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SEIZING OPPORTUNITIES:

How Small Businesses Can Lead in Sustainability and Inclusion

WELLS FARGO

AEO Association for Enterprise Opportunity

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A NOTE FROM THE PRESIDENT & CEO

Dear Colleagues,

It is with great pleasure that I present to you our latest research paper, "Seizing Opportunities: How Small Businesses Can Lead in Sustainability and Inclusion." This comprehensive study explores the impact of sustainability and inclusion trends on small businesses, and outlines the opportunity for small businesses, especially diverse-owned small businesses, to lead in the evolving landscape of sustainability and inclusion.

In recent years, businesses across various industries have increasingly recognized the importance of integrating sustainable and inclusive practices into their strategies. This shift is driven by numerous factors, including the need to mitigate the impacts of natural disasters, address evolving customer preferences, and respond to regulatory changes and investor pressures. Our research highlights how these trends uniquely affect small businesses, which are the backbone of local economies and essential to fostering a more equitable and resilient economy.

This paper is particularly significant for several reasons. Firstly, it sheds light on the under-explored impact of corporate sustainability and inclusion strategies on small businesses. Given that 96% of all businesses in the United States have fewer than ten employees, understanding this impact is crucial. Secondly, it provides actionable insights and recommendations for stakeholders to support these businesses in navigating an increasingly sustainable economy.

The Association for Enterprise Opportunity (AEO) is deeply committed to our mission of creating economic opportunities for underserved entrepreneurs and small businesses. This research aligns perfectly with our mission, highlighting the importance of protecting the ability of small businesses to operate and thrive. It underscores the need for targeted support to help these businesses align with corporate sustainability goals, thereby gaining a competitive advantage.

We are immensely grateful to Wells Fargo, our title sponsor, whose generous support has made this research possible. Their commitment to fostering an inclusive and sustainable business environment is commendable, and we appreciate their partnership in this endeavor.

As we look to the future, this research opens doors for additional considerations and research. It emphasizes the need for ongoing support and capacity-building for small businesses to help them meet emerging sustainability and inclusion expectations. We invite stakeholders to join us in exploring these opportunities, ensuring that small businesses are equipped to lead in this new era of sustainability and inclusion.

Thank you for your continued support and dedication to empowering small businesses. Together, we can create a more inclusive, sustainable, and prosperous future.

Sincerely,

Natalie Madeira Cofield

Natalie Madeira Cofield
President & CEO
Association for Enterprise Opportunity (AEO)

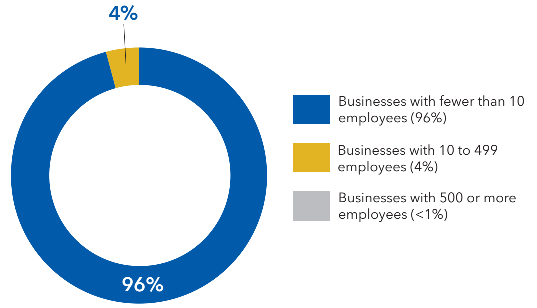
INTRODUCTION

In recent years, corporations and businesses across industries have been reevaluating their approach to risk and resilience and implementing sustainable and inclusive practices into their business strategies and operations. The motivations for these shifts are varied. Some companies are trying to solve and prevent future disruptions in their supply chains or mitigate the impact of natural disasters on their operations. Others are responding to evolving customer preferences, which increasingly prioritize a company's environmental impact and commitment to diversity and inclusion in purchasing decisions.[1,2,3] Additionally, some are striving to stay ahead of regulatory changes, respond to investor pressures, or improve employee retention. Regardless of the specific drivers, incorporating sustainability and inclusion into a company's long-term strategy[4] is critical for navigating today's dynamic business landscape. The purpose of integrating these values into a company's strategy is to mitigate a company's negative impacts on the environment, community, and society.[5] In practice, sustainability and inclusion encourage companies to protect natural resources and create economic opportunities for historically underserved communities.[6]

The impact of this trend on small businesses, especially diverse-owned small businesses, is understudied. Small businesses are the lifeblood of local economies; 96% of all businesses in the United States have fewer than 10 employees. (Figure 1).[7] Understanding how corporate sustainability and inclusion strategies affect these small businesses is crucial. Given their extensive presence, protecting their ability to operate in today's business landscape is essential for fostering a more equitable and resilient economy.

To understand the impact of corporate environmental sustainability and social inclusion

FIGURE 1: Businesses in the United States by employee count, including employer and non-employer firms.



Data source: Calculations from US Census and National Science Foundation, Annual Business Survey (ABS) and Nonemployer Statistics by Demographics (NES-D) by AEO.

goals on small businesses, the Association for Enterprise Opportunity (AEO) carried out a comprehensive study.* The study included surveying 505 businesses with fewer than 500 employees from an array of industries and locations in the United States. However, the analysis of this paper focuses on small businesses with fewer than 10 employees, owned by entrepreneurs from underserved communities—referred to throughout the paper as "diverse-owned small businesses." Critical stakeholders, including small business owners, business support organizations (BSOs), corporate supplier representatives, and corporate strategists, were also interviewed. Additionally, the team conducted in-depth research to identify common corporate environmental, social, and governance (ESG) commitments.

This paper is organized into three primary sections. It begins by providing a backdrop on how sustainability and inclusion are pivotal trends affecting corporations and shaping the business landscape. It then presents AEO's five key findings, which highlight the challenges and the unique opportunities for these businesses to contribute to corporate and societal sustainability and inclusion goals. Finally, AEO puts forth recommendations for key ecosystem stakeholders to strategically support these businesses in navigating today's increasingly more sustainable economy.

* To learn more about the research design and methodologies, please see the Appendix.

BACKGROUND

Sustainability and inclusion are critical trends impacting corporations and influencing the business landscape.

The heightened attention on sustainability and inclusion issues from investors, employees, customers, and regulators is reshaping corporate agendas. This shift is further fueled by the increased frequency of weather and climate disasters[8] that disrupt supply chains and jeopardize business continuity. As a result, some corporations are reevaluating their value propositions, shifting priorities, and modifying their strategies. Amidst these changes, AEO explores this trend to understand how it is changing the landscape in which small businesses operate.

