

CA Benefit Corporations: Annual Reports, Part 2

02.22.18 | Linda J. Rosenthal, JD



The cornerstones of the regulatory scheme for California benefit corporations are: (1) an annual self-evaluation based on an objective third-party standard, and (2) disclosure of that assessment and other key information in an annual report.

We explained in earlier posts that there is a list of required information to be included in an annual report, but exactly how these disclosures should be made is not set in stone. There's no single approved or recommended format.

The governing law is just a few years old, so benefit corporations – large and small – are left to decide, on their own, how to present this yearly story of the corporation's strengths and weaknesses in achieving its chosen general and specific public purposes.

First Examples: Like Standard Corporate Reports

In "California Benefit Corporations: Sample Annual Reports," we showcased the annual reports of four California benefit corporations: [Patagonia](#), the well-known clothing manufacturer, as well as [SCS Global Services](#), [3Degrees](#), and [Kimpacto](#).

The first two were long (50+ pages) and detailed; the second two were shorter (8 pages) and more general and conclusory.

What they had in common was a fairly traditional approach to the presentation format: straightforward narrative in the familiar prose of corporate reporting; and – (with the exception of SCS Global) – little or no creativity or graphic design, images, or other imaginative visual appeal. There's nothing right or wrong about this standard approach. Beyond the five elements of required information:

- a narrative description;
- an assessment;
- certain identifying information;

- a statement describing failures, if any; and
- a statement of connection, if any, with the creators of the third-party assessment-standard that is used.

The benefit corporation is, apparently, free to tell its story in any way it chooses.

New Examples: Non-Traditional

The next three annual report examples are quite different – and highly creative. The first two are well-known companies with interesting presentations. Although they are from states other than California, those benefit corporation statutes are similar enough to California’s – in terms of annual report requirements – that they can be useful to California firms deciding how to write their own annual reports.

King Arthur Flour

The vision of King Arthur Flour, a Vermont benefit corporation is “[t]o be the premier resource bringing people together through wholesome baking.” It is a B-Corp certified company and uses the B-lab impact assessment criteria to conduct its annual self-assessment.

These details, along with other information about King Arthur Flour’s 2013 activities, are presented in 16 pages of innovative graphics and decidedly non-traditional, plain-English prose.

In this clever and visually pleasing format, King Arthur Flour manages to clearly convey: *exactly* what the company does, how every aspect of its operation is structured to achieve “triple-bottom-line” benefit, in which ways the company was successful, how the firm fell short in meeting its public benefit goals, and what steps it plans to take to make improvements.

Etsy

Etsy is a popular New York corporation that was started in 2005 and has grown rapidly since then, culminating in an initial public offering in spring 2015.

Its annual report for 2013 is, at 95 pages, longer than King Arthur Flour’s, but much of the length of the document is attributable to colorful, large-print text and charts.

”

Etsy is an online marketplace where people around the world connect to buy and sell unique goods. Our global community is made up of nearly 500 employees and 30 million buyers and sellers. Our mission is to reimagine commerce in ways that build a more lasting and fulfilling world. We are committed to creating an economy that's fair, sustainable, and powered by people.

The format and language are chatty, informal, and easy to read and understand. It's also direct: "Etsy is a unique company. Our approach to company culture reflects the community we have created, the care we bring to the office, and the freedom we have to be weird."

Within this effective presentation, Etsy manages to convey, in great detail, exactly how it promotes the welfare of its employees, the community, and the environment. It candidly discusses challenges and areas that need improvement.

Yerdle

Much less well-known, but striving to grow, is California public benefit corporation [Yerdle](#).

We need to make a change.

”

At Yerdle, we want to redefine the word 'mine.' We want to let go of our attachment to things we almost never use. We want to change the way we think about our belongings in the context of a finite planet, busy lives, and better uses for our hard-earned dollars.

Its mission is "to reduce the number of new things we all have to buy by 25%. Reuse, we believe, should be as easy as online shopping."

”

Almost everyone has stuff they're not using that's ready for its next adventure. We make it easy to give your item to someone who needs it. People give tens of thousands of items on Yerdle each month. Over 200,000 items so far [by 2013].

Members donate items to the site and get Yerdle credits to purchase items posted by others. Yerdle's annual report for 2013 is in a format entirely different from the document-format of benefit companies like [Patagonia's](#) or [Etsy's](#). It's presented as a lengthy blog post – complete with reader comments at the end.

”

This letter serves as our annual statement of how we've done against our mission.

Our self-evaluation: We're disappointed.

Yerdle had a negligible material impact in 2013.

Following an embedded video featuring the founders, the text of the blog post/report continued:

”

It wasn't that we had a large negative impact. As a team that produces technological innovations to facilitate sharing, our small office had little footprint. We don't have factories. We produce no physical products.

But we started yerdle to have a significant effect on the badly broken consumer economy. And, at our current scale, we very clearly haven't made the dent that must be made on consumerism in America.

The company fulfilled its corporate obligation to report on its successes and weaknesses but was too harsh on itself. Put another way, Yerdle's stated purpose (over which *it*, of course, had complete control) was much too bold and unrealistic. There is no way that one firm – even if it grew as large as Amazon or eBay – could achieve a 25% reduction in overall consumption, particularly in the space of a year or so.

One of the lessons to be learned from Yerdle is that the general and specific purposes that a benefit corporation lists in its governing document should be reasonably achievable.

Conclusion

The annual report requirement for benefit corporations can be met with either a traditional document or in a much more creative and innovative presentation. The required information is mandated, but the specific format is not.