

Financial performance of Benefit Corporations

Master Thesis Accounting & Control

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Abstract

The Benefit Corporations (B-corps) are a growing community of companies that aim to be not only the best in the world, but also the best *for* the world. Their intrinsic motivation and focus on strategy integration of CSR and cooperation with society and government makes them an interesting group of CSR-focused companies. The B-corps are certified by scoring on the B Impact Assessment (BIA) from the independent B Lab. The objectives of this study were twofold; to research 1) whether B-corps financially outperform their counterparts and 2) whether scores on the BIA are correlated with financial performance (FP). The study included 117 B-corps and 1970 counterparts that the B-corps potentially compete with, selected on SIC code and country. Results indicate that the B-corps do outperform their counterparts, although no significant results were found. In addition, only the environmental component of the BIA was correlated with FP, indicating that better environmental performance leads to higher FP. Finally, the results suggest that B-corps grow significantly faster than their counterparts. These results make B-corps an interesting group of companies for investors, employees, customers and also further academic research.



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1. Introduction

1.1 Research questions

The concept of Corporate Social Responsibility (CSR) goes back to the 1950s when Bowen (1953, p. 6) defined CSR as follows: “It refers to the obligations of businessmen to pursue those policies, to make those decisions, or to follow those lines of action which are desirable in terms of the objectives and values of our society.” So according to the first definition of CSR business has an obligation to take society into account in what they do. Since this definition, a lot of definitions of and perspectives on CSR have been added to the literature. The concept has also been criticized. For example by Milton Friedman (1970) who stated that the only responsibility of business is to maximize profits for their shareholders, as long as it is within ‘the rules of the game’. The most recent development on CSR comes from Porter & Kramer (2006; 2011). Their view is directly opposed to the view of Friedman (1970). Porter & Kramer state that every company should integrate CSR in their strategy and that it will benefit both government and firms to focus on creating shared value for society.

But does it indeed benefit firms to focus on CSR and integrate it in their strategy? Over the last decades, a large part of the research on CSR focused on its relation with financial performance (FP). The research is inconclusive and raises more questions than it provides answers. Nevertheless companies give increasing attention to CSR, and not only because of external pressure from society. A specific community of companies, the Benefit Corporations (B-corps), aims to be not only the best in the world, but the best *for* the world (Benefit Corporations, 2015). This is a distinctive community, because they do not focus on CSR out of self-interest, but to serve society. So, in contrast to many other firms, B-corps actually do what Porter & Kramer suggest. They integrate CSR in their strategy and focus on creating value for society. Therefore, this thesis researches how this distinctive group of companies performs financially compared with a control group of firms with similar characteristics which are not members of the B-corps. If B-corps outperform their counterparts in the long run, the view of Porter & Kramer is supported. Therefore, the first research question of this thesis is:

Do B-corps financially outperform their non B-corps counterparts in the long run?

The research on the CSR – FP relation used multiple operationalizations of CSR, of which the Corporate Reputation Index (CRI) of Fortune magazine and the independent ratings of Kinder,

Lydenberg & Domini (KLD) are the most well-known. But research also has significant doubts about these operationalizations (Waddock & Graves, 1997; Orlitzky et al., 2003; Chatterji et al., 2009). The B-corps have their own CSR measure, the B Impact Assessment (Benefit Corporations, 2015). The independent non-profit organization B Lab certifies B-corps on basis of B Impact Assessment (BIA) scores (Appendix I provides more detailed information on the BIA). This test seems to be very comprehensive and over 20.000 businesses are using the test to measure and improve their business. Therefore, the BIA score might be a valid and reliable measure of CSR performance. Since most research concludes that CSR is correlated with FP (Orlitzky et al., 2003), this thesis researches whether the variation in BIA scores and financial performance measures of Benefit Corporations are correlated. This leads to the second research question:

Are the B Impact Assessment scores correlated with financial performance of B-corps?

1.2 Motivation

The outcomes of this research are important for researchers, firms, their shareholders, the government, society, the many initiatives in the field of CSR and specifically for the Benefit Corporations. Waddock (2008) is a key article for the motivation of this thesis, because the article describes and analyses the developments in the field of corporate responsibility. She recognizes a shift in the business world from wealth maximization to multi-bottom-line orientation. Companies are held responsible for their total value and impact, the rules of the business game are changing. These rules define to a large extent what companies need to do to be accepted by society, to earn their 'license to operate'. Specifically, a new infrastructure is emerging with all sorts of initiatives to motivate companies to be transparent, responsible, sustainable and also accountable. Examples are the Global Reporting Initiative (GRI) and Integrated Reporting; section 3.2 discusses these initiatives in more detail. This infrastructure puts high pressure on companies to change, together with increasing media attention, investors looking for responsible companies and company peers that show positive examples of being a responsible company. According to Waddock (2008) it is clear that companies actually are changing. But the question is: why are they changing? Is it because of external pressure and the changing public expectations? Or is it out of intrinsic motivation and recognition of the need for more responsible companies? Are companies 'window dressing' and 'greenwashing' without making actual changes? Or do they take important environmental and social issues seriously and do they make real changes? CSR is not CSR if it is still about making as much

money as possible. A beautiful quote to emphasize this is: “A socially responsible entrepreneur or manager is one who has a utility function of the second type, such that he is interested not only in his own well-being but also in that of the other members of the enterprise and that of his fellow citizens.” (Johnson, 1971, p. 68). So CSR is not only about the well-being of the company, but the well-being of society is equally important.

In any case, it seems obvious that more CSR will benefit the government and society as a whole. For example, governments fund responsible companies through subsidies and impose taxes on polluting companies. The initiatives in the CSR field, like GRI, and increasing media attention show that society also asks for more responsible companies. The world becomes more and more aware of the importance of this need. But still it seems, to answer the questions above, that most companies still focus on maximization of their own wealth. They work with CSR initiatives as long as it is clear that it will directly benefit the company or prevent the company from damage of any sort. That is not CSR. As Davis (1973) states it: “It means that social responsibility begins where the law ends. A firm is not being socially responsible if it merely complies with the minimum requirements of the law, because this is what any good citizen would do.” So CSR is about going further than minimum demands from society. It is not about complying to the minimum standards and only doing what is absolutely necessary. It is about a proactive attitude towards being responsible, sustainable and transparent.

Unfortunately, only a relative small number of companies actually take proactive initiatives. Besides, most of the attention goes to the biggest companies. Small and medium-sized companies receive only little attention and have therefore less motivation to act socially responsible. Except for those companies that focus on CSR out of intrinsic motivation and because they recognize the need for change in business. B-corps are mostly these kind of companies. Often small or medium-sized, but they are very proactive (Benefit Corporations, 2015). B-corps have the potential to be or even already are the earlier mentioned peers that show positive examples of being a responsible company. The big difference with the majority of the companies is that B-corps are not changing because the world wants them to, but because they want to change the world. Therefore they are different than most of the researched companies in other articles. And therefore this particular research can make a contribution to all parties involved: society, governments, companies and their shareholders, GRI and similar initiatives and of course the B-corps themselves.