Available research suggests value beyond revenues to corporations prioritizing sustainability and inclusion issues.

Corporations face increasing pressure to weigh their environmental and societal impact alongside their obligations to shareholders. A 2023 survey of U.S. consumers found that 70% of respondents agreed that corporations that harm the environment should be held accountable even if it leads to job losses.[9] This heightened focus has sparked the development of various strategic frameworks to guide companies in addressing their responsibilities, especially concerning sustainability and inclusion. One prominent framework that has garnered significant attention is the environmental, social, and governance (ESG) framework.

Originally, ESG was developed as an investment framework to evaluate how companies or portfolios performed along environmental, social, and governance criteria. Today, the meaning of ESG has evolved and can vary across different audiences. One corporate strategist shared, "ESG means many different things to many different individuals or organizations, and [they all hold] corporations to different standards."

One prominent framework that has garnered significant attention is the environmental, social, and governance (ESG) framework.

For many, ESG is a flexible framework for measuring a business's impact on society and can be used to help corporations implement a sustainability and inclusion strategy. A sustainability expert at an industry trade association explained, "ESG is [fundamentally] a system of measuring things. It's like the dashboard on your car: It tells you the direction you're headed and how fast you're going. All those are decisions that are made [from a measurement system]. I know very few [member companies] that have an ESG strategy. [Rather], they have a sustainability strategy and [use] ESG metrics to report progress towards that strategy."

In recent years, legislation in the United States has arisen in support of and against using an ESG framework in investment decisions and business operations. Some people contend that companies should prioritize creating maximum value for shareholders by maximizing profits. They often argue that the ESG framework minimizes this goal. In contrast, other people believe that companies should prioritize creating sustained value for shareholders, which they say the framework helps. They also argue that the ESG framework helps companies consider other stakeholders, including consumers, employees, and local communities.

Regardless of the debate unfolding in the public square, research accumulated and analyzed by leading industry experts[10] suggests that companies that pay attention to environmental, social, and governance concerns experience a positive effect on the companies' returns. The same report has linked a strong ESG proposition with a positive impact on cash flow, including helping companies tap into new markets and expand into existing ones, reducing costs, easing regulatory pressure, increasing employee motivation, and enhancing investment returns.

Corporations have made commitments to work towards environmental sustainability and social inclusion.

Many corporations have responded to the increased consumer demand and regulatory pressure* to take responsibility for their environmental and societal impact by making public commitments to advancing various social goals within their operations and through their supply chains. In a global survey of companies fielded in 2021, 93% of respondents reported that at least one environmental, social, or governance-related issue was on their organization's agenda.[11]

Commitments and priorities vary greatly in policy and practice depending on their industry and regulatory context. In the words of a corporate strategist, "The goals or the targets a company sets are very particular to their industry and their business." For example, a technology company might prioritize reducing electronic waste and increasing energy efficiency in their products. In contrast, a manufacturing company may focus on reducing water usage and carbon emissions in

* During the finalizing of this paper, the U.S. Securities and Exchange Commission adopted a new rule requiring companies to disclose their greenhouse gas emissions and climate-related information. Although discussed, the final rule did not include requirements for companies to report their indirect emissions. See Finding 2, beginning on page 7, for more information.

their production processes. Additionally, the same interviewee observed that "right now, many organizations are being driven by the regulatory environment in the US, EU, and UK to set environmental targets."

The goals and priorities of these corporations ultimately have reverberating effects across all businesses, particularly those that participate in corporate supply chains. AEO's study found that the most common commitments with clear implications for the businesses with whom they partner in their supply chain were reducing direct and indirect greenhouse gas emissions and increasing the diversity of their suppliers.* The changes corporations must make to achieve these commitments will impact suppliers, partners, and stakeholders. Depending on the unfolding of current events, companies may make changes that include adjusting their selection criteria for suppliers and updating their supplier codes of conduct to align with their corporate strategic goals. AEO's research, outlined in the following pages, suggests that these shifts are gradually influencing the business landscape, including the landscape for diverse-owned small businesses.

*To learn more about the assessment of corporate commitments, please see the Appendix.

Key Definitions

A **diverse-owned business** is one in which the majority of the owners identify with a historically marginalized community—whether based on gender, gender identity, sexual orientation, race, ethnicity, history of incarceration, or citizenship status—or the business is in a rural or low-income community. These businesses are **underserved** in the United States, meaning they are less likely to acquire capital and contracts to grow their businesses than their counterparts.

A **small business** can be defined differently by industry. This paper focuses on small businesses with fewer than 10 employees, including non-employer businesses. These businesses are often overlooked due to their size. However, they account for 96% of all businesses in the United States. [12]

Sustainability and inclusion are broad values in the business sector that some companies use to weigh the long-term impact of their actions[13] and mitigate any negative impacts of their business operations on the environment, community, and society.[14] These values influence strategy by pushing companies to protect natural resources and create opportunities that narrow social inequalities.[15]

The **small business ecosystem** refers to the network of institutions, organizations, and individuals that support creating, growing, and sustaining small businesses. The network includes corporate and industry partners, financial institutions, business service organizations (BSOs), trade associations, institutions of higher education, policymakers, and entrepreneurs. This paper's recommendations are for corporations, policymakers, and BSOs.

KEY FINDINGS

Diverse-owned small businesses have a unique opportunity to gain a competitive market advantage.

AEO's study into the impact of corporate sustainability and inclusion commitments on diverse-owned small businesses uncovered insights, opportunities, and challenges to inform how the small business ecosystem should navigate today's business landscape. Diverse-owned small businesses that demonstrate alignment with corporate goals, such as reducing greenhouse gas emissions, stand to gain a competitive advantage.[16] Addressing current and emerging challenges in the evolving business landscape is essential to prepare them to embrace this opportunity. After surveying 505 small businesses participating in corporate supply chains, 66% of which were diverse-owned small businesses, AEO identified the following five key findings.*

FINDING 1.

