firms, its high rate of use hovers around 74% (KPMG, 2015). The Global Reporting Initiative framework permits firms to report at either of two levels (GRI, 2013) with one consisting of a more comprehensive assessment of the three factors. There are specific indicators of aspects of sustainability. It is up to the firm to identify the issues that are germane to their situation and to report on at least one measure for each relevant aspect. For example, an aspect of environmental performance might be the amount of waste generated (GRI, 2013). Frequently reported measures include energy use, water use, and greenhouse gas emissions (GRI, 2014). Reporting standards also include social issues such as occupational health and safety, training and education, local communities, and customer privacy and economic issues such as anti-competitive behavior, procurement practices, etc. (GRI, 2016); each standard has corresponding measures.

As sustainability reporting grows in prevalence and sophistication, SMEs can anticipate that larger firms with which they do business will require their participation. The Global Reporting Initiative's newest reporting framework, G4.0, measures a company's supply chain environmental performance (GRI, 2013). Therefore, large companies will expect entities in their supply chains, including SMEs, to track and report their own performance. This generates increasing pressure for SME participation in reporting.

Along with evolving consumer pressure (Hower, 2013) and industry demands, sustainability reporting requirements generate an urgency for SMEs to integrate sustainability issues into their business. However, SMEs, especially smaller ones, tend to have fewer financial, human (Nicholas, Ledwin, & Perks, 2011; Gadenne, Kennedy, & McKeiver, 2009) and overall resources (Bos-Brouwers, 2010) to apply to taking on the challenge of integrating sustainability considerations and reports. For example, micro-SMEs (often defined as those with fewer than 10 or even 5 employees) (OECD, 2005) comprise a clear majority (97.7%) of businesses in the U.S. (SBA Office of Advocacy, 2012) and have scale-related resource constraints. Often in contrast to larger companies, SMEs can fail to address sustainability issues as a result of time limitations, staffing, expertise, and financial resources (Schulz, Kraus, & Demartini, 2011). As relatively small entities, they tend to be driven more by the vision of founders and owners than by formalized structures and to have flatter organization structures (Sloan, Klingenberg, & Rider, 2013).

Like most businesses (Kiron, Kruschwitz, Rubel, Reeves, & Fuisz-Kehrbach, 2013), SMEs can lack a management and organizational structure for addressing such concerns (Schulz, Kraus, & Demartini, 2011). In short, SMEs in general tend to lack the infrastructure that readily enables sophisticated sustainability reporting, rendering a simple framework like the B Impact Assessment a more accessible method to get started. This is supported by a recent study of the first round of Certified B Corps that concluded that the structure created by the B Corp certification process (standards and reports) enabled small companies to better meet their social and profit goals over time (Wilburn &Wilburn, 2015).

Next we present an overview of the certified B Corporation and its B Impact Assessment as an approach by which SMEs may begin to integrate sustainability and concomitant reporting into normal business operations.

THE CERTIFIED B CORPORATION CONCEPT

Billed as "the highest standard for socially responsible businesses" by *Inc. magazine* (Inc., 2011), a certified B Corporation is an organization that has taken the B Impact assessment and scored sufficient points on its environmental and social impacts as scored by the B Lab organization to become a Certified B Corporation (Honeyman, 2014). Much like the growth in the participation in the leading framework for sustainability reporting among large corporations, the Global Reporting Initiative, the Certified B Corporation framework is growing among SMEs. Members have increased from 370 firms in 2010 to over 1600 in 2016 representing 130 industries and 47 countries (B Lab, 2015; Stubbs, 2016). While membership details are not public, the framework's marketing and content is primarily targeted to SMEs and social entrepreneur start-ups, thus explaining its appeal to SMEs. This focus renders it more applicable to these smaller businesses.

The Certified B Corp is not necessarily the same as a "benefit corporation" (Cho, 2017), though certainly a benefit corporation also can obtain B Corp certification. Benefit corporations are a legal business form of corporate structure offered by at least thirty states to date and the District of Columbia. These entities are established to pursue third party standards and are dedicated to the triple bottom line with a social purpose. They provide important advantages to protect the interests of for-profit companies who seek to serve the public benefit (Neubauer, 2016). But benefit corporations per se are subject to lower standards of accountability than is the branded Certified B Corp (Cho, 2017).

The Certified B Corp pursues social, environmental, and economic goals by integrating traditional market logic (pursuit of profit) with a social logic aimed at the other aspects of triple bottom line impacts (Stubbs, 2016). Profits are the means to the end goal of social impact; thus, the Certified B Corp business model so far has attracted few publicly traded, large companies. For example, of the 45 companies that initially were certified in 2007, most employed fewer than 30 workers and only 10% employed more than 100 (Wilburn & Wilburn, 2015). Precisely for this reason, perhaps, its measures for reporting remain accessible to SMEs with their limited resources as they begin to address sustainability.