If (financial) data suggests that CSR also benefits companies, this will probably convince them to do as Porter & Kramer (2006; 2011) suggest: integrate CSR in their strategy and seek to work together with the government to serve society. The data of B-corps can make an important contribution to such a change. This might not change the motivation of wealth maximizing companies, but it will change the way in which they are operating. And maybe, overtime, it will also change the ‘why’ of their operating.

Finally, this research has the potential to add new important insights to the literature on the CSR – FP relation. The B Impact Assessment is a potentially more reliable and valid measure of CSR than previous research used. In addition, this test selects the B-corps as a distinctive group of companies in integrating CSR into their strategy and focusing on shared value creation. There is no such other community as far as I know. This community has the potential to change the business world in the way Porter & Kramer (2006; 2011) suggest. It would be an important new insight for research if this view is supported by the B-corps data.

1.3 Research method

An empirical archival research method is chosen to answer the research questions of this thesis. Since most Benefit Corporations are private companies, the research is dependent on PrivCo, the largest database on financial data of private companies in the United States. In this database, financial data of B-corps is only available for total revenues and number of employees. This also provides the total productivity of a company, measured as total revenues divided by the number of employees. Productivity is used as a measure for FP.

To answer research question 1, counterparts of B-corps have to be selected. Since PrivCo provides no tool to easily search a large dataset of counterparts, this dataset is gathered from COMPUSTAT, a large database on financial information of public firms. Counterparts are selected on industry (SIC code) and country. Since all 117 researched B-corps are from the USA, all counterparts are as well. This leads to a total of 1970 counterparts that possibly compete with the B-corps. Together this provides 272 observations of financial years for B-corps and 4188 observations of financial years for the counterparts. Regression analysis is done to research the relation between the FP of B-corps and FP of their counterparts.

To answer research question 2, data on the BIA scores of B-corps is gathered from the B-corps website. This provides 173 observations of BIA scores combined with FP measures and control variables. Regression analysis is done to research the relation between BIA scores and FP.

Based on earlier research, summarized in section 3, the control variables in the analysis are the company's industry, measured by SIC code, prior FP, measured by FP on t-1 and firm size (growth), measured by total revenues (growth) or the (growth in the) number of employees. Due to lack of data in PrivCo, a lot of control variables that are suggested by prior research on the CSR – FP relation cannot be added to the research. These control variables are: firm risk, capital intensity, R&D intensity, advertising intensity, intangible resources and liquidity.

1.4 Findings

The research results lead to some interesting insights. The answer to the first research question of this thesis is partially positive. According to the most reliable regression model, the B-corps outperform their counterparts, but not with a significant effect. The answer on the second research question is also partially positive. B-corps with a higher BIA score had no better FP, but B-corps with higher scores on the Environment category of the BIA did perform better. This indicates that environmental performance is indeed positively associated with financial performance. In addition, the significant effect of industry, prior FP and firm size (growth) on the CSR – FP relation, suggested by prior research, is confirmed.

The results also suggest that the B-corps grow significantly faster than their counterparts. This is an indication of the potential of the B-corps. Most of them are still in a starting and learning phase, but they are on their way to become more serious competition and are still far from reaching their full potential.

The research has several limitations. This is mainly due to the lack of financial data on B-corps, because they are all private companies. In addition, the counterparts are public companies, roughly selected and on average larger companies. Therefore it is questionable whether the counterparts are a reliable set of companies to compare with the B-corps.

1.5 Contribution

Research on the research questions of this study contributes to the literature on the relation of CSR with financial performance. The research on this subject is inconclusive, even after decades of research, although most research indicates the relation to be positive (Orlitzky et al.,

2003). Researching this relation specifically for the B-corps community might provide new insights on the CSR - FP relation. Especially since the B-corps, unlike most other companies, appear to meet the conditions that theory and prior research find to be necessary for a positive relation between CSR and FP. The B-corps go further than the law requires (Davis, 1973), focus on the long term society perspective (Frederick, 1960; Steiner, 1971; Johnson, 1971), integrate CSR into their strategy (Porter & Kramer, 2006), seek to work together with society (Porter & Kramer, 2011) and seem to have the trust of their stakeholders (Wood, 1991; Wood & Jones, 1995). The results indicate that the B-corps outperform their competition, although not with significant effect. Further research with more data is necessary to confirm this indication. In any case, the B-corps grow significantly faster than other companies. Besides, they do not perform any less than their competition, whereas some academic theories expect CSR to be costly to a company (Friedman, 1970; Shen & Chang, 2009)

In addition, the B Impact Assessment (BIA) of the B Lab that certifies the B-corps might be a more reliable and valid measure for CSR than other widely used measures like CRI and KLD. Those measures seem to be flawed according to prior research (Griffin & Mahon, 1997; Chatterji et al., 2009). This thesis did not make an in-depth analysis of the BIA, but the results indicate the BIA score to be associated with FP. Like in prior research, environmental performance was positively associated with FP. This finding contributes to earlier research indicating the same results and implications.

1.6 Implications

The results lead to several practical implications. First, the results indicate that the Benefit Corporations are an interesting and fast growing business. Although no significant results were found, this study indicates that the B-corps are more productive than their counterparts. The B-corps therefore have the potential to eliminate negative biases about CSR-oriented companies. The results indicate that B-corps are at least equally interesting for investors as non-CSR-oriented companies. The Principle of legitimacy (Wood, 1991) and the Iron Law of Responsibility (Davis, 1960) suggest that the B-corps are less risky investments compared to other companies.

Second, because the B-corps are often small and still in their growing and learning years, they have a lot of potential. The results indicate that they already have an excellent reputation and consumers give increasing trust to these companies. This provides a solid and necessary

foundation for future growth that a lot of other companies do not have. This makes it interesting for other companies to consider joining the B-corps and for employees to seek for jobs at the B-corps.

Third, the indication that B-corps are more productive than their counterparts is interesting. This finding is consistent with the hypothesis that companies focusing on CSR provide a more inspiring workplace for employees. Through that they are able to attract the most productive workers and also make all workers more productive.

Finally, the results suggest that high environmental performance leads to better FP. This implicates that it is financially interesting and rewarding for companies to improve their environmental performance. This is a logical conclusion, since environmental performance directly leads to cost savings on for example energy and water use, but also possible negative environmental events.

1.7 Thesis structure

The remainder of this thesis is structured as follows. Section 2 covers the theory in the field of CSR and the relation between CSR and financial performance (FP). Section 3 provides an overview of the empirical research on the CSR – FP relation and the operationalizations of these constructs that are used in prior research. As final part of the theoretical framework, section 4 provides information about the Benefit Corporations. These first sections provide the basis for the hypothesis development in section 5. Section 6 describes the research design including operationalization of the theoretical constructs, the research model and sample selection. Section 7 presents the results from empirical analysis. Finally, section 8 provides the main conclusions of this thesis, including practical implications and suggestions for further research.