Supplier diversity goals benefit corporations and small businesses, but these commitments are under scrutiny.

Diverse-owned small businesses sometimes need targeted support in identifying and acquiring contracts. To address this need, corporations and federal and local governments often have supplier diversity programs to intentionally engage small and diverse-owned businesses in their supply chains, purchasing their goods or services. These programs began over fifty years ago and had roots in the Civil Rights Movement of the 1950s and 1960s.[17] Today, companies have these programs because they align with corporate culture and workforce inclusiveness, corporate social responsibility, and improving supply chain competitiveness.[18]

Since the start of these programs, supplier diversity programs have been found to benefit the purchaser and the supplier. The diverse-owned businesses engaged in a program have opportunities to secure contracts they may not have had access to previously, get increased visibility and networking, and access resources and support to help them become more competitive. For corporations, partnering with diverse-owned businesses increases overall supply chain resiliency when there are disruptions,[19] competitive pricing,[20] and innovative products and ideas.[21] Supplier diversity programs are particularly significant at a time when the vulnerability of supply chains is tangible.[22]

However, the future of these intentional programs is currently under scrutiny. Recent lawsuits targeting grant, capital,[23] and supplier diversity programs[24] have created an environment of uncertainty and fear among business owners and the ecosystem that supports them. Recent lawsuits targeting diversity, equity, and inclusion (DEI) efforts[25] and race-conscious supports have some small business owners concerned about the implications for their businesses.[26] Concern with the growing backlash against DEI came up in almost every interview with service providers and subject matter experts. One CEO of a community development financial institution (CDFI) shared that it "comes up in every conversation" with peers.

*To learn more about the survey sample, please see the Appendix.

Another business service provider reported to AEO that some Black business owners had declined grants from the organization because they were concerned they might be targeted with legal action later.

Despite the fears in the small business ecosystem, there is cause for optimism: Increasing the diversity of suppliers is a common commitment among corporations, meaning that, while race specifically may not be a determining factor, these corporations will likely continue to invest in preparing businesses often overlooked for supplier contracts, like diverse-owned small businesses, to partner with them (Table 1). Furthermore, corporate subject matter experts are confident the commitment will persist as an important social impact goal for corporations. Among the supplier certification organizations and leaders of corporate supplier diversity programs that AEO interviewed, multiple interviewees acknowledged that although companies may change how issues related to DEI (like supplier diversity) are discussed, corporations will likely keep the underlying commitment the same. A recent national survey of senior executives in large companies supports this insight, finding that business leaders across the political spectrum support diversity initiatives.[27] Similarly, many service providers expressed an ongoing commitment to support efforts to defend against these challenges. As the CEO of a CDFI shared, "At the end of the day, some of the stuff we do is in our DNA."

FINDING 2.

Sustainability and impact reporting are corporate business imperatives that will reach small businesses.

Among corporations making environmental, social, and governance commitments, many set goals and targets impacting their supply chains (Table 1). For instance, many corporations have publicly committed to reducing their greenhouse gas emissions in response to climate-related concerns. These commitments are often based on the Science Based Targets initiative as well as relevant government regulations, such as California's recent Climate Corporate Data Accountability Act[28], the U.S. Securities and Exchange Commission (SEC)'s final rule[29], and the European Union's Corporate Sustainability Reporting Directive.[30]

Most emissions from corporations are indirect – they are from their supply chain partners, called scope 3 emissions. While most companies do not currently ask their partners to report their emissions, many companies are setting commitments and goals to help their suppliers establish and eventually report on their own emissions (Table 1).

Corporations that have begun to report more on their scope 3 emissions typically concentrate on the suppliers with the most significant environmental footprint. With smaller partners, these corporations are building their partners' capacity to set environmental and social goals, adopt sustainable practices, and measure and report environmental impact. For example, in discussions with an agricultural manufacturing corporation, a supplier engagement specialist described offering one-on-one coaching to help partners grasp the fundamentals of environmental sustainability and work towards specific goals and, ultimately, science-based targets. Another corporation assessed is addressing scope 3 emissions by providing financing to help smaller suppliers reduce their environmental impact.

Although most of the smallest businesses in corporate supply chains are currently not burdened with reporting, there are indications that corporations may start to impose requirements in the future. An interview with a diverse supplier certification organization shared stories of small businesses missing out on supplier opportunities due to struggles measuring key environmental and social metrics.

TABLE 1: **The most common ESG commitments made by the corporations AEO assessed and the most common corporate ESG commitments according to surveyed diverse-owned small business owners.**

For details on the study, please see the Appendix.

Top Corporate Commitments According to Assessment of Corporate Commitments	Top Corporate Commitments According to Surveyed Diverse-Owned Small Business Owners
1) Reducing greenhouse gas emissions	1) Increasing use of recycled materials
2) Transitioning to renewable energy	2) Protecting consumer data (data security)
3) Increasing diversity within the workforce	3) Increasing diversity within the workforce
4) Increasing diversity within the supplier base	4) Decreasing waste sent to landfills
5) Supporting sustainable supply chains	5) Supporting local communities

"I've seen lost business opportunities because [minority suppliers] may not have the right ESG processes in place. As an example, I had a conversation with a company this morning, and one thing that is extremely important to them is zero carbon emissions by 2025, which means that every supplier that they bring into their supply chain—minority, small, large—every supplier must demonstrate their commitment to zero carbon emissions."

This scenario could become more prevalent. Multiple experts interviewed throughout this study spoke to their belief that establishing disclosure standards and practices for tracking scope 3 emissions is inevitable. They think that industries will eventually converge around specific criteria for measuring and reporting, and businesses will ultimately need to be able to adhere to and report on those standards. There has also been an increase in proposed legislation and regulatory activity in the last few years. Although the U.S. Securities and Exchange Commission (SEC)'s Final Rule on Mandatory Climate Disclosures excluded reporting scope 3 emissions,[31] there is activity among state governments[32] and internationally[33] that will continue to shape the regulatory landscape. As pressure grows on large corporations to reduce their emissions, including scope 3 emissions,[34] suppliers will likely be encouraged to adapt.

FINDING 3.

