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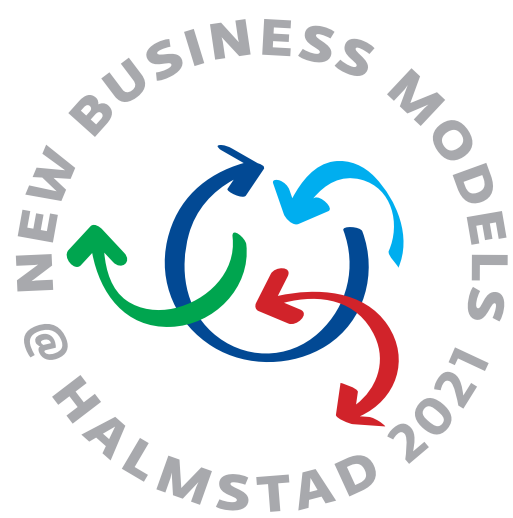
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High Performance Benefit Corporations:

Exploring Recipes to Increase the B Impact Assessment

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Abstract

This paper presents an analysis of 53 Italian Benefit Corporations (BCs) to describe possible combinations of organizational factors that create different "recipes" for achieving high B Impact Assessment (BIA). A fuzzy-set qualitative comparative analysis (fsQCA) is applied to highlight how size, age, profitability, and female presence can be combined to achieve a high BIA.

Keywords

Benefit Corporation, B Corp, sustainability performance, B Impact Assessment, fsQCA

WHAT DO WE KNOW ABOUT BENEFIT CORPORATIONS AND CERTIFIED B CORPS?

Benefit Corporations (BCs) were introduced in 2010 in different states of the United States (US) as a new legal form of company. Some years prior, B Lab introduced B Corp certification, propelling a movement of corporations aimed at changing the way of doing business. B Corp certification requires a business to assess its impacts using a specifically designed questionnaire that measures five main areas of organizational performance: workers, community, customers, environment, and governance. This B Impact Assessment (BIA) enables firms to self-assess their level of business sustainability and have their business certified from B Lab when they score more than 80 points on the questionnaire scale. Companies from all over the world can obtain B Corp certification; however, the legal status of BC can be achieved only by firms that are located in countries where BC regulation exists.

After the US experience, a regulation for BCs was issued in Italy at the end of 2015. Under Italian Law, a BC is a firm that engages in economic activity with the aim of sharing profits, while pursuing common benefits and operating in a responsible, sustainable, and transparent manner. To become a BC, an Italian company should change its by-laws and clearly specify its common benefit purposes. Directors must then administer the company by balancing this common benefit with the interests of shareholders and other stakeholders. BCs are required to designate one or more persons as "responsible for the impact". The company is required to draft and publish an annual impact report and to adopt a third-party standard for impact assessment, which includes the following four areas: governance, workers, environment, and other stakeholders. The legal framework of BCs and B Corp certification are related: a BC can use BIA as a third-party standard, and certified B Corps are required to become a BC within two years of the first certification.

Given that BCs were introduced recently, and only in some countries (e.g., in the US and Italy), most studies have analyzed certified B Corps rather than BCs, and among these, there are few contributions that present empirical studies.

Stubbs (2017) investigated the features of B Corps as Sustainable Business Models (SBMs) and found that these firms are characterized by a stronger mission and leadership aiming to change the way of doing business by enabling greater integration of profit with social purpose. In fact, B Corps can be included in SBM archetypes (Bocken et al., 2014) under the category of "repurpose for society/the environment" (Ritala et al., 2018). The pursuit of both profit and social and environmental forms of value is consistent with the triple bottom line approach (Elkington, 2004), while the explicit relevance of customers, communities, and workers in BIA is consistent with stakeholder theory (Freeman, 1984, 2010). The literature on business models (Zott et al., 2011) has usually emphasized the financial model of value creation and capture and the role of customers and shareholders as main stakeholders. However, the evolution toward SBM marks a transition from focusing on "what and how" to focusing on the integration of "with and for whom" to create value (Freudenreich et al., 2020), and the B Corp model embeds both these principles.

Qualitative empirical studies have analyzed different aspects of B Corps, for example, the shifts that characterize their evolution (Sharma et al., 2018); the level of the social impact of online communication (Nigri et al., 2017); and the use of impact indicators in the governance and management decision-making process (Nigri et al., 2020a, 2020b).