2. Theoretical background

2.1 Introduction

This section lays the foundation for this thesis by covering all the relevant literature on CSR and the relation of CSR with financial performance (FP). At first, section 2.2 and 2.3 provide an overview of the history of the CSR concept. The most important definitions of and different perspectives on CSR are summarized and connected to each other. This is the necessary foundation in order to go into the theory on the relation of CSR with FP, as section 2.4 does. After that, section 3 provides an overview of the most important empirical research on the CSR – FP relation.

2.2 Definitions of CSR

2.2.1 History of CSR definitions

The concept of Corporate Social Responsibility (CSR) has a long history (Carroll, 1999). The first literature on this subject is from the 1930s, but, as mentioned in the introduction, the publication of Bowen (1953) is considered to be the starting point of CSR. He saw it as the responsibility of businessmen to always take society into account. Later on, Davis (1960) sets forth his ‘Iron Law of Responsibility’, which means that the social responsibility of business is determined by its social power. So the extent to which a company is socially responsible is determined by the extent to which the company has an impact on society.

Frederick (1960, p. 60) comes up with another interesting definition: “Social responsibility in the final analysis implies a public posture toward society’s economic and human resources and a willingness to see that those resources are used for broad social ends and not simply for the narrowly circumscribed interests of private persons and firms.” In this definition, CSR is not only about responsibility, but more about the willingness of business to look further than their own short-term interests. Steiner (1971, p. 164) describes this as follows: “It [CSR] is a philosophy that looks at the social interest and the enlightened self-interest of business over the long run as compared with the old, narrow, unrestrained short-run self-interest.”

Carroll (1979, p. 500) divides CSR into four components: “The social responsibility of business encompasses the economic, legal, ethical, and discretionary expectations that society has of organizations at a given point in time.” In a later article he states (Carroll, 1991, p. 43): “The CSR firm should strive to *make a profit, obey the law, be ethical, and be a good corporate citizen.*” It is important to note that CSR does not mean that a firm should neglect its financial

performance. A firm does not do the economic component for itself, and the rest of the components for others (Carroll, 1979). Good economic performance is also a contribution of business to society. And of course, a business cannot contribute to society without a healthy financial situation.

2.2.2 What is CSR really about?

After the 1970s, research on CSR focused more on operationalization of the concept and other theories that built on the CSR concept (Carroll, 1999). The following sections go further into that. But first, it is necessary to define what CSR means in this particular research. All the above definitions of CSR have one very important thing in common: business does not exist to make money for itself, it exists to serve society while also being profitable and growing. Business derives its right to exist, or ‘license to operate’, from society (Wood, 1991). So society has also the right to determine the framework in which business should operate. For a long time, and maybe even up to this day, the biggest companies had more (financial) power than the governments under which they operate. Therefore they had the ability to avoid the CSR concept. This is contrary to the Iron Law of Responsibility of Davis (1960). The biggest companies also have the biggest responsibilities. Therefore it is a good thing that in the last ten years or so, especially the biggest companies could not avoid to answer the call for more transparency and accountability (Waddock, 2008). This is only the first step to CSR, but the increasing transparency does give society a lot more possibilities to influence the behavior of companies. CSR is not all about transparency, but it is a necessary first step in change of the business culture. So when CSR is mentioned in this thesis, it is not about companies complying with the minimal requirements of the law or even of society (Davis, 1973). It is about business taking society into account in every action and decision, because business only has a license to operate if it serves society. Thereby, it is vital that companies are also transparent, so that society can see clearly which companies are actually acting responsible. Society needs the right information to be able to grant companies a license to operate. All of this is mentioned in the definition of *accountability*, which means (WebFinance, Inc., 2015): “The obligation of an organization to *account for its activities*, accept *responsibility* for them, and to disclose the results in a *transparent* manner.” Still, CSR essentially goes one step further. An organization that accounts for its activities in a transparent manner and accepts responsibility for this still does not have to go (much) further than the minimal requirements of the law or society. More than this, CSR is about intrinsic motivation to really take society into account in every action and decision.

2.3 Perspectives on CSR

Over the years, the literature on CSR definitions also led to different opinions and perspectives on the CSR concept. Friedman (1970) criticized the concept, but more recent literature is positive about CSR and even extends the concept. This section summarizes these perspectives and links them to each other.

2.3.1 CSR critique (Friedman, 1970)

Alongside the development of all the definitions of the CSR concept, also different perspectives on CSR have appeared over the years. An important and famous critique on CSR comes from Friedman (1970). He states that the only responsibility of business is to make as much profit as possible, as long as it is within the rules of the game, i.e. without deception and fraud. In his view, the CEO only serves the interests of the shareholders of the company. So firms that spend money on CSR, actually spend money of other people. And not only the money of shareholders, but also the money of employees and consumers, because additional company costs lead to higher consumer prices and lower employee salaries. People who want to spend money on doing good, cannot impose such costs on others. The basis of our capitalist society is that people have the freedom to make their own decisions, and CSR violates that idea. People should choose for themselves to spend money on CSR and a manager cannot make this decision for the shareholders, consumers and employees. Of course, there still are social actions that are in the interest of the company, but only those actions that create more profit for the company. That is not CSR, but just making money for the shareholders. It is important to note that in this argumentation Friedman (1970) makes the assumption that CSR is not profitable, but only costly to the firm.

Friedman (1970, p. 122) even states that: “in a free society, it is hard for “good” people to do “good”, but that is a small price to pay for making it hard for “evil” people to do “evil”.” This is one of the quotes of Friedman (1970) that clearly contradicts the CSR concept. CSR goes way further than preventing “evil” things like for example pollution. CSR is about doing “good” out of intrinsic motivation, about being responsible and accountable. Does this contradict a free society? Is this contradictory to the purpose of business to make profits? Like mentioned in the previous section, Carroll (1979) states that good economic performance is an important contribution of business to society. More recent theories and models agree with that and underline the power of CSR to connect business and society, including the Corporate Social

Performance (CSP) model (Wood, 1991), stakeholder theory (Wood & Jones, 1995) and the concept of shared value (Porter & Kramer, 2006; Porter & Kramer, 2011).

2.3.2 CSP model (Wood, 1991)

A lot of literature in the 1980s is aimed at turning the theoretical CSR concept into a more measurable and practical concept. The term CSP emerged, which tries to capture how firms perform on CSR. Wood (1991) summarizes the literature on CSP and integrates it into one model. Most important for this thesis is the distinction between three different principles of CSR on three different levels: the institutional level, the organizational level and the individual level.

The principle on the institutional level, *legitimacy*, is a key principle for this thesis. It is based on the earlier mentioned Iron Law of Responsibility of Davis (1973). Davis (1973, p. 314) states: “Society grants legitimacy and power to business. In the long run, those who do not use power in a manner which society considers responsible will tend to lose it.” In the past decades, society and business seem to have lost their connection, towards a situation where society has lost a lot of trust in the business world because of all sorts of scandals, especially in the bank world. Society has woken up and is taking its position back to grant legitimacy and power to business, or not. CSR is the key concept in this development. That is exactly why business should take the principle of legitimacy seriously and why CSR determines whether a firm has a right to exist and possibility to keep being profitable in the long term.

