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Hop Compost: Maintaining Environmental Accountability with Growth

Houston Peschl, Anne Kleffner, Olga Petricevic, Miranda Mantey, and Justin Zimmerman wrote this case solely to provide material for class discussion. The authors do not intend to illustrate either effective or ineffective handling of a managerial situation. The authors may have disguised certain names and other identifying information to protect confidentiality.

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It was a typical early morning in November 2015 for Kevin Davies, founder and chief executive officer of Hop Compost (Hop). Davies entered the company facility, which was located in a 678 square metre (7,300 square foot) revitalized warehouse in the inner city of Calgary, Alberta, Canada. The warehouse represented the beginning of a revolution in the food waste and compost industries. It was home to one of the major competitive advantages of Hop—the proprietary Hot Rot Organic Solutions (Hot Rot) system, a specialized technology that took food waste from local restaurants and processed it in just 10 days into the most nutrient dense compost in Canada.

Hop had been operating since February 1, 2015, and while it had been consistently successful through 2015, Davies recalled the struggles he had in developing and licensing the technology, finding a centralized facility, and securing investment. He credited his passion for his business and environmental stewardship, as well as a strong team behind him, for overcoming the challenges and reaching facility capacity in less than one year.

The team was already working toward launching Hop Vancouver in mid-2016; they were also looking forward to future expansion by building partnerships in Toronto and several cities across the United States. The impending growth, however, would bring more challenges to the Hop team. The company was going to need heavy investment for this expansion, but convincing investors of Hop’s social and environmental impact had proven difficult for Davies in the past. He also understood that with the expansion, he would no longer be able to have his hands in every aspect of the business, which could leave the company vulnerable to decisions that would threaten its core social and environmental mission.

Meghan Perry, Hop’s chief financial officer, considered whether Hop should invest resources at this early stage of the company to pursue sustainability certifications, such as the “B Corp” certification, awarded by the non-profit B Lab. She also considered how to position Hop to investors to raise the CA$800,000[[1]](#footnote-1) necessary to fund a rapid expansion plan while ensuring that the company kept its core values. Now in early 2016, Davies and Perry had to report their strategy for both of these issues to Hop’s board of directors at the end of the next week.

Background: Planting the IDea

The desire to innovate the composting market came from an unlikely source: Davies’ beloved dog, Willy, who had been poisoned by the fertilizer used in the family’s garden. Willy recovered, but the experience fuelled Davies’ determination to find an environmentally-friendly fertilizer that would not cause harm to humans or animals. With the idea planted, Davies investigated the competitive landscape of the composting industry.

Davies discovered that municipal composting policies and programs had outdated, time-consuming, and unreliable approaches that led to low quality compost. With landfill space projected to run out in many major Canadian city by 2028,[[2]](#footnote-2) Davies did not see the existing rudimentary approach as the solution to waste management problems. He expanded his research, taking time to evaluate generational trends and the growth of clean technology, which had not yet been used at scale in the composting process. He then partnered with a technology firm in Britain to help develop his idea.

During the research and development phase, Davies and the technology firm kept uncovering patents that would halt their work. All patents surrounding this technology led back to the Hot Rot device, created by a company in New Zealand. Instead of attempting to work around the patents to build a competing technology, Davies developed a licensing agreement with Hot Rot. This agreement gave Davies the exclusive rights to the equipment in Calgary, Edmonton, Vancouver, Toronto, Ottawa, Montreal, and four cities in the United States.

Typically, well-sorted, warm, moist piles of food waste took approximately three months to compost, which starkly contrasted with Hot Rot’s ability to compost unsorted food scraps in 10 days. The Hot Rot process was fully enclosed; it barely released any odours or liquid by-product, and pest infestation was not a concern. The resulting compost was a certified organic, non-genetically modified alternative to fertilizer, which was so safe that it could be eaten, if one was so inclined. Hop’s compost had the highest nutrient quality of any compost in Canada, and with a live data stream that the Hot Rot system provided during the composting process, the ratio of components (nitrogen, potassium, and phosphate) could be customized. Davies hoped to use this advantage to create custom compost for farmers based on the nutrient needs of their soil.

Davies recognized that his business idea was sound and that he had extremely valuable proprietary technology in North America. He used the technology to both offer a food waste collection service and sell organic compost for fertilization with little competition. He built his business model to capitalize on the technology while still making an environmental difference in his city. He offered local restaurants 90-day contracts for food collection services. With Hot Rot’s advanced technological abilities, the restaurants did not need to sort their food scraps and could include hard-to-compost materials like bones, meat, fish, and dairy.