Small businesses can proactively respond to industry and market expectations related to sustainability and reporting.

Small businesses are well-positioned in many ways to respond to the sustainability and inclusion trends shaping the business landscape. When it comes to sustainability, small businesses have an advantage compared to larger businesses and corporations. One sustainability expert at a prominent trade association reflected,

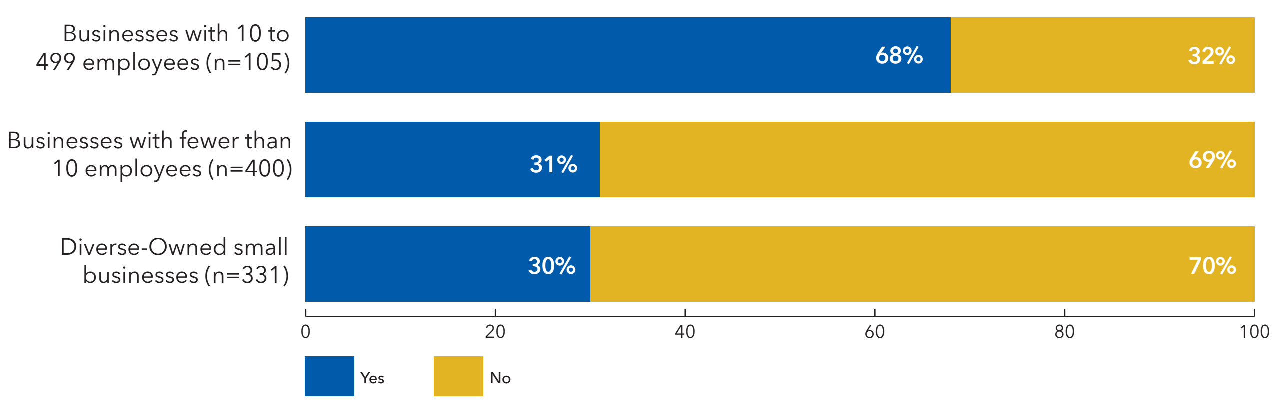
> *"Microbusinesses** actually have the ability to see their entire supply chain. Some fashion retailers, for example, can see the cotton being grown a couple of counties over. They are literally watching the cotton being turned into material. They are dying materials locally. They make materials and products locally and sell them locally. These entrepreneurs are showing the larger players how it can be done."*

Suppose small businesses proactively take steps to build their knowledge and capacity to measure and report their environmental impact. In that case, they will be more competitive players as they continue to grow and scale. In the words of Josetta Jones, Chief Diversity Officer at Chevron, at the 2023 National Minority Supplier and Development Council (NMSDC) Annual Conference and Exchange, "Suppliers that contribute to the company's underlying goals will always have an edge."

However, a significant challenge small businesses face, especially those that are diverse-owned, is the knowledge gap compared to larger businesses. Of the businesses AEO surveyed, diverse-owned small businesses were found to have the largest knowledge gap, as only 30% reported having heard of ESG. This finding is starkly different from that of 68% of businesses with 10 to 499 employees who reported being familiar with ESG (Figure 2). Furthermore, only 26% of surveyed

** Small businesses with fewer than 10 employees are sometimes referred to as micro.

FIGURE 2: **Have you heard of the concept of ESG (Environmental, Social, and Governance) commitments and policies before taking this survey?**



diverse-owned small businesses reported that they have sought guidance about complying with ESG standards or understanding the impact of partners' ESG commitments, compared to larger businesses, of which 67% have sought guidance.

Based on AEO's experience as the United States' leading voice for underserved entrepreneurs and the smallest businesses, this knowledge gap is unsurprising. Diverse-owned small businesses, in particular, operate with incredibly tight margins with finances and time. Given the nature of their operations, these businesses tend to focus more on day-to-day work instead of longer-term strategy.[35] Therefore, their reduced capacity for longer-term planning may lead to a lack of urgency in seeking guidance regarding these emerging trends.

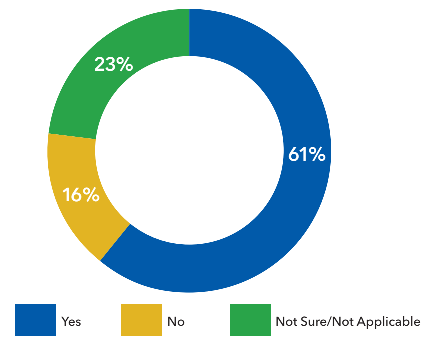
A sustainability expert at a multinational chemical company expanded on the risk and opportunity of responding proactively and seeking guidance on implementing sustainability, inclusion, and responsible business practices:

> *"Companies are revamping. . . [Small businesses may think] 'Oh, I'm small. It's not going to come to me yet,' or, 'I just don't have the time. I'm trying to keep my business going.' You should make the time now. It's just as strategic as your business plan that you must give to your funders or equity holders. It could mean the difference between winning, keeping, or losing business."*

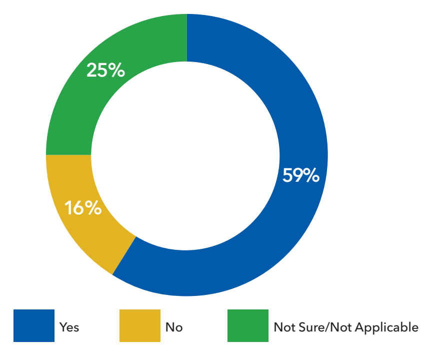
Overall, diverse-owned small businesses have the opportunity and challenge to prepare for environmental sustainability actions and reporting. However, with the proper support to address the knowledge gap and proactive actions, these businesses can gain a competitive advantage in corporate supply chains.