The other principles are *public responsibility*, on the organization level, and *managerial discretion*, on the individual level. The principle of public responsibility means that an individual organization does not have to solve all social and environmental problems by itself. It is only responsible for those areas that are relevant to and affected by the business of the organization. So this principle specifies how society can judge for an individual organization whether they are using their power in a responsible way. The same thing applies to the principle of managerial discretion. It means that managers have the responsibility to be discrete and work towards socially responsible outcomes. So society grants power to an organization, and an organization grants power to a manager. Both society and the organization can judge a manager on whether his actions and decisions are socially responsible and make the manager lose his power if he does not act responsible. Again, it is very important that organizations and their managers are accountable and transparent. Otherwise it is not possible for society to judge. So a responsible manager or organization is necessarily accountable and transparent.

2.3.3 Stakeholder theory (Wood & Jones, 1995)

Stakeholders are “groups and organizations that are affected by or can affect a company’s operations” (Wood & Jones, 1995, p. 231). Over the last years, research focused more on stakeholder theory, because it defines all (complex) relations between business and society. Stakeholder theory proposes that stakeholders have three roles with respect to CSR. They are the *source of expectations* about what desirable firm behavior is, they *experience the effects* of this behavior and they *evaluate* if the firm has met their expectations and how the firm has influenced the environment. So stakeholders are normative when it comes to corporate behavior, because the company has to change when stakeholders do not accept the behavior of the company. If stakeholders evaluate that the experienced effects of corporate behavior do not correspond with their expectations, they will provide feedback to the relevant companies. Then, companies and their managers have the responsibility to act on the feedback. Otherwise, they bring the company in danger because of the principle of legitimacy (Wood, 1991) and the Iron Law of Responsibility (Davis, 1973). If they do not act, they might lose their license to operate. So even if Friedman (1970) is right and the only responsibility of business is to make profits, they still have to take the expectations of all stakeholders into account to be even able to generate revenues and make profits.

2.3.4 Shared value (Porter & Kramer, 2006; Porter & Kramer, 2011)

The most recent development on the concept of CSR is from Porter & Kramer (2006; 2011), and their view is directly opposed to the view of Friedman (1970). They state that (2006, p. 4): “Companies should operate in ways that secure long-term economic performance by avoiding short-term behavior that is socially detrimental or environmentally wasteful.” The core of their idea is business and society working together to create shared value. Their arguments for this view begin with some interesting observations.

First, they observe that in most companies CSR is not connected with the firm’s strategy (Porter & Kramer, 2006). CSR is ‘on the side’ instead of at the center of what the firm does. Therefore, it is not surprising that CSR seems to make little impact on both society and the long-term financial performance of firms. Firms should focus on the integration of CSR in their strategy; Corporate Social Integration (CSI) instead of Corporate Social Responsibility.

Second, they observe that business and society focus on friction between each other (Porter & Kramer, 2011). They both act as if the other is an obstacle to reach goals. Governments make more and more laws to limit the negative impact of businesses on society. Businesses focus mainly on their own short-term profits and consider these laws as an obstacle to making profits.

Instead, business and society should focus on creating shared value according to Porter & Kramer. They should make choices together that benefit both sides. Both business and society create more value when they work together instead of focusing on friction. So creating shared value does not mean sharing value with each other, but increasing the total pool of value for both business and society.

Now the question arises: is integrating CSR into company strategies and focusing on shared value really beneficial to companies? Economists often state that CSR goes at the expense of the economic success of a company (Porter & Kramer, 2011). But there is one very important thing that most businesses seem to have forgotten. Business is not about creating needs in society, but about meeting the needs of society. Today, most businesses try to create needs in society so they can sell their product, without asking themselves what society really needs. The goal of business should change from maximizing profits to creating shared value. This is also the best opportunity to create new support in society for what business is doing, since many consumers have lost their confidence in the business world in the past decade or so. So yes, on the long term it should be beneficial for companies to focus on shared value.

2.3.5 Linking the perspectives

When all the perspectives on CSR are linked, there is one clear conclusion: CSR, or in the words of Porter & Kramer (2006); “CSI”, is the only way for business to survive and to be stable, sustainable and profitable on the long-term. Making profits is not the only responsibility of business (Friedman, 1970), although good economic performance of a company is a very important contribution to society (Carroll, 1979). Being profitable is necessary for business to survive. But the only way to survive and make profits is taking the expectations of stakeholders into account in every action and decision organizations and their managers make. The Iron Law of Responsibility (Davis, 1973) and the principle of legitimacy (Wood, 1991) make it clear that business derives its right to exist, its license to operate and therewith its ability to have a healthy financial situation and be profitable from society. Society grants power to business. Or society chooses to take this power from business. This is determined by *all* stakeholders (Wood & Jones, 1995). So stating that organizations only exist to do what their shareholders want them to (Friedman, 1970) is a way too narrow view. But even if this is true, shareholders also want their business to be stable, sustainable and profitable. They want their business to operate and keep operating. So they *have* to think about all stakeholders. This is in the interest of every shareholder. Stakeholders are normative (Wood & Jones, 1995). The principles of public

responsibility and managerial discretion dictate that society determines what actions and decisions of organizations and their managers are responsible and acceptable (Wood, 1991). Therefore they need companies to be accountable and transparent, otherwise it is not possible to determine whether a company is acting responsible or not. In that way, a company can not be responsible when it is not accountable and transparent. So either society determines through their stakeholders how businesses have to behave and what actions and decisions they can (not) make. Or society determines through stakeholders what is important to shareholders. Then still, although indirectly, society determines through shareholders how businesses have to behave and what actions and decisions they can (not) make. Either directly or indirectly, society defines the possibilities of business. But of course, business also gives possibilities to society. Then why not cooperate (Porter & Kramer, 2006; Porter & Kramer, 2011)? Why would business and society treat each other as enemies? This can only make both business and society less effective and slow economic growth down. Business has to remember why they exist; to serve society. Business can have a much greater impact when it realizes that it does not exist to create needs in society, but to meet the needs of society (Porter & Kramer, 2011). Business and society should not do everything to prevent “evil” (Friedman, 1970), but do everything to cooperate, get stronger and do “good” instead.

Also, the critical view that CSR means making a choice for people about their money that they should make by themselves (Friedman, 1970) can be easily refuted. CSR is not contradictory with a free society, because people do always have the free choice of which company to work for and which products to buy or not to buy. It is only the working of the free market that more and more companies are adopting CSR in some way, whether it is with intrinsic motivation for CSR or not. This is just adapting supply to demand. Business has to do this to survive and keep making profits. Companies do not make choices about the money they are spending; consumers and employees choose whether they want to invest in CSR companies or in non-CSR companies. Companies just act upon this demand from consumers and employees and they have the responsibility to do with their money what these stakeholders want them to do.

An interesting view to conclude with is the view of Porter & Kramer (2011) on capitalism. According to them, profits with a social purpose are a higher form of capitalism, because it makes society advance faster. This contradicts with the view of Friedman (1970) that companies should only strive to maximize profits and that CSR is pure socialism. Companies are often under high pressure to gain profits, but fortunately modern society is also increasing the

pressure on companies to be more socially responsible (Waddock, 2008). This will motivate companies to focus more on shared value, help society and business to work together and therewith make society advance faster through the power of business. It only asks of companies and their shareholders to focus on the long term and let go of their narrow, short run oriented self-interest (Steiner, 1971).