Hop provided restaurants with food scrap bins. When Hop collected the food waste, a scale weighed the volume of food waste collected and a bio-soap pump in the truck washed the emptied bins. Each month, using the data from the collection truck, Hop issued an impact report that enabled its clients to quantify their weekly efforts to reduce their environmental footprint—a first for many companies. In addition, Hop offered restaurants staff training and customized signs for their bins as part of the contract.

Part A: Sustaining Hop’s Environmental Imperative While Growing

From the beginning, the team’s mission was to drive success by creating a positive environmental impact.

Since its launch in 2015, Hop had saved 1.8 million kilograms (3.9 million pounds) of food from landfills. The average restaurant wasted 40 per cent of its food, but Hop enabled restaurants to put all of that food to use. In 2015, Hop grew to fill its current capacity in Calgary and was looking to expand it, as well as develop a facility in Vancouver.

When Davies and his team last met with Hop’s board, they discussed how to keep Hop’s environmental imperative at the core of its business as they expanded. Davies told the board that Hop was targeting growth within from January 2017 to January 2018 that would be four times its current production footprint. But, in early 2016, as Davies was preparing for the upcoming board meeting, he grasped the reality of Hop’s rapid growth. On a small scale, it was easy for businesses to keep their original focus and mission central to their operations, but growth created new threats and made it more challenging to keep the original mission at the forefront. Davies worried whether he had adequately prepared Hop for this challenge. He saw the issue boiling down to two potential solutions: meet the standards set by an external certification board such as B Lab or maintain internal accountability through procedures and company culture.

B Corp Certification

“Certified B Corporations” were for-profit corporations that used their businesses to help solve social and economic problems. To gain B Corp certification, businesses had to meet performance standards in social and environmental performance, accountability, and transparency for the good of the environment, community, and employees.[[3]](#footnote-3) B Lab, a not-for-profit organization founded in 2006, assessed applicant corporations and made the award. B Lab awarded its first certification in 2007.[[4]](#footnote-4)

B Lab envisioned the B Corp certification as akin to the Fair Trade certification for coffee, chocolate, or milk: an instantly recognizable designation that signalled the business’s commitment to social and environmental goals.[[5]](#footnote-5) B Corp certification provided businesses with many benefits, among them, inclusion in a vast network of like-minded businesses, inherent marketing through B Lab’s many media outlets, and a verification to consumers of the business’s social and environmental claims.[[6]](#footnote-6) However, the cost of certifying was high for a start-up, the certification process was lengthy, and the meaning behind Certified B Corporations was still largely unrecognized by Canadian consumers.

For a bootstrapping start-up tight on both financial and human capital, the question was whether the benefits of B Corp certification outweighed the costs for Hop.

Stakeholder Accountability

At the previous board meeting, Davies and the board of directors discussed the merits of B Corp certification. They wondered if achieving B Corp certification would help Hop remain accountable to its environmental promises and reach its goals. Meeting the environmental standards of an external certification board meant that accountability was essential. B Lab randomly audited 10 per cent of its Certified B Corporations each year; holding certified status meant that the company had to unfailingly meet the standards laid out for a corporation and have the documentation to back it up.

Davies and the board had similar goals for attaining B Corp certification. Operations would improve at Hop with the use of written procedures; it had been proven that having and using documented procedures led to greater efficiency and fewer errors in the workplace.[[7]](#footnote-7) Similarly, establishing policies that went beyond industry standards for the environment and the employees would improve Hop’s human resources, especially as its small team expanded over time. The team also believed that the businesses that provided Hop with food scraps would be more inclined to work with Hop if it had B Corp certification; it would reflect well on the co-operating businesses to be partnered with a company with noted exceptional standards throughout its operations.

Perry offered her financial perspective, noting that “companies would rather deal with B Corps and may even give them discounts” for their products or services. Attaining B Corp certification could leverage supplier relations in a unique way and benefit Hop financially in the long term.

Although Hop did not have direct competitors at the time, it was becoming standard in the industry for social enterprises to attain B Corp certification. The certification would help to establish Hop as a legitimate social enterprise in the group. Keeping Hop accountable to an overarching certification board would also help to leverage risk by establishing stronger relationships with suppliers and employees, and by creating operational efficiencies.

