



Radnor View

Why B Corp is only half the battle

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B Corp certification is a significant milestone, setting a benchmark for many key ESG elements and obtaining it is no mean feat. However, even after all that hard work, certified companies should not rest on their laurels just yet. The remainder, and arguably most important part, of the task lies in **explaining this new status and what it means to investors** – making sure they and the wider market views B Corp as a superior investment proposition.

For many companies, pursuing B Corp certification in the near future may prove a step too far. However, **all companies** (B Corps or otherwise) **can still benefit from a robust ESG strategy** complete with measures and targets that is communicated effectively with investors.

Becoming a B Corp involves a series of **extremely thorough questions** on governance, workers, environment, community, and customers followed by an **audit** to assess how initiatives in each area are applied to operations and business models. Aspiring companies find themselves implementing measures, disclosures, and initiatives to meet standards – yet **only one third of those companies' seeking certification are successful**. While reception from investors has been far warmer in the US, the UK public markets are **yet to fully comprehend** the complexities and implications of B Corp certification and what it tells us about a company.

Despite only a small subset of companies capable of gaining a B Corp certification, it is our view that **all companies** should be able to demonstrate a sustainably run business through proper ESG initiatives and disclosure. These companies will be able to reap the benefits of meaningful and well communicated ESG initiatives in the form of **increased investor interest**.

Current literature surrounding B Corp focuses on its stringent standards and substantial effort to procuring the certification – only tentatively broaching the soft benefits such as staff attraction or improved branding. However, companies are unaware that this narrative could be **damaging and disinteresting to the investor** that only hears that business is being lost due to environmental or social considerations, all the while resources are diverted to B Corp – potentially diluting financial returns. The reality is somewhat different, as we outline in more detail below.

For B Corps, the reality is also that a B Corp rubber stamp, in itself, is not good enough alone to attract the investor; meaningful and **solid connections must be made between B Corp certification and improvements in the bottom line**. Without substantiating the certification with material financial and non-financial benefits, investors might view B Corp as an unnecessary diversion that will continue to divert resources in order to retain the certification. Shifting the narrative to B Corp as worthwhile investment that will help profits is a message that will resonate with investors far better.

B Corp benefits to the public markets

When messaged correctly, a B Corp certification demonstrates to investors that the company is committed to **ESG materiality** with various **stakeholder interests** positioned at the very heart of their operations.

Hard evidence on the relationship between B Corp and financial returns is limited so far, owing to the relatively recent interest in non-financial corporate matters (hence, a lack of historic data). But **correlations and patterns on the specific elements of B Corp and financial return** are well-established and are becoming more pronounced.

Attraction and retention of valuable staff members is a common benefit of a business that takes the internal stakeholder seriously – and investors have long recognised this. According to a study on Fortune Magazine's 'Top 100 Companies to Work for' from 1984-2020, these companies consistently delivered excess returns above forecast. This outperformance persisted even in times of crisis¹, which feels particularly relevant against our current market backdrop. In effect, **happy employees led to better returns**.

In fact, with greater focus on employee wellbeing as a result of the pandemic, apathy or doing nothing is becoming costly. An example of such negative fallout is currently being felt by airlines globally. Airlines that laid off large swathes of their workforces during the pandemic are reeling from the effects. Worker shortages, strikes, cancellations/delays and restrictions imposed by airports have clustered to create a shaky recovery.

On the other hand, airlines, such as Jet2 or Ryanair, that retained much of their internal capacity (even if accompanied by temporary wage reductions) are experiencing fewer staff woes and benefiting from higher customer numbers as they gain from their rivals' capacity reductions.

This demonstrates two things; **investors recognise staff wellbeing** (a central element of B Corp) **translates to outperformance/stable performance**, even retrospectively. Secondly, the cost of treating workers disposably can have catastrophic effects on demand/revenue, but treating staff well is a competitive advance against peers.

As the Cost-of-Living Crisis becomes more pronounced in the UK, increasing employee considerations will only become more crucial for companies. We will not pretend that in a tight labour market and any potential recession will not be difficult for SME's to contend with, but

¹ Financial Times, 2022, "Employee Wellbeing: Satisfaction guarantees better returns", Financial Times, <<https://www.ft.com/content/6d0e91fc-8b61-44ff-bb93-60bed872a0d1>>

ensuring employees feel adequately supported, well-compensated and listened to during this time will help businesses weather the storm. Investors recognise that those companies that look after their employees are valuable and more resilient constituents during economic downturns.

A B Corp certification is **not just about employee retention and pay**. Though this sentiment can be demonstrated within a B Corp certification (provided the 'workers' score is sufficiently high). Demonstrating initiatives within the 'social' pillar of an ESG strategy can be as effective. **A strong ESG agenda provides great flexibility** and can be molded to the size and nature of the company. For some larger companies, periodic employee wellbeing surveys or social committees are more effective methods to gauge employee satisfaction and target areas of improvement. For other smaller companies, one to one sessions are more suited. Companies with such strategies in place should make it clear to investors not only that the initiatives exist **but how and why they are expected to improve the business**. Part of our role as advisor is to help our clients get this message across clearly and impactfully

An ESG strategy can be stronger in some disclosure areas (TCFD)

The mechanics of the B Corp certification does mean that some considerations may fall through the cracks. The segmented grading system of categories could allow for **companies that score highly in some areas still become certified despite a poor score in others**. Although becoming a B Corp sends a powerful message of intent to the broader market, it is not a universal ESG panacea.