2.4 CSR – Financial Performance (FP) relation

2.4.1 Hypotheses

Empirical research on CSR focuses for a large extent on its relation with financial performance (FP), because this relation is important to firms and their shareholders. Two competing hypotheses are central in this field of research: *the social impact hypothesis* and *the shift of focus hypothesis* (Shen & Chang, 2009). The social impact hypothesis states that CSR leads to better FP because of for example a better working place leading to higher employee productivity, a better reputation, more consumer trust and more product competitiveness. This is consistent with stakeholder theory (Wood & Jones, 1995) and the principles of legitimacy (Wood, 1991) and shared value (Porter & Kramer, 2011), discussed in the previous section.

The shift of focus hypothesis states that CSR shifts the focus of the firm from profit maximization to the interests of multiple stakeholders, which is expected to increase the firm's costs. In addition, CSR is expected to lead to inefficient use of resources, non-profitable social activities and less product developments, which lower the market competitiveness of a company. This is consistent with the view that the only responsibility of business is to maximize profits (Friedman, 1970).

2.4.2 Bidirectional causality

Research on the CSR – FP relation is characterized by inconclusive results. Researchers find results consistent with both the social impact hypothesis (Russo & Fouts, 1997; Waddock & Graves, 1997; Ruf et al., 2001; Orlitzky et al., 2003; Shen & Chang, 2009) and the shift of focus hypothesis (Aupperle et al., 1985). Section 3 goes deeper into this, because most research cannot be easily classified into supporting either the social impact or the shift of focus hypothesis. A lot of research finds results in between both hypotheses, probably because the CSR – FP relation is influenced by a large set of variables. The research also raises questions about methodology and the operationalization of CSR (Ullmann, 1985; Wood & Jones, 1995; Griffin & Mahon, 1997; Orlitzky et al., 2003), which is discussed in section 3.2. This particular

section deals with the theory on the CSR – FP relation. The social impact and shift of focus hypotheses are two contradicting theories. Though this is a useful classification, it does not cover all research on the CSR – FP relation. A lot more theories are suggested and the data on this relation are still in search for a theory that covers it all (Ullmann, 1985; Wood & Jones, 1995). For example, Ullmann (1985) states that a positive CSR – FP relation can indeed indicate that a firm deals very well with all its stakeholders and that it leads to better financial performance. But it can also be the other way around; only firms with enough financial possibilities can afford the luxury of focusing on CSR. In times of economic trouble, social responsibility will not have an important place in the firm's strategy. So if there is a positive relation between FP and CSR, it is not even clear whether CSR leads to better FP, or good FP leads firms to focus more on CSR. Another idea, combining these two possibilities, is the concept of *bidirectional causality* (McGuire et al., 1988; Waddock & Graves, 1997; Stanwick & Stanwick, 1998; Orlitzky et al, 2003). FP and CSR might influence each other simultaneously. But even if this is true, it is very important to note that firms with great financial possibilities will only focus more on CSR if they believe that this is beneficial for them (on the long term). So also the concept of bidirectional causality confirms that CSR will lead to better FP, or at least that firms expect this to happen.

2.4.3 Mismatching of variables

Another theory is that the research is inconclusive because of the mismatching of variables (Wood & Jones, 1995). Financial performance is only important for the firm's shareholders, and therefore for the firm's manager, because the shareholders evaluate his performance. The other stakeholders of a firm generally are not interested in the financial performance of the firm. And of course, the owners of privately owned firms can have quite different motivations and goals than personal financial gain only. So why focus on research on the CSR – FP relation when it is not important for most people? Well, because as mentioned before, the need in society for responsible and sustainable businesses is great. Research showing a positive CSR – FP relation, whether it is through data research or studies of specific CSR cases, might have great influence on decisions of big companies and their managers and shareholders. Besides, good financial performance is essential for the existence of business and also an important contribution to society. CSR and financial performance need to go hand in hand. So yes, the concept of CSR is not all about financial performance. And yes, the relations of CSR with the stakeholders of companies are very complex and difficult to research. But still, research on the CSR – FP relation can be very valuable and interesting.

2.4.4 Universally positive CSR – FP relation

A key article on the CSR – FP relation is the meta-analysis of Orlitzky et al. (2003). They combine and analyze the results of 52 studies on this subject, including 33878 observations. Their findings are very interesting. They find a universally positive correlation of CSR with FP that is both simultaneous and bidirectional, although the relation varies in the level of positivity. There are indeed only a few studies that do not find a positive relation between CSR and FP. Most studies find a positive relation, but often only under certain circumstances. That is exactly what explains the variety in positivity of the relation, section 3 goes further into that. Another explanation is the operationalization of CSR and FP (discussed in sections 3.3 and 3.4). Orlitzky et al. (2003) find that 15 to 100 percent of the variation in the CSR – FP correlations is explained by the mismatching of variables, sampling errors and measurement errors.

In conclusion, both the theoretical foundation (discussed in section 2.3) and the empirical research (discussed in section 2.4) strongly suggest a positive, bidirectional and simultaneous relation between CSR and FP. It is just a very complex relation, which is why it is very important to go deeper into this before involving the B-corps. A better understanding of the relation is crucial to develop a research design and gather reliable data.

2.5 Summary

In summary, CSR is about going further than the law requires (Davis, 1973). It is about intrinsic motivation to look beyond the narrow, short term self-interest of business and focus on the long-term perspective and therefore take society into account in every action and decision (Steiner, 1971). Friedman (1970) states that the only responsibility of business is to maximize profits. But some important principles refute this view:

1. *The Iron Law of Responsibility* (Davis, 1973) and the *principle of legitimacy* (Wood, 1991): Society determines whether businesses deserves a license to operate.
2. *Principles of public responsibility and managerial discretion* (Wood, 1991): Society determines what actions and decisions of organizations and their managers are acceptable. Therefore, organizations need to be accountable and transparent.
3. *Stakeholder theory* (Wood & Jones, 1995): Stakeholders are normative on corporate behavior.

The working of these principles leads to increasing pressure of the modern society for companies to be socially responsible (Waddock, 2008). It seems that the best solution for companies is to:

1. Integrate CSR in their strategy (Porter & Kramer, 2006).
2. Focus on the creation of *shared value* (Porter & Kramer, 2011): business and society working together to increase the total pool of value.

This is exactly what B-corps are doing, more on this in section 4. At the same time, companies have to be profitable. The question is: does this solution lead to sufficient or better FP? Two hypotheses are central in this field of research (Shen & Chang, 2009):

1. *Social impact hypothesis*: CSR leads to higher FP because of increased production efficiency, a better reputation, more consumer trust and product competitiveness.
2. *Shift of focus hypothesis*: CSR shifts the focus of the firm to multiple stakeholders, which increases the firm's costs and leads to lower FP.

Although the CSR – FP relation is very complex, most research concludes that there is a universally positive and bidirectional relation between CSR and FP (Orlitzky et al., 2003).