One of the directors, however, wondered why Hop needed to pursue certification at that point, questioning why they needed other people to “tell us [what] we already know: [why] we are great.” The director believed that Hop would not struggle with accountability because Hop’s environmental mission was fundamental to the operations, meaning accountability and the mission could not be mutually exclusive. Hop did not need an external certification board to convey what was already clear through both its operations and marketing strategy.

A final issue with certification was the time and cost involved. Attaining B Corp certification could be a time consuming and expensive process. As a start-up, Hop was constantly improving its standardized operating procedures. As a B Corp business, Hop would be required to continually update its documents with every latest change. That would be intensely time consuming.

Another director had a different position. He suggested that with growth, a high standard in every aspect of their business would be easier to maintain if they were striving for an external expectation rather than a vague expectation established internally. The director suggested that meeting these standards early was key to Hop’s future success. It would be easier for Hop to adapt as a small start-up. Altering procedures later as a large, multi-city business would be much more difficult than building the procedures correctly from the beginning. The standards would also act as a risk management strategy as Hop expanded. If they did not establish appropriate procedures early, the company faced greater risks in the future. The director noted that Hop had already created a standard of impact reporting through its monthly reports to food suppliers, and that as a business, they would continue to demonstrate to their customers the value of reporting and transparency by attaining B Corp certification.

Davies discovered that B Lab offered its “B Impact Assessment” online for free, without having to apply for certification. Hop could take advantage of the opportunity and self-assess the business without having to spend the money and time required for full certification. Hop could use the free impact assessment to build procedures that reflected its goal of making a difference through the business. Some directors, however, were concerned that if Hop generated its own standards and procedures, customers and the company itself might come to think the standards meant something more than they did. Without the accountability that B Lab provided and the documentation required to back the company’s claims, Hop’s internally generated standards could create false expectations, creating a risk for the business.

The Power of a Network

If Hop were certified, it would be connected to B Lab’s network of over 2,500 companies; that connection, especially to the 227 Canadian companies, would be a huge benefit to Hop. Without obtaining the full certification, Hop would have to spend its own resources to reach the vast number of companies available in B Lab’s network. Attaining B Corp certification could provide Hop with quick and easy connections that might be vital to Hop’s growth throughout North America.

Another consideration was Davies’ plan to expand into Toronto after establishing Hop Vancouver. B Lab’s Canadian head office was in Toronto, which also had the largest concentration of B Corp certified businesses in Canada.

Creating a Strong Story

One of the directors believed that Hop should save money at this pivotal point and market itself using the statistics Hop had already developed. The director stressed that communicating how many millions of pounds of food waste Hop saved from landfills and profiling the resulting compost with the highest nutrient content available in Canada would be more tangible to Canadian consumers than B Corp certification.

Another director agreed with this opinion, adding that the environmental benefits were fundamental to Hop’s operation, and that was immediately communicated to consumers by Hop’s business of taking restaurant food waste and making it into compost. B Corp certification, however, would also make consumers aware of the more difficult-to-market benefits of Hop, such as employee welfare. The certification would show that Hop went beyond the environmentally-friendly nature of the business to achieve excellence in a multitude of areas.

Consumers had become skeptical about companies that did not substantiate their environmental claims. Unsubstantiated claims about “green” products put companies at risk of civil and criminal action for misleading consumers. At the very least, to protect themselves against legal action, Hop’s team needed to maintain documents to substantiate their environmental claims. Attaining B Corp certification would help with that by verifying Hop’s environmental claims and communicating to knowledgeable consumers that Hop was, indeed, an environmentally responsible company.

Balancing Mission with Resources and Investors

The cost of B Corp certification varied, depending on the size of the business and its industry; the cost could be as high as $25,000 per year, which was expensive for a start-up. Every financial decision made by a start-up during the early stage of negative cash flow (the “valley of death”) could make or break the company. Davies worked hard for every dollar he raised for Hop, and he was proud that his business gave investors a 140 per cent return on their shares. But Hop was resource-strapped, just like any other start-up (see Exhibits 1 and 2). There was very little room for extra spending in Hop’s budget for the next year*.* Spending money on B Corp certification at this particular time could be a financial blow for Hop, particularly because Hop needed to keep its returns as high as possible to prove Hop’s value to potential investors who would help fund Hop’s growth.