FIGURE 3: **In your business operations, do you actively take measures to reduce your environmenal impact?**

Diverse-owned small businesses
(n=331)



Businesses with fewer than 10 employees
(n=400)



Businesses with 10 to 499 employees
(n=105)

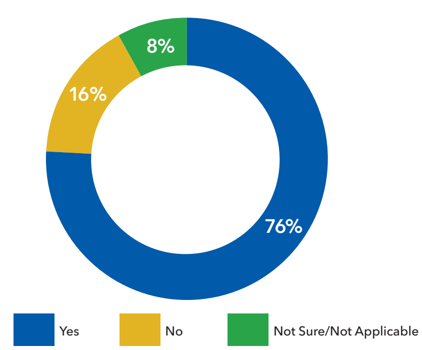
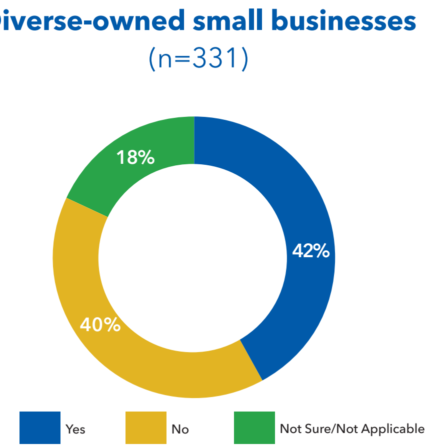
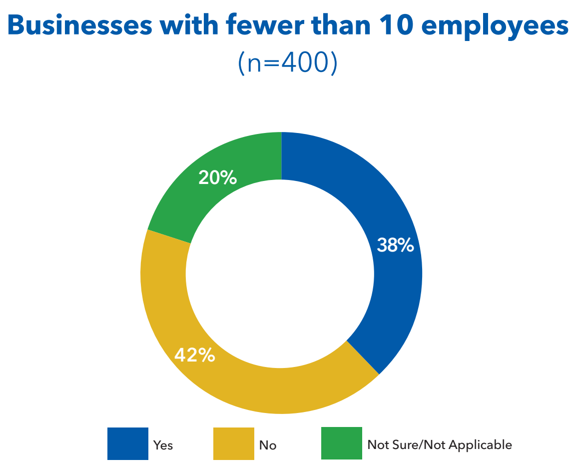
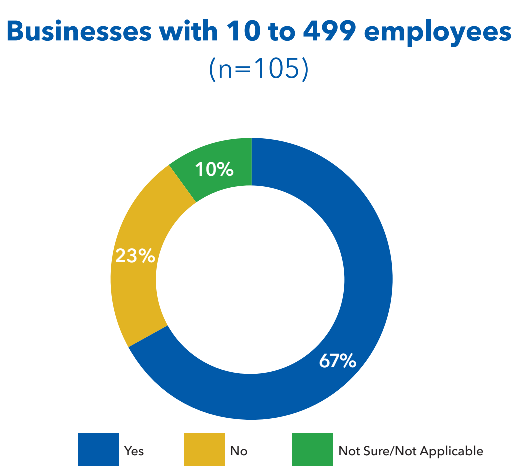


FIGURE 4: Does your business engage in any social initiatives, such as employee wellbeing practices or activities to benefit the local community?







FINDING 4.

Small business owners share the values of sustainability and social impact with corporations but may need assistance adapting to the changing landscape.

Many diverse-owned small business owners already incorporate sustainability and inclusion into their operations. Small business owners have established their own environmental and social impact practices to varying degrees, with respondents familiar with ESG more likely to take steps to reduce their environmental impact and engage in social impact activities than those who had not heard of ESG.

Although a significant portion (70%) of diverse-owned small businesses were initially unfamiliar with ESG (Figure 2), the underlying values of ESG seem to resonate with these entrepreneurs. Of the diverse-owned small businesses surveyed, 61% reported that they actively implement measures to reduce their environmental impact (Figure 3), and 42% engage in social/community initiatives such as promoting employee well-being and contributing to the local community (Figure 4).

In conversation with AEO, one business owner furthered this finding, sharing that the values of sustainability and social impact are inherent to being a small business: "I almost think for small businesses, we don't have a choice because we always are in a community." These findings suggest that diverse-owned small business owners value sustainability and inclusion, even when unfamiliar with the latest language or framing, suggesting that targeted support and education tailored to the specific needs of businesses could be impactful for the ecosystem beyond meeting future reporting mandates.

For instance, supporting diverse-owned small businesses to measure, reduce, and report on environmental impact is also an opportunity to

help businesses weather climate challenges. A recent survey from Morning Consult and Block found that more than half (52%) of business owners said climate hazards impacted their business at least a little last year, and 68% of business owners are concerned about the future impacts of climate change on their business.[36] U.S. consumers are even more concerned, with 82% reporting being concerned about the impact of climate hazards on the small businesses in their communities.

FINDING 5.

The small business ecosystem must prepare to support diverse-owned small businesses with sustainability and impact reporting.

The small businesses ecosystem (Figure 5) is vital for supporting diverse-owned small businesses and is critical to helping them navigate the challenges and opportunities of sustainability and inclusion reporting. Stakeholder interviews emphasized that small businesses, especially diverse-owned small businesses, need support as they already face capital and resource constraints. Experts and stakeholders unanimously recognized that increased support and wrap-around services are necessary to meet ESG reporting requirements.

As corporations increasingly prioritize sustainability and inclusion in their supply chains, diverse-owned small businesses must adapt to remain competitive. With proactive support, these nimble businesses can differentiate themselves by demonstrating sustainability and reporting capabilities ahead of their larger counterparts. To facilitate this competitive advantage, the ecosystem must provide access to capital for initial transition costs, address knowledge gaps identified in previous research, and offer technical skills training as needed.

One challenge many diverse-owned small businesses will face is securing upfront capital for sustainability initiatives. Despite the long-term value, the initial costs can be prohibitive, as seen in one interviewed business owner who expressed a desire to transition to electric company vehicles but lacks the necessary capital. Another challenge is the knowledge gap regarding current corporate trends, particularly ESG awareness, which affects businesses' efforts to reduce their environmental impact and support social initiatives.

Moreover, diverse-owned small businesses will need support from policymakers, corporations, and business service organizations to attain the technical skills necessary for forthcoming tracking and reporting requirements. Many businesses must be trained in sustainability basics, such as measuring energy usage and emissions, to comply with corporate, industry, or regulatory standards.