Table 1 – Research overview of the CSR – FP relation

Study	Subject	Sample	Operationalization of CSR	Operationalization of FP	Control variables	Results on CSR - FP relation
<i>Aupperle, Carroll & Hatfield, 1985</i>	Relation CSR - FP	241 CEO responses	Forced-choice survey among CEO's	Return on Assets (ROA)	Firm risk	No correlation.
<i>McGuire, Sundgren & Schneeweis, 1988</i>	Relation CSR - FP	98 firms for 1983-1985 period, 131 firms for 1983 only	CRI ratings	ROA, total assets, sales growth, asset growth, operating income growth, market-based measures	Firm risk	Positive correlation of (prior) FP with CSR, reduction of firm risk is an important benefit of CSR.
<i>Russo & Fouts, 1997</i>	Relation CSR - FP and moderating effect of industry growth	243 firms over two years	Environmental ratings of FRDC	ROA	Industry growth, industry, firm growth rate, firm size, capital intensity, advertising intensity	Positive correlation, relation strengthens with industry growth.
<i>Waddock & Graves, 1997</i>	Relation CSR - FP	469 firms	KLD ratings	ROA, Return on Equity (ROE), Return on Sales (ROS)	Size, risk, industry	Positive bidirectional correlation.
<i>Griffin & Mahon, 1997</i>	Relation CSR - FP	6 firms in chemical industry	CRI ratings, KLD ratings, TRI index, corporate philanthropy	ROA, ROE, ROS, logarithm of total assets, asset age	None	Positive correlation for CRI and KLD ratings
<i>Stanwick & Stanwick, 1998</i>	Relation CSR - FP - firm size - CRI as measure of CSR	697 firm years	CRI ratings	ROS	Size	Positive correlation, firm size influences CSR, CRI is a valid measure of CSR.
<i>McWilliams & Siegel, 2000</i>	Relation CSR - FP and mediating effect of R&D investments	524 firms	KLD ratings	ROA, ROE, ROS	R&D intensity, industry, size, risk, advertising intensity	Neutral effect when R&D intensity is included in the model.
<i>Ruf, Muralidhar, Brown, Janney & Paul, 2001</i>	Relation CSR - FP	488 firms	KLD ratings	ROE, ROS, growth in sales	Size, industry, prior FP	Positive correlation, both long term and short term
<i>Orlitzky, Schmidt & Rynes, 2003</i>	Relation CSR - FP meta analysis	52 studies, 33878 observations	Different per study	Different per study	Included in studies	Positive bidirectional simultaneous correlation, negative correlations in other studies due to errors
<i>Shen & Chang, 2009</i>	Relation CSR - FP	80 CSR firm-quarters, 2480 non-CSR firm-quarters	Dummy variable based on Taiwan CSR award top-25	ROA, ROE, EPS, ROS	Size	Positive correlation
<i>Surroca, Tribo & Waddock, 2010</i>	Relation CSR - FP and mediating effect of intangible resources	599 companies	Sustainalytics platform ratings	Tobin's q	Intangible resources (innovation, human capital, reputation, culture), capital intensity, external financing, liquidity, size, risk, industry, country, year	Indirect positive relation through mediation of intangible resources

3. Empirical research on the CSR – FP relation

3.1 Research overview

Table 1 (page 19) provides an overview of the most relevant empirical research on the CSR – FP relation. These research articles are selected based on the ERIM Journals List and the number of citations. This provides only a small selection of a large pool of research articles on the CSR – FP relation, but shows roughly the same results as more extensive overviews (Griffin & Mahon, 1997; Orlitzky et al., 2003). Most articles find a positive correlation between CSR and FP, which is bidirectional and simultaneous.

But table 1 also shows an important shortcoming of the research articles: a large variation in the use of control variables and operationalizations of CSR. This is especially interesting because the only articles that include R&D intensity (McWilliams & Siegel, 2000) or intangible resources (Surroca et al., 2010) in the model find no direct positive relation between CSR and FP, but only indirect through the mediation of these variables. So it is important to include a lot of control variables in this research, section 3.4 goes deeper into that. First, the operationalization of CSR is an important difficulty in the CSR – FP relation. CRI and KLD ratings are most widely used as measures of CSR, but the debate on the validity and reliability of these measures is still going on (Ruf et al., 2001; Chatterji et al., 2009). Section 3.2 provides more information on these measures and recent developments. After that, section 3.3 deals with the operationalizations of FP, that show less variation in the research articles. Finally, section 3.4 discusses the control variables.

3.2 Operationalization of CSR

Before section 4 provides more information on the Benefit corporations and why these corporations are chosen as a new and specific way to operationalize the CSR construct, it is important to provide an overview of the most well-known operationalizations of CSR and FP in the literature. First, this section provides an overview of CSR operationalizations and upcoming initiatives. Second, section 3.3 shows that accounting-based measures of firm performance seem to be more correlated to the CSR construct than market-based measures.

3.2.1 CRI and KLD

Two well-known research operationalizations of CSR are the Corporate Reputation Index (CRI) of Fortune Magazine and the independent rating service Kinder, Lydenberg, Domini (KLD).

McGuire et al. (1988) were one of the first to use the CRI as measure of CSR. Since 1982, Fortune magazine yearly conducted a survey on the largest firms among executives and corporate analysts. They were asked to: “rate the ten largest companies in their industry on eight attributes: financial soundness, long-term investment value, use of corporate assets, quality of management, innovativeness, quality of products or services, use of corporate talent, and community and environmental responsibility” (McGuire et al., 1988, p. 860). The average response rate on this survey is almost 50 percent. Other studies showed that the CRI was highly correlated with accounting-based measures of firm performance (McGuire et al., 1988). The validity of CRI in the CSR – FP relation was also confirmed by later research of Stanwick & Stanwick (1998). Later on, CRI was also criticized and studies used KLD as an alternative measure of CSR (for example: Waddock & Graves, 1997; McWilliams & Siegel, 2000; Ruf et al., 2001). The CRI dimensions, although strongly associated with CSR, appear to be more measures of good management than of CSR specifically (Waddock & Graves, 1997). KLD on the other hand only measures corporate social performance dimensions. In addition, they use independent researchers and apply consistent criteria on every company. They also use as much quantitative information as possible (Waddock & Graves, 1997). KLD is based on dimensions that are identified as important by surveys with social fund managers (Ruf et al., 2001). So KLD appears to be the most valid and reliable indicator of CSR, although studies using CRI found similar results and strong correlations with CSR. Research results suggest that CRI and KLD track each other quite closely (Griffin & Mahon, 1997). So KLD might be flawed as well, or both measures are reliable indicators of CSR despite their imperfections. Chatterji et al. (2009) did research on the validity of the KLD measure. Their research was narrowly focused on pollution and regulatory violations. Still they found a low predictive validity of the KLD measure. Considering all these possible flaws in the most widely used CSR measures, stakeholders might not be responding to real CSR, but to flawed measures. This underlines that despite decades of research on the CSR – FP relation, further research is still needed, especially on the operationalization of CSR.