In addition, the process for B Corp certification, which needed to be completed every two years, was lengthy and time consuming. The process required that companies first meet the performance requirements, which was a six-stage process (see Exhibit 3) that started with completing the B Impact Assessment (see Exhibit 4).

Davies felt that speed and growth were two of the main features of Hop’s approach. The team needed to make decisions and act quickly. Some directors worried that the certification process would slow Hop at a pivotal time; they questioned why certification could not wait for a better time. Five of Hop’s seven directors thought that certifying Hop immediately would be a waste of financial and human capital, and suggested waiting until a later date.

In the heated meeting, the two directors who supported certification argued that the extra marketing and networking would bring additional revenue and accolades that would outweigh the financial burden. The five directors opposed to certification countered:

At this time, Hop has reached capacity in Calgary. Although there are expansion plans into Vancouver, Hop has already established a network and marketing plan [that has generated] enough committed interest to be, at minimum, at two-thirds capacity [in Vancouver] by the launch date. At this time, the money and time would be better spent on funding the Vancouver initiative rather than on certification.

Historically, Davies had struggled with investors disagreeing with his valuation of Hop, particularly with regard to the social impact of the business. Although the Hop team had never lowered their valuation in negotiations, the directors worried that putting capital into B Corp certification might alienate the investors Davies worked so hard to reach. The meaning behind B Corp certification was not well-known in Canada, so it was probable that Hop’s investors would not know what it was or see its value. The directors believed that investors would rather their money be spent on magnifying Hop’s environmental impact throughout North America as opposed to it being spent on officially labelling Hop’s current impact.

Part B: Through the Eyes of an Investor

Tied to the B Corp decision was a pressing financial need to fund Hop’s immediate plans for growth. Hop had proprietary technology, a long list of Calgary’s top restaurants already confirmed as clients, and an established facility location, but the barrier to entry for Hop was still enormous. The competitive landscape in the waste management industry included companies and methods that held a large part of the market share. To compete, Davies needed to raise $800,000 for Hop’s expansion into Vancouver, and then immediately begin raising funds for expansion into Toronto.

Given the contrasting opinions from the board of directors, Davies wondered if he should focus his future pitches solely on the validity of Hop’s business model or spend time determining a better way to convince investors of the financial benefits of Hop’s social and environmental impact. He remembered how difficult the previous rounds of investment talks had been. His greatest struggle when seeking investment had been communicating the value of the social and environmental aspects of his business. Although Hop was now better established with a proven scalable business model, this struggle was inherent to Hop, no matter the size of the company.

When Davies first approached potential investors, he realized that many of them did not understand the value of his company. Calgary was the economic centre for the oil and gas industry in Canada, and there was significant capital in the city. There was also a clear expectation about the high rate of return expected by investors. During his first round of investment talks, Davies learned that investors’ main concerns were a lack of demand for Hop’s service and the dollar value that Davies had assigned to the environmental impact of his service. Yet, in spite of investor hesitation, Davies successfully managed to raise the initial $500,000 he needed to launch Hop in Calgary.

With start-ups, angel investors were usually the primary type of investor, and that had been Hop’s source of investment so far. But all investors were heavily influenced by the trade-off of risk and reward in an opportunity. While each investor had a different level of tolerance and motivation for the allocation of their monetary gains, regardless of whether the strategic investment was short or long term, the primary concern of the majority of investors was their return on investment. To address this, an enterprise’s “book value” needed to be established to provide a baseline valuation of the company at its net present value.

Perry had done an excellent job corroborating the financial statements and clearly modelling Hop’s past performance and future profitability. She was working with Davies to provide the information that would be the basis for predicting future performance. Her prediction would help mitigate the risk of not achieving the necessary future net cash inflows. Most of the modelling was done with traditional financial models that focused on estimated future earnings, achieved by scaling Hop to multiple cities.

In order to prove stable financial performance, Davies and Perry needed to showcase Hop’s business model, future strategy, risk level, and longevity to investors. Davies knew that the size of the market and scalability would be questioned, as well as Hop’s competitive differentiation and exit strategy (in case the company should ever be sold), and he clearly saw the importance of keeping Hop’s financial stability as the basis of a valuation that included environmental and social performance. Financial performance had been the greatest determinant when valuing a company. But companies were facing an ever-increasing risk in attaining and maintaining their “social licence to operate,”[[8]](#footnote-8) and Hop’s mission-driven business model substantially lowered the impact of that risk for investors; however, Perry and Davies were uncertain where to place Hop’s positive environmental and social impact in the future prediction models.