Stakeholder interviews highlighted the difficulties small businesses face in meeting reporting requirements and stressed the need for capacity-building programming to address this gap within the ecosystem. "ESG reporting metrics vary from company to company, but anytime–it doesn't matter what the metric is–you request an organization to collect data, it requires capacity," shared Tynesia Boyea-Robinson, President and CEO of CapEQ and author of *The Social Impact Advantage: Win Customers and Talent by Harnessing Your Business for Good.* Boyea-Robinson then asserted, "For any corporate organization, if you are going to require reporting, then you also need to be pulling together the wrap-around supports required for those businesses to be able to have that capacity."

Furthermore, a business association emphasized its internal need to develop programming to support its small business members in meeting reporting requirements, indicating a growing interest in addressing this service gap within the small business ecosystem. A corporate ESG leader also reflected on the role and opportunity of other business associations and service providers stepping in, explaining that:

"If [small businesses] are not ready, they're not going to be able to participate [in emerging business opportunities]. So, I think the NGOs play a role because they do a lot of programming and education that corporations aren't doing. We partner with NGOs so that we can get programming to small and diverse businesses that we can't do ourselves. We see them as the experts and doing this, so we partner with them, we can bring experts in our own right to help train and develop them."

As the business landscape continues to develop programming to evolve towards greater sustainability and inclusion, BSOs are well-positioned to support small businesses in adopting sustainability and inclusion practices and meeting reporting requirements. Proactive support in addressing these challenges will enhance small business resilience and competitiveness, contributing to a more inclusive and sustainable economic ecosystem.

FIGURE 5: The small business ecosystem

Credit: Natalie Madeira Cofield, 2024

RECOMMENDATIONS:

Priorities for the Small Business Ecosystem

While significant strides are being made, we are still in the early stages of transitioning[37] to a more sustainable, inclusive, and responsible economy. In 2022, the federal U.S. government made historic investments in climate and clean energy through the Inflation Reduction Act (IRA), which included $400 billion of tax incentives, grants, and loan guarantees to substantially reduce carbon emissions over the next decade. Notably, many of the new statute's provisions – for example, the Greenhouse Gas Reduction Fund – are expressly directed at underserved communities.[38] Given this context, we are in an opportune moment to begin fortifying the capacity of small businesses, especially diverse-owned ones, supporting them in adapting to the evolving needs and priorities of the business landscape.

According to surveyed business owners, the most impactful support initiatives for enhancing environmental initiatives and social practices are financial incentives and tax breaks, with 66% indicating them as very or extremely helpful, followed closely by access to resources and best practices, cited by 57%. Additionally, networking and collaboration opportunities emerged as another critical avenue for support, facilitating knowledge exchange and collaboration among businesses.

To support small businesses, particularly diverse-owned businesses with fewer than 10 employees, AEO recommends that corporations, policymakers, and BSOs each play a role in bolstering the ecosystem.

CORPORATIONS

Corporations play a pivotal role as exemplars and facilitators of environmental sustainability, social inclusion, and responsible business practices for small businesses. To assist in this endeavor, corporations should:

Align Reporting Standards: Corporations should unite around a set of key environmental sustainability reporting metrics. Although frameworks, priorities, and detailed metrics may vary among corporations depending on industries and contexts, establishing core metrics will streamline reporting and alleviate confusion for many businesses,[39] especially diverse-owned small businesses. Aligned standards will also help community and industry organizations focus their technical assistance and capacity-building efforts as they work with corporations to support small businesses in the evolving landscape.

Create Financial Incentives and Grants: Corporations can create financial incentives, financing options, and grants for diverse-owned small businesses in their supplier diversity programs to help lessen the economic burden of becoming more sustainable. Providing financing to help smaller suppliers reduce their climate impact is an approach being used to reduce corporations' scope 3 emissions.

Invest in Capacity-Building: Corporations should devote resources towards capacity-building initiatives for diverse-owned small businesses. In AEO's survey, 57% of small businesses surveyed reported that corporations can best support them through capacity-building initiatives, such as providing mentorship and coaching, explicit guidance, and best practices.

POLICYMAKERS

Recognizing the disproportionate impact of the climate crisis on underserved communities, policymakers should prioritize initiatives that enhance resilience and support the growth of small businesses. Specific recommendations for diverse-owned small businesses include:

Promote Tax Breaks or Credits: Policymakers should design and promote financial incentives and tax breaks available to diverse-owned small businesses, such as those created and expanded under the IRA, to help these under-resourced businesses become more sustainable and deliver long-term value to the communities and supply chains they serve. In AEO's survey, 66% of surveyed business owners identified these financial incentives and tax breaks as critical tools for facilitating their transition to sustainable practices and technologies.

Craft Regulatory Protections: Policymakers must develop regulations with time-bound carve-out protections for diverse-owned small businesses. These protections should help prevent sudden, onerous tracking and reporting requirements and create a balanced approach to ensure that environmental goals are pursued without unduly burdening the most vulnerable businesses.

Protect Procurement Opportunities: Policymakers should implement measures to safeguard procurement opportunities for diverse-owned small businesses, encouraging access to contracts and supply chain inclusion initiatives. In addition to promoting job creation, diversity, competition, and innovation[40], this proactive approach will foster economic equity and support the growth and sustainability of small businesses within the broader market landscape.

Preserve Public Technical Assistance Funding: Policymakers must safeguard vital funding for essential technical assistance programs. These programs, often funded by entities such as the Small Business Administration (SBA), Minority Business Development Agency (MBDA), and the U.S. Department of Agriculture (USDA), provide critical capacity-building services and support to small business owners nationwide. Furthermore, policymakers should safeguard the funding recently allocated to community organizations, including BSOs, ensuring access to financial

and technical assistance funding to support environmental and climate justice initiatives through the Environmental Protection Agency's Environmental and Climate Justice Community Change Grants program, made possible through the IRA.