3.2.2 GRI and Integrated Reporting

The past years initiatives like the Global Reporting Initiative (GRI) and the International Integrated Reporting (IR) Framework have emerged. These initiatives force companies to report not only on their financial performance, but also on their sustainability. GRI focuses on environmental, social and governance reporting guidelines (GRI, 2015). They provide the most widely used standards that are used by 93% of the 250 largest firms in the world. The purpose

of the IR framework is to add more information about value creation to corporate reporting (IIRC, 2013). IR promotes integrated thinking instead of the narrow view of focusing on financial performance only. Social and environmental performance is a part of this, but not the main focus like with GRI. Information from GRI and IR reporting could be used to measure CSR, but the focus is more on transparency than providing a reliable measure of CSR and, most important, it does not focus on intrinsic motivation of companies. Because of the rapid rise of GRI and IR, companies are almost forced to join this movement. This makes it difficult to assess whether companies are joining out of intrinsic motivation or not. Therefore I argue for an alternative operationalization of CSR, especially because of the distinctive vision and intrinsic motivation of the Benefit Corporations. Section 4 provides more information on these corporations. More specific, it gives argumentation on why this thesis uses a different CSR operationalization than those mentioned above.

3.3 Operationalization of Financial Performance

Research on the relation between CSR and firm performance distinguishes market-based and accounting-based measures (or FP: financial performance) of firm performance. Most B-corps are not listed companies, so it is not possible for this research to use market-based measures of firm performance. Research results on the CSR – firm performance relation suggest that accounting-based measures, and specifically Return on Assets (ROA), are more associated with CSR than market-based measures (McGuire et al., 1988; Orlitzky et al., 2003). Therefore, accounting-based measures of B-corps and their counterparts are expected to be a reliable operationalization of firm performance. Return on Sales (ROS), Return on Assets (ROA) and also sales growth and asset growth are other widely used measures of FP. Section 6.2.1 goes deeper into the selection of specific FP measures.

3.4 Control variables

Empirical research suggests a lot of alternative explanations on the CSR – FP relation. Most research does find a positive relation between CSR and FP, but only under certain conditions or through the mediation or moderation of specific variables. It is important to discuss these conditions and variables, so they can be added to the research as control variables. If measurement of these variables is too difficult, it is still important to realize that they might have influenced the outcomes of the research and to identify them as possibly omitted variables. This section discusses all these variables in order of importance based on table 1. Later on, section 6.3 deals with the operationalization of the control variables.

3.4.1 Firm risk

The positive effects of CSR on FP are for a significant part determined by firm risks (McGuire et al., 1988; Petersen & Vredenburg, 2009). Managers and shareholders or potential investors might not only look at direct performance effects of CSR, but also at indirect effects through reduction of risk. Firms with no or only little focus on CSR have higher risks on negative events, like lawsuits and fines. In theory, they need to compensate for this risk by higher returns. Therefore it is interesting that McGuire et al. (1988) find that firms focusing on CSR have lower risk, but also higher returns. So CSR seems to lead to both higher financial performance and lower firm risk. An alternative explanation for this is that firms with high financial performance and low risk are better able to afford CSR investments. So the studies on this subject make clear that firm risk is closely related to both CSR and financial performance, although it is not clear in which way exactly. The relations are complex and probably also bidirectional and simultaneous. It is important to take notice of this, because firm risk explains a significant part of the CSR – FP relation and is included as a control variable in most research on the CSR – FP relation (see table 1).

3.4.2 R&D intensity

Both CSR and Research & Development (R&D) are associated with innovation, because CSR often leads to innovation of company products and/or processes (McWilliams & Siegel, 2000). The logical conclusion is that CSR and R&D are correlated. In addition, research results strongly suggest that R&D is an important indicator of financial performance of firms. So R&D probably also influences the CSR – FP relation, although most research does not control for R&D intensity (see table 1). McWilliams & Siegel (2000) note that the CSR – FP research model is flawed because of this. They do indeed find a positive CSR – FP relation, but when R&D intensity is included in the model, the relation is neutral. So investments in CSR lead to better FP, but are they more profitable than other R&D investments? In any case, these results suggest that it is important to include R&D intensity in the research model. On the other hand, if CSR investments are just as profitable as investments in non-CSR investments, why would companies not invest in CSR to also help society? In addition, the results of the study of McWilliams & Siegel (2000) cover the period of 1991 – 1996. In the past decade pressure on companies to engage in CSR has increased (Waddock, 2008), so CSR investments might have become more profitable or at least more necessary to survive.

3.4.3 Intangible resources

Intangible resources are perceived to be the main reason of competitive advantages of firms and include for example reputation, human resources and innovations (Surroca et al., 2010). So intangible resources lead to competitive advantages, and competitive advantage leads of course to higher financial performance. CSR is also a way to achieve a competitive advantage, because it is a way to differentiate a company from its competitors. This might be through intangible resources, for example because CSR is a form of innovation and influences firm reputation. Especially the mediating role of firm reputation is acknowledged by research (Orlitzky et al., 2003; Falkenburg & Brunsael, 2011). The view on intangible resources is interesting, because it is consistent with the idea of bidirectional causality in the CSR – FP relation. Surroca et al. (2010) find that CSR and FP are positively and bidirectional related, but only through mediation of intangible resources. Intangible resources lead to higher financial performance, which gives a firm more possibilities to invest in CSR. On the other hand, CSR creates intangible resources and therefore leads to higher financial performance. So intangible resources explain the ongoing positive circle between CSR and FP. Additionally it can be argued that intangible resources are also responsible for positive consumer responses and reduction of firm risk, making intangible resources a key explanatory variable in the CSR – FP relation.

3.4.4 Strategic necessity or advantage

As mentioned in section 2.2, CSR is only effective when it is integrated in the strategy of a company (Porter & Kramer, 2011). Falkenburg & Brunsael (2011) go further into this by investigating the effects of CSR on FP in different strategic situations. They observe that CSR is only effective when it is a strategic advantage or necessity. A strategic advantage leads to competitive advantage and is related to the idea of intangible resources. In such a situation, a company has a strategic advantage on its competitors because of a valuable CSR activity that is complex and difficult to imitate. CSR is a strategic necessity when a CSR activity is necessary because of pressure from stakeholders or the competition. A firm then has to implement the activity to survive. If a CSR activity does not add value, it becomes a strategic disadvantage and only a cost to the firm (Falkenburg & Brunsael, 2011). This is consistent with the view of Porter & Kramer (2006; 2011). If CSR is not integrated in the company strategy, it becomes a strategic disadvantage and it will not lead to better FP. Section 4 goes further into this and explains why it is expected that B-corps have a strategic advantage.

3.4.5 Consumer responses

Another important explanatory variable is consumer responses to CSR (for example: Sen & Bhattacharya, 2001; Ramasamy & Yeung, 2009; Tian et al., 2011). A lot of research focuses on consumer responses, because it is interesting for companies to adapt their marketing and CSR choices to their consumers. The results indicate that the financial impact of CSR is for a significant part determined by consumer responses. In general, the results show that consumers are positive towards CSR. So CSR leads to higher financial performance through the positive responses of consumers. It is beyond the scope and possibilities of this thesis to go deeper into this complex relation, because of the complexity and a lack of data. Consumer response is unique for every company and hard to catch into a formula or a number. Measuring this would require field research or surveys.