In the preceding portion of the paper, we have reviewed the literature on sustainability reporting and introduced the B Corporation concept. Now we examine the B Impact Assessment as a means for SMEs to begin the process of learning about key sustainability issues, developing or identifying performance measures, and setting the stage for tracking the company's sustainability performance.

THE B IMPACT ASSESSMENT

The B Impact Assessment, from the B Lab, provides a sustainability reporting framework. It is a series of questions an organization answers with respect to its impacts on workers, community, environment, and governance (Honeyman, 2014). These assessment questions are geared toward SMEs and represent a simple structured starting point to take an SME on the path of a cycle of sustainability reporting and subsequent monitoring, goal setting, and developing programs to improve performance on the monitored and measured aspects of environmental and social criteria. This is a necessary investment to achieve the benefits of being responsive in the form of competitive position, innovation, reduced costs, reduced risk, revenue growth, improved access to capital, consumer pressure, recruitment and retention of employees, and branding (Chen & Kelley, 2015; Ernst & Young, 2013; Ernst & Young, 2014; Leonidas, Christodoulides, & Thwaites, 2014).

There are several levels of questionnaires available for an SME. There is a handbook that lists a "Quick Assessment" (Honeyman, 2014). There is a free online assessment and there is a full blown online assessment that is scored for a rating of points. This scoring facilitates benchmarking with other organizations that have taken the more detailed assessment (see http://bimpactassessment.net/). The following tables provide an overview of the categories and some of the questions included in the Quick Assessment. An SME's impacts that affect its workers, community, and environment are evaluated. In addition, impact over the long term and of its "core" business model with respect to innovation in confronting environmental and social issues are assessed.

Impacts on workers include categories for compensation, ownership, and work environment. Items under these categories cover a variety of specifics such as paying a livable wage, retirement benefits, skills development, stock options, and worker satisfaction (See Table 1 in the Appendix). Community impacts include categories for job creation, diversity, civic engagement, giving, local involvement, and suppliers (See Table 2 in the Appendix). Items under these categories address job creation for underemployed populations, diversity management and suppliers, service days for employees, partnership to support a charity, local purchases of goods and services, suppliers' environmental and social performance.

The environmental impact assessment has categories for land office and plant; energy, water, and materials; emissions and waste; and transportation, distribution, and suppliers (See Table 3 in the Appendix). Items under these categories address an environmental audit, energy efficiency, life-cycle assessment of products greenhouse gas emissions, and supply chain environmental reviews.

Long-term impacts address the categories of mission and engagement, transparency and structure (See Table 4 in the Appendix). Items under these categories address the link between mission statement and environmental and social performance, links to compensation such as bonuses, open-book management, benefits, and corporate structure. The impacts of "core" address an organization's business model and its consequences for environmental and social performance (See Table 5 in the Appendix). Items under this assessment include poverty effects of supply chain procurement, environmental benefits through reduction in hazardous materials or the use of renewable energy sources, and donation of a percentage of sales to charities.

DISCUSSION AND IMPLICATIONS FOR PRACTICE

The B Corp's Impact Assessment represents a starting point for an SME to begin to answer a subset of questions that are pertinent to its business and values. These questions identify the issues germane to sustainability. Thus, they offer SME managers a rapid way to become acquainted with the potential range of social and environmental issues and sustainability impacts. In this way, the measurement itself serves as a learning tool. It frames the relevant issues in a succinct format. From this awareness, SME managers can discover or develop sustainable performance measures now that they know and can reflect on desired outcomes. These can complement more traditional performance measures demanded by forces external to the business such as customers, competition, or regulation.

An SME that has not yet begun to address its environmental and social performance should start with simple steps that potentially have large benefits. For example, starting points can be actions such as recycling, energy efficiency, renewable energy purchases, and reduction in hazardous materials through procurement. Investments in energy efficiency in buildings (e.g., lighting) and of buildings (e.g., insulation) have been found to have an internal rate of return of 13% and 81% respectively while reducing carbon emissions (CDP, 2014). In many cases there are tax credits available. For small energy efficiency projects, the payback time is short and the rate of return is high (SBA, 2014).

It is these kinds of small beginnings that then must be followed up by tracking the impacts through performance measures of the program initiatives. The next step is to set goals and make further progress or to extend efforts and attention into other areas of environmental and social performance. This step-by-step approach can work well given the paucity of resources faced by many SMEs (Nicholas et al., 2011). Given the dynamic business environment represented by changing consumer and customer preferences, regulation, and supply chain assessment, it is imperative that SMEs that have not yet begun to address this aspect of their business environment be proactive before they face a situation of forced compliance that puts them in a reactive position.