BUSINESS SUPPORT ORGANIZATIONS (BSOS)

BSOs play a crucial role in supporting small businesses by providing tailored assistance and fostering a conducive environment for growth and collaboration. At the time of this paper, community organizations can apply for financial and technical assistance funding through the Environmental and Climate Justice Program, which was made possible through the IRA. Additionally, to effectively support diverse-owned small businesses, BSOs should:

Facilitate Networking and Collaboration: BSOs should actively facilitate connections among small businesses, fostering networking opportunities with peers and larger corporations. By encouraging collaborations and partnerships, BSOs can empower diverse-owned small businesses to leverage collective expertise and resources.

Develop Education and Resources: Given the immense knowledge gaps and need for technical skills training, BSOs should develop and offer comprehensive educational programs, coaching, resources outlining best practices, and mentorship opportunities. By equipping small business owners with essential knowledge and skills, BSOs will empower them to navigate challenges effectively and seize growth opportunities.

Collaborate and Pursue Internal Strategic Planning: Some BSOs are actively working to create climate-resilient training, products, and programs. However, many have not. The climate risks that businesses face are also risks to service providers. Therefore, BSOs should collaborate, co-create programs and strategies, and continuously evaluate and refine internal strategy and strategic planning to protect their long-term effectiveness.

It is imperative to support underserved small business owners in building sustainable and resilient enterprises. By providing targeted support and fostering collaboration and innovation, stakeholders can empower diverse-owned small businesses to thrive in a rapidly changing economic landscape, ultimately contributing to a more inclusive and sustainable future.

CONCLUSION

The evolving landscape of corporate sustainability and inclusion strategies holds profound implications for small businesses, particularly those with fewer than 10 employees and owned by members of underserved communities. As corporations increasingly prioritize environmental sustainability, diversity, and social impact, it is essential to understand how these shifts affect the vibrant small business ecosystem, which forms the backbone of local economies.

The findings of this AEO study shed light on the challenges and opportunities faced by diverse-owned small businesses in adapting to these changing dynamics. From the need for increased support and resources to the importance of capacity-building and collaboration, strategic interventions are necessary to ensure the continued resilience and success of small businesses.

To this end, AEO proposes several recommendations for key stakeholders in the small business ecosystem. Corporations can align reporting standards, create financial incentives, and invest in capacity-building initiatives to support diverse-owned small businesses in their sustainability efforts. Policymakers can promote tax breaks, craft regulatory protections, and safeguard procurement opportunities to enhance resilience and foster growth. BSOs can facilitate networking, develop educational resources, and pursue internal strategic planning to empower small business owners and drive sustainable economic development.

By embracing these recommendations and working collaboratively, stakeholders can create a more inclusive and resilient economy where small businesses thrive. It is imperative to recognize small businesses' vital role in fostering economic opportunity and mobility, particularly for historically underserved communities. By prioritizing sustainability and inclusion in the small business ecosystem, we can build a more equitable future where all businesses can succeed and contribute positively to society and the environment.

APPENDIX

RESEARCH METHODOLOGY

Study Design

This study was initially designed around three original key research questions:

1) What are the key commitments that corporations have established regarding sustainability, inclusion, and corporate responsibility, and what policies are being implemented to meet those commitments?

2) How do these corporate commitments and policies affect small businesses in their supply chains, especially those in underserved communities in the U.S.?

3) What are potential solutions for mitigating the impact of these commitments and policies established by corporations on small businesses in their supply chains, particularly those in underserved communities in the U.S.?

To address these questions, AEO employed a multi-faceted approach. First, the team conducted in-depth desktop research that assessed fourteen leading corporations' corporate environmental, social, and governance commitments in the financial, tech, and manufacturing industries, identifying common commitments likely to impact businesses within the corporate supply chain. The team also conducted 24 interviews with corporate subject matter experts on corporate social responsibility, ESG strategies, and supplier engagement. Finally, the study included a survey of 505 small business owners and eight interviews with small business owners. In alignment with AEO's mission and to maximize the impact of this study, the questions were further refined from a focus on small businesses to diverse-owned small businesses.

Literature Review

AEO identified corporations within the strategically chosen industries of technology, financial services, and industrial manufacturing. Industries were selected based on their role in ESG and the presence of small businesses.[42] Technology (information and manufacturing) was chosen as an increasingly dominant sector in the economy that has intentionally engaged small businesses and has been an active voice in ESG trends. The financial services industry was chosen for the sector's role in driving the movement of money and economic trends, in addition to the recent pressure from stakeholders and investors to implement sustainability and inclusion priorities into their decision-making. Finally, industrial manufacturing was chosen as an industry likely impacted by sustainability and inclusion trends.

The corporations assessed by AEO were chosen by cross-referencing corporations in the target industries that were identified as top performers by JUST 100 Capital (2022 & 2021), Investor's Business Daily (2022 & 2021), Sustainalytics, MSCI, and the Carbon Disclosure Project (CDP). The list was then refined based on organizational relationships.

The assessment of corporations involved a review of publicly available commitments. AEO reviewed corporation-branded ESG, sustainability, and corporate responsibility materials to identify commitments for previously identified corporations. Commitments were then categorized as primarily Environmental, Social, or Governance-oriented. They were also tagged for being specific, time-bound, or measurable as a proxy for policy action and whether they were likely to impact the corporation's supply chain.

Interview Methodology
AEO interviewed a wide range of stakeholders to ensure diverse perspectives. Small business owners, BSOs, and corporate subject matter experts were interviewed to glean insights from various perspectives. Interviewees were sourced from AEO's staff and small business ecosystem. Small business owners were interviewed from July to September 2023, BSOs were interviewed from August to October 2023, and corporate subject matter experts were interviewed from July to October 2023.

Survey Methodology & Demographics
AEO fielded the survey using Qualtrics online panels and non-probabilistic sampling methods. The target population was small business owners with business relationships with at least one corporation. Additionally, we set a quota for diverse-owned businesses to ensure deep insights into the experiences of a range of diverse-owned businesses. It is important to note that the target population is a rare group for which national estimates or population benchmarks are unavailable. Accordingly, estimates of differences may be imprecise, but the survey affords critical information about small business owners' experiences with ESG and corporate supply chains. AEO captured 505 small businesses, and a majority of the sample was characterized as diverse-owned small businesses with fewer than 10 employees (n = 331).