Davies needed to include qualitative characteristics, such as relevance and faithful representation. He had strong metrics for the environmental impact Hop was creating each month in landfill waste diversion, but he struggled with how to position this with investors. There were many valuation methodologies; however, in Hop’s case, there was an absence of comparable companies, a lack of historical data, and a lack of quantifiable valuation techniques with respect to intangible assets like waste diversion, carbon reduction, and hiring staff from organizations like the Calgary Drop-In Centre, which supported people at risk of homelessness. This was proving to be a troubling challenge for Davies and Perry, and time was running out to get a proposed solution for the board of directors meeting at the end of the week.

The Value of Responsible Stewardship

The traditional business paradigm of value focused on the financial bottom line, but there was a shift occurring—value increasingly included corporate social responsibility, impact investing, and social enterprises. Seed funds were being created with the goal of supporting mission-focused businesses. There were a few innovative, mission-focused funds in Canada; for example, there were clean technology funds, low carbon funds, and funds created by Vancouver City Savings Credit Union, MaRS Centre for Impact Investing, and Royal Bank of Canada**.** For Perry and Davies, this confirmed they were on the right track and that the triple bottom line accounting (social, environmental, and financial) that Hop needed could balance profit equally with the impact the organization had on the environment and society as a whole.

The value of a company like Hop could not be solely defined by the bottom line. Hop was already attaining a better return on investment through its mission-driven business model, achieving a strong triple bottom line. And Hop was clearly challenging conventional thinking by suggesting that investment in socially responsible companies was part of a profitable investment portfolio. Some investors considered socially responsible investing to be the role of governments and non-governmental organizations. But Perry found considerable evidence to support Hop’s triple bottom line argument. For example, a recent Morgan Stanley study that found higher returns were derived from investing in sustainable companies:

Long-term annual returns of one index comprising firms scoring highly on environmental, social and governance criteria exceeded the S&P 500 by 45 basis points since its inception in 1990.[[9]](#footnote-9)

The challenge for Davies and Perry was that their meetings with investors were still following the pure for-profit paradigm for making an investment decision. Davies was frustrated with investors’ adherence to the traditional train of thought in business, believing that if an organization was focusing on environment, people, and profit equally, profits would be diminished**.** Ironically, this belief resulted in less lucrative returns for investors. Regardless, the problem of misconception remained.

Responsible Value in Practice

Hop’s primary environmental goals focused on the interests of all stakeholders, bridging the gaps between farmers, restaurants, and food waste by diverting food waste away from landfills and using it to provide superior compost. Hop needed a process to integrate its core values around waste diversion and community in the company’s valuation. This process would be the catalyst to Hop’s success. Both Davies and Perry agreed that, ultimately, this integration would lead to an increased probability of lucrative returns for investors.

Perry focused on understanding the crucial role Hop played in the reduction of greenhouse gas (GHG) emissions by diverting two million pounds of food scraps away from landfill in the first year of operations. The accomplishment was a source of pride for the Hop team; through their innovative Hot Rot technology, a single employee could manage this volume of food waste and turn it into the highest quality compost ever recorded in Canada.

Impact tracking was a mechanism that allowed Hop’s clients to quantify their positive environmental impact. Essentially, clients were paying a premium of $75 per bin pick up for this service so they could demonstrate to their prospective customers that the company cared about its environmental impact. Thanks to the Hot Rot technology, Hop could weigh the food scrap bins from each client and determine the amount of food waste being diverted from landfill, the amount of water saved, and the reduction in the company’s GHG emissions. This valuable information allowed Hop to charge a 10 per cent premium.

Perry continued to review the past year’s financial statements and focused on Hop’s three revenue streams. First, Hop provided a pick-up service of organic food waste from local food merchants for disposal. The service was provided on a contractual basis to help mitigate client turnover. Second, Hop distributed the highest quality fertilizer to local growers, organic farms, and home garden stores. Third, due to the large scale of GHG reduction created through Hop’s operations, Hop sold carbon credits under Alberta’s cap and trade system to energy companies such as Suncor Energy, an Alberta oil sands developer.[[10]](#footnote-10) This third revenue stream was extremely lucrative for Hop because its day-to-day operations dealt with the diversion of food waste that created methane. Methane contributed 20 to 25 times more GHG emissions than carbon dioxide (CO2).[[11]](#footnote-11) In Alberta’s carbon credit market, Hop could sell 30 tonnes of credit for $60,000. Hop was predicted to divert 70 tonnes by the end of 2017.