Quantitative studies on B Corps have generally investigated the relationship between the status of certified B Corps—or their level of sustainability measured in terms of BIA—and their growth or productivity. The effect of certification on firm growth is controversial. For example, Parker et al. (2019) found that certified B Corps have lower growth rates (in terms of turnover) both one year and three years after certification, and this reduced growth was found to be particularly apparent for smaller and younger firms. Two other studies present opposing results. Using matched pair analysis, Romi et al. (2018) found that B Corps present higher growth rates than their noncertified peers, while Paelman et

al. (2020) found a significant positive relationship between certification status and short-term (one-year) sales growth.

When BIA is used as an independent variable, the results seem indeterminate because the few studies analyzing the effect of BIA on growth or labor productivity (Chen & Kelly, 2015; Parker et al., 2019; Romi et al., 2018) or net income (Gazzola et al. ,2019) have found no significant relationship between any of these factors and BIA. To the best of our knowledge, no study has tested the inverse relationship by introducing a form of financial performance such as return on assets (ROA) as an antecedent of B Corp certification or BIA; however, previous literature on corporate social performance (CSP) and corporate financial performance (CFP) (Cantele & Zardini, 2018; Margolis & Walsh, 2003) demonstrated the existence of a positive reverse or bidirectional relationship (Lu et al., 2014; Orlitzky, 2008; Waddock & Graves, 1997).

In addition, very few studies have aimed to define the antecedents of higher sustainability performance, approximated by the B Corp certification or BIA score. Grimes et al. (2018) found that large firms have a higher probability of becoming certified; however, this holds true only when size is measured by revenues, but when it is measured by number of employees, the relationship is not significant. In contrast, Ardito et al. (2021) found a positive and significant relationship between BIA and firm size, measured by number of employees, but when size was measured by revenues, the relationship was not significant. In addition, Alonso-Martinez et al. (2020) found no significant relationship between BIA and size, measured by number of employees.

BC regulation and B Corp certification are a recent phenomenon. Some new ventures can now be born with BC status, while older firms might be considered less "innovative" and thus rarely aim to become a BC. Studies usually find that B Corps are young firms (Gamble et al., 2019; Parker et al., 2019) and that older firms are lower performing in relation to BIA (Ardito et al., 2021).

Another variable considered in the scant previous studies on B Corps is gender. For example, Grimes et al. (2018) found that firms owned by women have a higher probability of becoming certified B Corp and have better social and environmental performance (Harjoto et al., 2019). However, Ardito et al. (2021) found that when overall BIA and its different subscores are considered as separate dependent variables, the effects of female representation on the board are ambiguous.

Cantele et al.'s (2020) recent study confirmed that B Corps and BCs are a niche phenomenon. They found that most BCs in Italy are small, recently incorporated, and operating in the service sector (e.g., in consulting activities). These findings call for further research on the motivation to become a BC and the enabling factors that previous qualitative studies have not sufficiently considered. Moreover, the scant and contrasting results of the quantitative studies that do exist mean that further investigation is needed to understand the factors leading to a high sustainability performance. Such further

research must also consider that methodological limitations could have affected the traditional regression analysis applied in the context of BCs.

RESEARCH DESIGN AND METHODOLOGY

A probable explanation for the contradictory and inconclusive results could lie in the fact that previous literature on B Corp certification and BIA used multiple regression analysis to explore the net effect of independent variables on a dependent variable. This approach assumes that these identified effects are both necessary and sufficient to predict the behavior of the dependent variable; however, Ragin (2000) asserted that most real-life events and associations are asymmetrical. In addition, the aim of multiple regression analysis is to define the significant positive or negative effect of a single independent variable on the dependent variable, and while this method also considers indirect effects (Hayes, 2017), it does not consider the effects of combinations of factors (Woodside, 2013). Thus, an outcome might depend on how the explanatory variables are combined rather than on the levels of the attributes of individual variables (Ordanini et al., 2014).

To overcome the inconclusive results of previous literature and capture the complexity of the B impact assessment, we adopt a configurational approach to analyze how the organizational factors considered by previous literature (Alonso-Martinez et al. 2020; Ardito et al. 2021; Gamble et al. 2019; Grimes et al. 2018) can be combined with each other in multiple configurations to generate high levels of BIA.

We conducted our analysis to consider the following two propositions.

Proposition 1: A high level of BIA can be achieved through different configurations of organizational factors (equifinality).

