

California Benefit Corporations: Sample Annual Reports

11.10.17 | Linda J. Rosenthal, JD



Social enterprises are hot: They are springing up around the United States. California has been in the forefront of this exciting new movement of hybrid corporations that combine profit motive with the goal of good works, community consciousness, and sustainability.

A benefit corporation organized under California law will be similar, in many respects, to benefit corporations in other jurisdictions, but this state has its own, specific model and requirements, including for accountability and transparency.

This corporation format – one of two hybrid models available in California – gives protection to officers and directors for pursuing multiple objectives instead of the traditional, sole-focus of for-profit corporations; that is, maximizing shareholder profits.

In exchange, the benefit corporation has specific annual assessment and disclosure duties. In “Benefit Corporations: What Directors Must Report,” we explained that these hybrids must measure their successes and failures against a consistent third party standard each year and disclose the results in a mandatory annual report.

Benefit Corporations Requirements

The primary statute governing these assessment and disclosure duties is California Corporations Code section 14630.

As we explained in the earlier post,

There are five sections of required explanation and information: (1) a narrative description; (2) an assessment; (3) certain identifying information; (4) a statement describing failures, if any; and (5) a statement of connection, if any, with the creators of the third-party assessment-standard that is

used.

In particular, this “narrative description” must include:

- How it selected a particular third-party standard: the process *and* rationale;
- How it pursued its selected “general public benefit” and the extent of its success;
- How it pursued its selected “specific public benefit” and the extent of its success; and
- Circumstances hindering success of either general or specific public benefit.

The “assessment” is of “the overall social and environmental performance of the benefit corporation, prepared in accordance with a third-party standard applied consistently” over the years.

What Should the Annual Report Look Like?

The statute gives the roadmap, but as with any trip into uncharted territory, getting to the destination can be a challenge.

What should an annual report – that meets all of the statutory requirements – look like?

Many, like the four California examples highlighted in this post, have the look and feel of traditional corporate prose and formatting; the first two are over 50 pages long and are quite detailed; the second two are about 8 pages long and lighter on details.

But are any of these four “typical”?

Consistent with the “out-of-the-box” thinking that launched the social enterprise movement in the first place, there doesn’t appear to be any “typical” annual report – at least, so far.

In some cases, the creative minds that are piloting these new social enterprises are putting all that ingenuity to work in concocting novel and interesting ways to tell their required annual corporate stories. We’ll highlight some of those interesting examples in later posts.

Benefit Corporations: A Few Examples

Patagonia – 2013

The [Patagonia family of companies](#), based in Ventura, California, “grew out of a small company that made tools for climbers...” and grew into a firm that “... [manufactures a diverse mix of products](#) all over the world. Their “... [values reflect](#) those of a business started by a band of climbers and surfers, and the minimalist style they promoted.”

This affiliated group converted to California benefit corporation status on January 3, 2012 – the [first day](#) it was legally possible to do so.

Its annual report for 2013, [here](#), is some 43 pages long. The format and content are similar to a fairly standard corporate report. It’s detailed, straightforward, and professional. There are some charts in blue trimmed with gold but, otherwise, there are no images or graphics.

The company points out that this required annual report is in addition to “a number of different ways” that it “...communicates about [its] sustainability and corporate social responsibility efforts, including through [its] Footprint Chronicles® and [its] Environmental Initiatives Booklet.”

The Footprint Chronicles allows customers shopping on Patagonia.com to view factory information, by product, including details about factory audit results and efforts to improve factory conditions. Our Environmental Initiatives Booklet reviews annually our environmental activities and the grants made through our 1% for the Planet® fund.

The annual report is a “recap” of all of that information, and more, including its “B Impact Assessment Results.” (Although it’s not required that a California benefit corporation become certified as a “B-Corp,” Patagonia – and many others – have sought and received this certification by B-Lab.)

Like many – though not all, B-Corp businesses, the third-party assessment standard that Patagonia has used for its California annual reports purposes is that B-Lab’s own.

We chose the B Lab Impact Assessment for quantifying our environmental and social performance because it is the leading tool for this purpose and because it satisfies all the performance characteristics and requirements established in California’s benefit corporation law. It does not track our unique specific benefit purposes exactly but instead it focuses on four general categories: environment, workers, community and corporate governance and helps to quantify how we fulfilled our benefit corporation purpose of promoting general public benefit. Our score was 107 [in 2013; the score went up in 2014]. We scored well above B Lab’s median in the environment and governance categories, slightly above the median in the worker category but significantly below average in the community category.

SCS Global Services

Based in Emeryville, CA, [SCS Global Services](#), is also a long-standing company that switched recently to California benefit corporation.

“The company operates as a neutral third-party, providing the independent perspective needed to conduct credible certifications, help clients evaluate their own performance, identify improvement opportunities, and build customer and stakeholder confidence.”

It “provides third-party certification, verification and validation of business-to-business (B2B) and business-to-consumer (B2C) market claims related to environmental performance, sustainability, and product quality...”

The 2013 Annual Report of SCS Global Services is [here](#). It’s over 50 pages long, and is detailed and thorough. It has a traditional feel, albeit with lots of

images and graphics that make it more visually interesting than Patagonia's. This company is also a certified B-Corp, but *doesn't* use the B-Lab assessment tool:

In preparing this Annual Report, the Executive Team selected the GIIRS reporting framework. GIIRS (Global Impact Investing Rating System) is an internationally recognized system for evaluating and reporting the social and environmental impacts of companies in a comprehensive and transparent manner. In addition, GIIRS is the framework through which we are independently reviewed and recognized by B Lab as a Certified B Corporation.

3Degrees – 2014

3Degrees, headquartered in San Francisco, California, partners “with utilities to offer green power options to 25 million customers and providing renewable energy certificates (RECs) and carbon offsets to Fortune 500® companies, green building firms, utilities, and other organizations on their own sustainability journeys.”

Like Patagonia and SCS Global Services, 3Degrees was also an existing corporation that chose to convert to the new benefit corporation model in 2012. 3Degrees is, like the other two, a certified B-Corp, and used that assessment standard in measuring its success and for creating its annual report required under California law. It reports an initial score of 102, increasing to over 106 in 2014. (B-Labs has a perfect score of 200; any score of 80 or above can qualify a company to become certified.)

Its annual report for 2014, [here](#), is just 8 pages long. It has a fairly standard, traditional layout, with just a few images and simple graphics. It includes its B Impact Assessment in the chart form provided by B-Lab. There is a general discussion of successes and future plans to build on those successes, but it lacks an in-depth analysis of its successes and failures regarding achieving its designated general and specific public benefit.

Kimpecto – 2014

Kimpecto is based in San Francisco, California and is wholly owned by a sole shareholder. Like the other 3 companies featured here, it is also a certified B-Corp.

Its “mission is to promote financial education and to scale social entrepreneurs & impact investors while helping them ‘Maximize Financial + Social Impact.’”

We are the only impact investing consultants operating internationally as both a Certified B Corporation and a registered Benefit Corporation offering a full range of multilingual financial advisory and educational services, and utilizing an extensive global network.

It's 2014 annual report, [here](#). Like 3Degree's annual report, it is just eight pages long. There are no graphics at all, other than a simple tri-colored cover page. The B-Lab Impact Assessment Report

chart is attached; the company's score is 81. Otherwise, there are few details. There are summary conclusions about successes, but no evaluation or discussion of weaknesses or hindrances to achieving either the general or specific public benefit.

Conclusion

These four examples of benefit corporation annual reports follow a traditional type of presentation, but they are not the only permissible format for meeting the statutory requirement of transparency, accountability, and disclosure.