Still, despite three stable revenue streams and a stable historical performance, Perry was at a loss with how to value Hop’s positive externalities. It was imperative to incorporate these into Hop’s valuation for investors.

The Future of Hop: B Corp and Investor Decisions

Davies and Perry were focused on two major decisions that would impact Hop’s future. Davies thought about where he’d like to see Hop going over the years. Ideally, he saw Hop moving into every major North American city, providing a functional, closed-loop food cycle for thousands of restaurants. Davies was counting on an acquisition or going public by 2020.

Davies had seen his business start as a simple idea, and despite many challenges along the way, he had grown it into a scalable company with care for the environment at the centre of its mission. Davies worried that as the company grew, the mission would be dissolved and replaced with only financial return on investment guiding the decision-making process. He struggled with how to best maintain the mission while hiring and training new staff, opening a second location, and raising the next round of investment.

Davies did not know what was best. B Corp certification would establish accountability. It could create an advantageous network and help market Hop’s services and product to knowledgeable consumers. He conceded that most Canadians did not know about B Corps, and the time and expense put into certifying might be better used for expansion and magnifying Hop’s environmental impact. Davies was at a crossroads, and his trusted board of directors seemed just as conflicted as he was.

While Davies wrestled with the B Corp decision, Perry knew they faced a dilemma with how to pitch Hop’s business model to investors. As Perry wrapped up her research on sustainable investing methodologies, she told Davies about the large and growing evidence for using a valuation technique that incorporated all stakeholders’ concerns through social and environmental positive externalities. With investor meetings scheduled, Perry and Davies had to decide how they would pitch Hop to the investors.

Exhibit 1: Hop Compost—Projected Income Statement for 2016

|  |  |
| --- | --- |
|  | **in CA$** |
| Revenue from services | 450,000 |
| Revenue from carbon credits | 130,000 |
| Compost sales | — |
| **Total Revenue** | 580,000 |
|  |  |
| Cost of goods sold (COGS) | 10,000 |
| Rent | 84,000 |
| Utilities | 9,600 |
| Warehouse insurance | 34,000 |
| Salaries | 330,000 |
| Truck and bobcat |  |
| Gas | 5,000 |
| Insurance | 20,000 |
| Depreciation expense—machine\* | 10,000 |
| Depreciation expense—vehicle\*\* | 9,800 |
| **Total Costs** | 512,400 |
|  |  |
| **Earnings before interest and taxes (EBIT)** | 67,600 |
| **Tax Rate** | 27% |
| **Tax Expense** | 18,252 |
| **Net Income** | 49,348 |

Note: \* Depreciation calculated at $500,000 over 50 years; \*\* depreciation calculated at $100,000 − $2,000 over 10 years.

Source: Created by the case authors, based on an interview with Meghan Perry (chief financial officer, Hop Compost) on November 1, 2016.

Exhibit 2: Hop Compost—Statement of Financial Position,

end of fiscal year 1 (2016)

|  |  |
| --- | --- |
|  | **in CA$** |
| Current Assets |  |
| Cash | 250,000 |
| Total Current Assets | 250,000 |
|  |  |
| Non-Current Assets |  |
| Trucks | 250,000 |
| Machines | 1,000,000 |
| Total Non-Current Assets | 1,250,000 |
|  |  |
| **Total Assets** | **1,500,000** |
|  |  |
| Current Liabilities |  |
| Bank Loan | 100,000 |
| Total Current Liabilities | 100,000 |
|  |  |
| Non-Current Liabilities |  |
| Bank Loan | 600,000 |
| Total Liabilities | 700,000 |
|  |  |
| Shareholders’ Equity |  |
| Common Shares | 460,000 |
| Retained Earnings | 340,000 |
| Total Equity | 800,000 |
|  |  |
| **Total Liabilities and Shareholders’ Equity** | **1,500,000** |
|  |  |
| Book Value | 800,000 |

Source: Created by the case authors, based on an interview with Meghan Perry (chief financial officer, Hop Compost) on November 1, 2016.