The B Impact Assessment approach is one of many frameworks for environmental and social performance reporting; however, it is one that seems best oriented towards SMEs. Its assessment process and questions are relatively simple and straightforward. Additionally, the assessment is tailored by sector and number of employees, unlike some other frameworks. Other frameworks such as the Global Reporting Initiative and the Carbon Disclosure Project are more complex in terms of their reporting processes and measures. For example, unlike the Global Reporting Initiative, the Impact Assessment does not require stakeholder engagement, a resource intensive effort. It also does not require a materiality analysis of the impacts of the business. Avoidance of complexity is important for at least two reasons. First, complexity creates a steeper learning curve for the management of a small company just becoming acquainted with the notion of sustainability issues and reports. Second, it requires resources that SMEs do not normally possess, as previously discussed in this paper.

Finally, we note that some micro-SMEs are not incorporated and in fact may be one person operations. While suitable for the vast majority of SMEs, the B Impact Assessment could vary in suitability for these unique SMEs on its specific dimensions relevant to corporate structure and governance or employees.

CONCLUSION

Focused on application, this paper presents a method by which SMEs can get started to learn about and incorporate sustainability reporting into the business to track and demonstrate sustainable performance. By laying out clear measures within a framework, the Impact Assessment can enable a resource-constrained SME to conduct a relatively quick assessment of its current level of sustainable activity, set goals, and know what to monitor for ongoing sustainability reporting. We provide examples of small steps that can provide the basis for a proactive approach to sustainability. If the SME then chooses to go forward, it might seek the branding inherent in Certified B Corp status or, on its own, simply use its new awareness to institute regular sustainability practices and reports that provide the sustainability outcomes that now are increasingly demanded by both consumers and business partners. While those who choose B Corp certification do so for distinct reasons (Stubbs, 2017; Kim, Karlesky, Myers, & Schifeling, 2016), the Impact Assessment is a practical tool (potentially at no cost in its simplest form) that any SME may find valuable to develop its understanding and capabilities at sustainability reporting and management.

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APPENDIX

TABLE 1
ASSESSMENT – WORKER IMPACT

Compensation, Benefits, and Wages
Pay a living wage to employees and any independent contractors
Determine the multiple of the highest paid employee to the lowest paid employee
Offer employees the same benefits as executives and management
Offer a retirement plan, pension, or profit sharing to employees
Subsidize professional development and training
Worker Ownership
Offer stock options or have a plan to transfer ownership to employees
Work Environment
Hand out an employee handbook
Conduct worker satisfaction surveys
Collect and disclose data on employees (e.g., retention, turnover, diversity)
Have an employee monitor occupational health and safety

TABLE 2
ASSESSMENT – COMMUNITY IMPACT

Job Creation
Create opportunities for jobs for chronically underemployed groups (e.g., ex- convicts, homeless)
Diversity
A diverse board of directors, management, and employees
Do business with suppliers that are majority owned
Civic Engagement and Giving
Offer incentives for employees to participate in volunteer activities
Goal for the percentage of employees who participate in voluntary activities
Have a written policy regarding community service
Partnerships with a local charity
Local Involvement
Buy goods and services from local and or minority-owned businesses.
Procurement decisions include fair trade or environmental standards
Banking with local banks or credit unions
Suppliers, Distributors, and Product
Disclosure of suppliers' environmental and social performance

TABLE 3
ASSESSMENT – ENVIRONMENTAL IMPACT

Land, Office, and Plant
Conduct and disclose results of an environmental audit addressing energy, water, and waste efficiency
Use energy-efficient lighting and office equipment (e.g., CFL, LED, Energy Star)
Use water systems that are efficient (e.g., low-flow faucets)
On-site renewable energy systems (e.g., solar, wind)
Purchase renewable energy credits
Energy, Water, and Materials
Life cycle assessments of products
Emissions and Waste
Record and monitor greenhouse gas emissions
Have programs to recycle or reuse products
Transport, Distribution, and Suppliers
Foster suppliers to conduct their own environmental reviews or audits

TABLE 4
ASSESSMENT – LONG TERM IMPACT

Mission and Engagement
Integrate social and environmental responsibility into the mission statement
Train employees about the mission
Evaluate employees and management on the accomplishment of company environmental and social targets
Link social and environmental performance to rewards
Engage stakeholders
Meet the board of directors to discuss environmental and social performance
Transparency
Disclose basic financial information (e.g., income statement and balance sheet) to employees
Practice open book management and facilitate employees accessing financial information
Corporate Structure
Legally link the mission statement to the corporate structure

TABLE 5
ASSESSMENT – CORE IMPACT

Provide health care, educational support, or support for non-for-profit organizations through fundraising
Be beneficial to the environment by: renewable energy; improved energy or water efficiency; reducing toxic chemicals and hazardous substances; or pollution prevention
Forty percent ownership or more by employees
Addressing poverty through the supply chain by procurement that takes into account fair wage-certified suppliers; provide technical assistance and/or capacity building to small-scale suppliers