In relation to the principle of equifinality, different combinations of organizational factors might be sufficient, but no single combination must occur to predict an outcome (Ragin, 2000). In essence, different "recipes" exist for achieving high BIA levels.

Proposition 2: Each organizational factor is combined with others, rather than acting independently, to explain a high level of BIA (complexity).

According to the complexity proposition, the "relationships between variables can be non-linear, with abrupt switches occurring, so the same 'cause' can, in specific circumstances, produce different effects" (Urry, 2005: p. 4). This proposition infers that the relationships between BIA and other variables might not always be linear. Thus, we employ fuzzy-set qualitative comparative analysis (fsQCA) because it is a methodological approach that can identify the multiple configurations of interconnected factors that lead to the outcome of interest (Fiss, 2011; Ragin, 2008).

The variables were extracted from a database created by the authors. Beginning by using the list of Italian BCs gathered in previous work, we collected data about BIA from the B Corporation directory (see https://bcorporation.net/directory) and the other variables from the AIDA database of Italian financial statements. We used BIA as the outcome

variable. To obtain B Corp certification, companies must undergo a rigorous process, referred to as "BIA", our outcome variable. The objective of the BIA process is to detect the company's strengths and weaknesses in five key impact areas of organizational performance: workers, governance, environment, customers, and community (Lopez, 2020). If the company obtains 80 points or more in the questionnaire designed to measure these impact areas, they can receive certification. In addition, they will be required to modify their strategies and governance processes to balance their social, environmental, and financial goals. Companies must repeat this process every three years to continue to be certified.

Based on previous literature, we identified five organizational factors (antecedents) to explain the BIA. Firm size (measured by revenues and employees, and constituting two factors) and firm age (years since incorporation) were used because these variables are usually included at least as control variables in previous studies on organizational performance; ROA as a measure of profitability because BCs should balance profit and social impact, and many studies have discussed the relationship between social performance and financial performance (and vice versa); and women on the board (the percentage of women directors of the board) because studies on the antecedents of certification and BIA have highlighted the role of female presence in the decision-making process. Our final sample has 53 Italian BCs with BIA.

Contrarian analysis was run before fsQCA. This step allowed us to better illustrate the complexity of BIA. To achieve this aim, we performed a quintile analysis and through using contingency tables, we tested whether the antecedents were asymmetrically related to high levels of BIA. The first real stage of fsQCA method is calibration, that is, transforming the variables into calibrated groups (Woodside, 2013). We generated membership measures through a combination of theoretical knowledge and empirical evidence (Ragin, 2000) to allow membership scores to vary according to how much the variables belong to a set: ranging from 1 (full membership) to 0 (full non-membership). The cross-over point (0.5) is the point of "maximum ambiguity in the assessment of whether a case is more in or out of the set" (Ragin, 2008: p.30). After completing the coding, all possible combinations of attributes were listed in a "Truth Table" (Russo & Confente, 2019). This table was refined: frequency and consistency allowed us to reduce the number of combinations of causal conditions that lead to the outcome (Ragin, 2008). To be precise, we kept all the configurations that had at least two cases and consistency higher than 0.8 (Ragin, 2008), considering only those for which the outcome of high BIA was present. In this phase of analysis, it is crucial to assess which combination might be a sufficient condition for the outcome. Consistency and coverage are appropriate indexes for this task. Consistency represents the percentage of causal configurations that lead to the outcome. Coverage explains the relevance of the combinations; it can be interpreted as the R^2 value extracted from correlational methods (Woodside & Baxter, 2013) and answers two important questions: How much does this combination matter? How many cases does it account for?

To define a configuration as sufficient, its consistency measure should exceed the 0.8 threshold (Woodside & Baxter, 2013). The last step of fsQca is the logical reduction and analysis of configurations (Russo & Confente, 2019), which aims to identify only configurations that beyond being consistent, also have an appropriate level of coverage—the acceptable threshold for coverage is 0.010 (Ragin, 2008).

RESULTS

Table 1 presents the intermediate solutions (Ragin, 2008), with coverage and consistency of the combinations that the fsQCA program software (Ragin & Davey, 2014) selected as sufficient. We used this kind of table to present our results as suggested by Ragin and Fiss (2008), where black circles (●) indicate the presence of a condition (i.e., high levels of the condition) and circles with a cross (⊗) indicate its absence (i.e., low levels of the condition). In addition, blank cells indicate that a condition is not considered, which means that it is treated as a "don't care" condition (Ragin & Fiss, 2008) in a solution. To confirm that the results are not overly sensitive to the specific design choice, we performed sensitivity analysis.