Exhibit 3: Performance Requirements for B Corp Certification

1. Take the B Impact Assessment.
   1. Assessment varies depending on company’s size (number of employees), sector, and location of primary operation.
   2. The assessment takes approximately two to four hours to complete.
   3. Company receives a B Impact Report that contains an overall score. The company must achieve a score over 80 out of 200 to proceed.
2. Schedule assessment review and submit supporting documentation.
   1. Six to eight questions from the Impact Assessment that were answered in the affirmative are randomly selected by B Labs.
   2. The company is asked to demonstrate those practices in more detail through documentation.
3. Complete the assessment review.
   1. B Lab staff review questions that may have been difficult to answer or are unclear.
   2. Review takes 60 to 90 minutes.
4. Submit additional documentation.
   1. One to six additional questions are selected by B Labs from the Impact Business Model section of the assessment.
   2. The company is asked to provide more documentation.
5. Complete disclosure questionnaire.
   1. Company is asked to confidentially disclose any sensitive practices, fines, or previous sanctions. Disclosure does not affect rating.
   2. If one or more items merit further transparency, the company will be required to provide incremental disclosure and possibly, implement specific remedies.
6. Background checks conducted.

Source: “Performance Requirements,” B Lab, accessed July 11, 2018, www.bcorporation.net/become-a-b-corp/how-to-become-a-b-corp/performance-requirements.

Exhibit 4: Sample B Impact Assessment

1. Select the description that best describes your business.

*This is an unweighted question that will not impact your score and is asked only for research/benchmarking purposes.*

|  |
| --- |
| ◯ Positive social/environmental impact is desirable but not a particular focus for our business. |
| ◯ Social and environmental impact is frequently considered but it isn't a high priority. |
| ◯ We consider social and environmental impact in some aspects of our business but infrequently. |
| ◯ We consistently incorporate social and environmental impact into decision-making because we consider it important to the success and profitability of our business. |
| ◯ We treat our social/environmental impact as a primary measure of success for our business and prioritize it even in cases where it may not drive profitability. |

1. Does your company have a corporate mission statement, and does it include any of the following?

*Please check all that apply.*

|  |
| --- |
| ☐ No written statement |
| ☐ A written corporate mission statement that does not include a social or environmental commitment |
| ☐ A general commitment to social and/or environmental responsibility and stewardship |
| ☐ A commitment to a specific positive social impact (e.g., poverty alleviation, sustainable economic development) |
| ☐ A commitment to a specific positive environmental impact (e.g., reducing waste to landfill with upcycled products) |
| ☐ A commitment to serve a target beneficiary group in need (e.g., low-income customers, smallholder farmers) |

1. Please type or paste your mission statement here.
2. Does the Board of Directors or equivalent governing body review your company’s social or environmental performance on at least an annual basis?

|  |
| --- |
| ☐ Yes |
| ☐ No |
| ☐ N/A- No Board of Directors or equivalent governing body |

1. Are there key performance indicators (KPIs) or metrics that your company tracks at least annually to determine if you are meeting your social or environmental objectives?

|  |
| --- |
| ☐ We don't track key social or environmental performance indicators. |
| ☐ We measure KPIs/metrics or outputs that we have identified and defined in order to determine if we are achieving our social and environmental objectives. |
| ☐ We measure social and environmental outcomes over time (e.g., third-party impact assessments, progress out of poverty indexing, beneficiary outcome surveys). |

Source: “B Impact Assessment,” B Lab, accessed July 11, 2018, http://bimpactassessment.net/bcorporation.

1. All currency amounts are in Canadian dollars unless otherwise specified. [↑](#footnote-ref-1)
2. “With Fewer Landfills, Where Will Ontario Trash Go?,” Waterloo Region Record, accessed November 1, 2018, www.therecord.com/news-story/2592071-with-fewer-landfills-where-will-ontario-trash-go-/. [↑](#footnote-ref-2)
3. “What Are B Corps?,” B Lab, accessed July 10, 2018, www.bcorporation.net/what-are-b-corps; and “B the Change: People Using Business as a Force for Good,” B Lab, accessed July 10, 2018, www.bcorporation.net/b-the-change. [↑](#footnote-ref-3)
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9. Morgan Stanley Institute for Sustainable Investing, *Sustainable Reality: Understanding the Performance of Sustainable Investment Strategies* (Morgan Stanley, 2015), 1, accessed July 11, 2018, www.morganstanley.com/sustainableinvesting/pdf/

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