For example, a B Corp certification, depending on the environmental score of the business, could indicate the company's readiness toward climate risks – an ongoing risk that is becoming far more substantial year on year. But a poor score could easily be overlooked with other highly scoring areas compensating.

Adequate TCFD reporting is a far more effective and focused conduit for informing investors how your business intends to deal with inbound climate related risks and opportunities. Without the opportunity to hide behind other disclosures.

This year, the UK has witnessed some very adverse climate conditions affect our corporates. Hot weather threatened our energy output, trade on European waterways and footfall. Decreased agricultural output and diminished food supply are also major issues in developing countries and fast becoming a concern for the West – accustomed to decades of abundant and cheap food supplies.

Conversely, against the impending backdrop of an unusually cold winter, again caused by climate change, many businesses are only now realising the **full impact of heightened energy bills on their operating expenses**. This only compounds the effects of already surging energy prices as the war in Ukraine rolls on.

Radnor, aware of investors persistent concern over the exponential effects of climate change on businesses, are well positioned to ensure TCFD reporting is done right. **Paying lip service to TCFD is no longer a realistic option**. In fact, we would argue that taking a bare minimum approach to TCFD is in fact a massive waste opportunity.

With TCFD reporting mandatory for listed business of over 500 employees and impending expansion to others, more companies will be expected to assess climate related risk and opportunities, their likelihoods and potential financial impact as well as generate adequate and effective response plans and conduct climate scenario analysis. Though a rather daunting prospect, this exercise is crucial to **assure investors that risk management is taken seriously** to protect their capital.

So even though B Corp could potentially indicate strong environmental credentials, we find that TCFD reporting is increasingly being seen as the more direct and effective means to inform investors over climate related risks and opportunities.

Overall, B Corp ties together many elements of outperformance and can act as a convenient 'preliminary due diligence screen'. But **companies do not necessarily need to pursue a certification in order to be thought as one of the elite, outperforming companies**. In fact, some disclosures, like TCFD or a good social strategy, can be more effective for certain agendas and when part of a broader ESG strategy, bespoke to a company and communicated to investors can be equally as effective.

Becoming a B Corp and an ESG strategy are NOT mutually exclusive

In our experience, we have found that the elements of B Corp and a robust ESG strategy have major overlap. A company that has implemented clear goals and metrics for relevant environmental and social considerations may find themselves in a position to proceed to B Corp with ease.

But not every company is suited to a B Corp assessment, resource constraints, shareholder hesitance or ineligibility are common obstacles. However, these companies can still **reap the benefits**, both internally and externally from investors **by having a well-communicated ESG Strategy**.

In fact, the **B Lab's B Corp assessment, could act as a convenient checklist** for actions a company should take to bolster their ESG agenda. The series of highly specific and astute questions like "What portion of your management is evaluated in writing on their performance with regard to corporate social and environmental targets?" and "What % of energy (relative to company revenues) was saved the last year for your corporate facilities?" can show management teams and internal ESG teams where to focus their energies.

Conclusions

For companies aiming for B Corp: They do not and should not, wait until certification to disclose their ESG measures. Instead, companies have the opportunity to capitalise at every turn on any ESG strategy they put forward to the market.

Gaining a B Corp certification takes considerable time, namely due to the metrics that must be put in place for data patterns to emerge over several years. So, disclosing any new measure signals accountability and a concerted, focused effort for improvement – as well as making certification far easier.

For companies not thinking about B Corp: A robust ESG strategy complete with necessary measures and metrics that is effectively communicated to investors can be just as effective as a B Corp validation. The ESG story can also be tailored to the nature and size of your company (away from the mold of B Corp) and incorporate as many or as few B Corp elements. These companies may find they are able to disclose certain ESG risks and opportunities through other more targeted framework more directly.

For companies already B Corp Certified: Ensure the narrative expresses how becoming a B Corp, namely the specific measures and initiatives implemented yield financial and non-financial benefits. A B Corp certification will allow companies to make the case that they are superior investment propositions as a result. However, this is an argument must be made as investors will not take it as a given.

Bottom line is:

Every company is suited to, and will benefit from, a well communicated ESG strategy.

In this climate, a company that is run sustainably is a must. Not only will it mitigate against disastrous workforce strife, unforeseen climate related risks but it will also signal to investors your company is more likely to endure turbulent market conditions. Running a business along B Corp standards acts an effective rubber stamp, but with not every company suited to B Corp, a *thorough, well-presented ESG strategy is just as effective.*

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