Sample Details

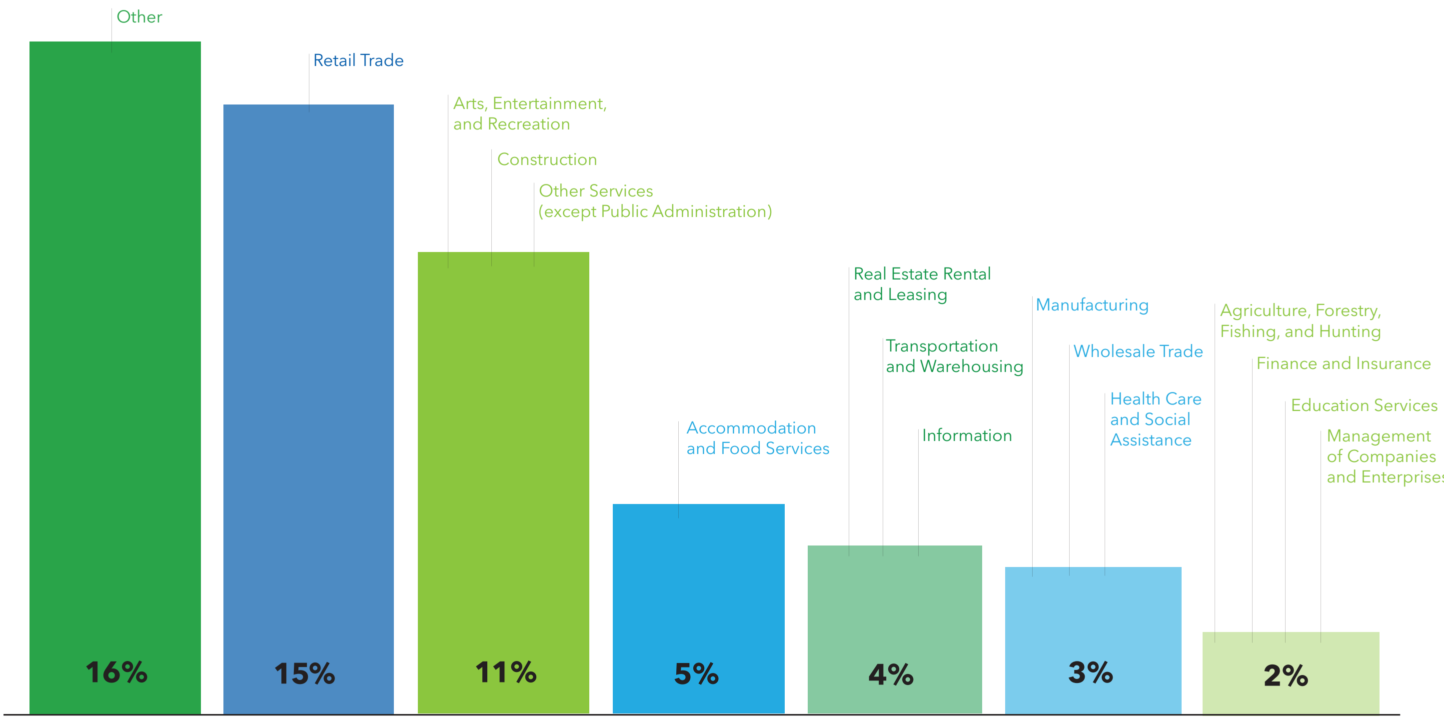
Respondents were required to provide firmographic information about their business as part of the survey. Some of the information collected included their industry, corporate supply chain role, and business ownership diversity. Respondents were asked which roles their small businesses have in larger corporate supply chains and could select more than one response. Respondents who selected "None, I do not do business with a larger corporation" were screened out of the survey.

Of all respondents (n = 505) surveyed:

- 59% identified as a service provider
- 25% identified as a retailer
- 14% identified as a distributor
- 13% identified as a supplier
- 8% identified as a manufacturer
- 6% identified as research and development
- 6% identified as other

Respondents were asked to identify the industry that best describes the primary function of their business.

FIGURE 6: What industry best describes the primary function of your business? (n=505)



Additionally, respondents were asked to self-identify the characteristics that fit their business. Below is a detailed breakdown of the sample by indicators of diverse-owned businesses. These indicators are not mutually exclusive; respondents could select as many dimensions as applied.

Of the businesses with fewer than 10 employees surveyed (n = 400):

- 47% identified as woman-owned
- 16% identified as located in a rural community
- 16% identified as not a diverse-owned business
- 15% identified as located in a low or moderate-income area
- 11% identified as Black-owned
- 9% identified as Hispanic or Latino-owned
- 9% identified as owned by a person with a disability
- 9% identified as owned by a person who was previously incarcerated
- 7% identified as LGBTQ+ owned
- 6% identified as veteran-owned
- 2% identified as immigrant-owned
- 2% identified as Indigenous or Native American-owned
- 2% identified as Asian-owned
- 1% identified as Native Hawaiian or Pacific Islander-owned
- 1% identified as a diverse business not listed: Arab-owned

Of all businesses surveyed, including businesses with up to 499 employees (n = 505):

- 45% identified as woman-owned
- 17% identified as not a diverse-owned business
- 14% identified as located in a rural community
- 13% identified as located in a low or moderate-income area
- 13% identified as Black-owned
- 10% identified as Hispanic or Latino-owned
- 9% identified as owned by a person who was previously incarcerated
- 8% identified as owned by a person with a disability
- 6% identified as LGBTQ+ owned
- 5% identified as veteran-owned
- 3% identified as Indigenous or Native American-owned
- 2% identified as immigrant-owned
- 2% identified as Asian-owned
- 1% identified as Native Hawaiian or Pacific Islander-owned
- 1% identified as a diverse business not listed: Arab-owned

Study Limitations

The research study aimed to identify how corporate ESG commitments impact small businesses, especially those from underserved communities. The study has limitations in our methodology and sample selection and is not representative of all corporations and companies. Nonetheless, AEO is confident in our findings' indicative power.

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