The findings highlight an overall consistency of 0.83 and a solution coverage of 0.75, which means that a high proportion of the outcome is covered by the four configurations (i.e., recipes). Configuration 1 has the highest consistency and unique coverage, it reflects a combination of low levels of *Revenue*, *Employees*, *Women on Board* and high level of *Age*, while *ROA* is considered a "don't care" condition. Configuration 4 encompasses low amounts of *Revenue*, *Employees*, *Age* and high levels of *Women on Board* and *ROA*. These two solutions are referred to as "small BC" (i.e., low quantity of employees and revenue). From this perspective, the company characteristics that allow a small BC to achieve high levels of BIA are either the presence of older *Age* and an absence (or low percentage) of *Women on Board*, or the presence of younger *Age*, high level of *ROA*, and a high percentage of *Women on Board*.

Configuration 2 combines the presence of *Revenue*, *Employees*, and *Age* with a small percentage of *Women on Board*. Configuration 3 includes the presence of high levels of *Revenue*, *Employees*, *Age*, and *ROA*. Configurations 2 and 3 represent the recipes to achieve high levels of BIA for a large BC. In both solutions, an important role is played by the age of the company. The percentege of *Women on Board* is low in solution 2, but it is a "don't care" condition in solution 3. High *ROA* is present in solution 3, but it is a "don't care" condition in solution 2. The existence of multiple sufficient configurations for high BIA indicates equifinality (Fiss, 2011), supporting Proposition 1. Proposition 2 is supported by the fact that a high BIA level is the result of a combination of multiple relevant conditions.

Table 1 – Configurations to high BIA

Configurations	1	2	3	4
Revenue	⊗	●	●	⊗
Employees	⊗	●	●	⊗
Women on Board	⊗	⊗		●
Age	●	●	●	⊗
ROA			●	●
Consistency	0.89	0.86	0.85	0.81
Raw coverage	0.33	0.31	0.35	0.15
Unique coverage	0.21	0.04	0.08	0.11
Solution coverage	0.75			
Solution consistency	0.83			

Legend: ● Causal condition present; ⊗ Causal condition absent

DISCUSSION AND CONCLUSION

The different configurations leading to a high impact (i.e., high BIA) for BCs highlight the role of each organizational factor in combination with the other factors. This understanding represents the first important contribution of our study because previous research based on regression analysis has found controversial results that tested the effect of only single variables on BIA or sustainability performance.

Previous literature has generally highlighted a positive relationship between firm size and sustainability performance (Grimes et al., 2018; Ardito et al., 2021). However, we found a different path to high impact for small and large firms. For small firms, experience and reputation (approximated by old age) and "traditional" governance (i.e., a low presence of women directors) can lead to high impact, but the same result can be obtained by small firms that have been recently incorporated (young age) but are highly profitable (high ROA) and have higher female presence on the board. For large firms, experience and reputation (approximated by old age) seem to be necessary conditions for having a high impact, but only when combined with two alternative solutions: high profitability (ROA) or a "traditional" governance (low female presence).

The second important contribution of our study is that it fills the gap in knowledge about the role of profitability on sustainability performance. While previous literature has generally found a positive relationship between CFP and CSP (Lu et al., 2014; Orlitzky, 2008; Waddock & Graves, 1997), our study found that a high ROA is relevant only in two solutions—one for small and medium firms and the other for large firms—while it is irrelevant in the other solutions.

Further, a high female presence on the board appears relevant only in small start-ups with high profitability potential. In the other solutions, the presence of females on the board is low impact or irrelevant. This sheds light on the need for further research to examine the relationship between female board presence and sustainability performance because despite female-owned firms seeming to be more likely to gain B Corp certification (Grimes et al., 2018), higher performance (in terms of BIA) is not always guaranteed when gender diversity is represented in terms of female presence on the board.

This study has some limitations. It explored the influence of five key factors on BIA. Future research could consider the role of additional causal conditions to better understand which further factors (not available in our database) should be combined to achieve high levels of BIA, for example, experience measured in years since first certification (Ardito et al., 2021; Gamble et al., 2019), or the peculiarities of new ventures that were born as a BC or were B Corp certified within a short time of being founded (Gehman & Grimes 2017).

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