3.4.6 Industry growth and firm size

Two other important variables moderating the CSR - FP relation are industry growth and firm size. Surroca et al. (2010) find that the mediating role of intangible resources is stronger in growth industries. High industry growth increases the bidirectional simultaneous effect of CSR and FP on each other. This is an expansion of earlier findings that the relation between CSR and FP is stronger in high-growth industries (Russo & Fouts, 1997). Other research results suggest that larger firms perform better on CSR (Stanwick & Stanwick, 1998) and most research on the CSR – FP relation includes firm size as a control variable. Large firms seem to take a leadership role in the development towards more CSR. This might be because of the additional resources that are available to large firms, but also because of the extra public attention they receive due to the large and diverse groups of stakeholders that are interested in these firms. So it is important to add industry growth and firm size as control variables to the research model.

3.4.7 Other control variables

Table 1 shows that the research on the CSR – FP relation refers to the role of many more variables. These are less extensively reviewed in the literature and therefore they are only briefly explained below:

- *Industry*: every industry has specific characteristics, and therefore possibly also a different CSR – FP relation (Russo & Fouts, 1997; Waddock & Graves, 1997; McWilliams & Siegel, 2000, Ruf et al., 2001; Surroca et al., 2010).

- *Firm growth*: high growth is expected to increase the effect of CSR and FP on each other (Russo & Fouts, 1997).
- *Capital intensity*: physical assets make it more difficult to change CSR policies on the short term (Surroca et al., 2010).
- *Advertising intensity*: makes the entry-barriers for new firms higher and therefore influences the profitability of firms (McWilliams & Siegel, 2000).
- *Prior FP*: as noted, research results suggest that prior FP also leads to more CSR.
- *Liquidity*: provides more possibilities to invest in CSR (Surroca et al., 2010).

3.5 Summary

Research on the CSR – FP relation varies in the use of control variables and operationalizations for CSR and FP. Because of the complexity of the CSR – FP relation, control variables are important. Firm risk is the most used control variable. R&D intensity, intangible resources, strategic advantages and consumer responses play an important role in the effects of CSR strategies on FP. Other control variables are industry (growth), firm size (growth), capital and advertising intensity, prior FP and liquidity.

Research results clearly suggest that accounting-based measures, and especially ROA, are better than market-based measures of FP (McGuire et al., 1988; Orlitzky et al., 2003). The operationalization variation and problems are more on the CSR side of the relation. The Corporate Reputation Index (CRI) and Kinder, Lydenberg & Domini (KLD) index are the most used operationalizations of CSR. CRI was used first, but later on criticized and replaced by the KLD index (Waddock & Graves, 1997; McWilliams & Siegel, 2000; Ruf et al., 2001). But CRI and KLD scores seem to track each other quite closely (Griffin & Mahon, 1997), and later research finds a low validity for the KLD measure (Chatterji et al., 2009). So research results suggest that both CRI and KLD are flawed measures.

In the past years the Global Reporting Initiative (GRI) and the Integrated Reporting (IR) framework emerged. These initiatives try to pressure companies to report more on their social and environmental performance. But the focus is more on transparency than strategy integration of CSR and intrinsic motivation of companies, which are very important as concluded in section 2. Companies might join GRI and IR more because of external pressure than out of intrinsic motivation. The Benefit Corporations and their BIA scores might provide a more reliable and valid measure of CSR, section 4 provides information and argumentation on this.

4. Benefit corporations

4.1 Introduction

A Benefit Corporation (B-corp) is a “new type of company that uses the power of business to solve social and environmental problems” (www.bcorporation.net). This vision connects to the Porter & Kramer articles, because B-corps also want to redefine success in business (Benefit Corporations, 2015). Their goal is not only to serve their shareholders, but serving society is at least equally important. They voluntarily comply with high standards of social and environmental performance, transparency and accountability. At the same time, they also strive to economic success and have to be profitable to survive.

B-corps distinguish themselves from other companies, because they show a great intrinsic motivation to use business not for making profits, but for doing good (Benefit Corporations, 2015). They state to have the potential to become what civil rights are for black people, voting rights for women and Fairtrade certification for coffee. Porter & Kramer (2006; 2011) point out that something is wrong with business, like something was wrong with the rights of black people and women. Business has forgotten its original purpose and B-corps are trying to be the solution. The community of B-corps now consists of 1550 corporations from 42 countries and 130 industries, from which Ben & Jerry’s Ice cream is probably the most well-known. This shows a widely supported basis. It is interesting for companies to become a B-corp so they can possibly attract investors, consumers and a talented workforce. For example, the 2014 annual report of B-corps quotes Wall Street Journal: “*More companies are touting the B Corp logo to attract young job seekers who want an employer committed to both a social mission and the bottom line*” and The New York Times: “*Consumers shopping for Fair Trade coffee or recycled paper goods are already looking for responsible companies; B Corp provides what is lacking elsewhere: proof.*” So B-corps are highly attractive to job seekers and consumers.

4.2 B Impact Assessment

The B-corps are supported by the non-profit organization B Lab (Benefit Corporations, 2015). This organization certifies companies that want to become a B-corp. B Lab provides the B Impact Assessment (BIA) which consists of hundreds of questions about for example the company mission, environmental impact, work environment and transparency (see Appendix I for more detailed information). These questions are divided into five categories: Environment,

Workers, Customers, Community and Governance. The Customer category was recently replaced by the Impact Business Model category.

B Lab determines the final BIA score for a company by verifying and analyzing the test results and supporting documentation. Companies have to get at least 80 of the possible 200 points to become a B-corp, and after becoming a B-corp they have to redo the test every two years. In addition, each year B Lab makes a random selection of 10% of the B-corps for on-site reviews. Although only 1550 businesses actually joined the B-corps, more than 20.000 businesses worldwide use the BIA to measure and improve their social and environmental performance.

This BIA score is probably a very reliable and valid measure of CSR for a number of reasons. First, the BIA score is more extensive than the KLD and CRI ratings. The B Lab measure is very comprehensive and takes every aspect of a company into account, like corporate governance, worker policies, transparency, job creation, local involvement and environmental impact. Second, it does not focus on the aspect of control of companies, like GRI. The B Lab focuses on intrinsic motivation of companies. B-corps have business models that focus on social or environmental impact. Their mission and vision have to be clear and CSR has to be integrated in their strategy. This is also a whole different perspective than the KLD ratings that focus on the big companies. B-corps have a vision to have big impact, but make a distinction on intrinsic motivation and strategy integration of CSR, not on company size. It is of course possible for big companies to join the B-corps, with Ben & Jerry's as the best example. But mainly privately held companies join the B-corps. It is a difficult project for bigger companies to measure everything that the BIA requires. Another possible explanation is that bigger companies have less intrinsic motivation for CSR and therefore have not fully integrated CSR in their strategy (yet). Third, a great number of companies use the BIA to improve their business. This makes it at least worth the effort to do research on the test.

4.3 History

The B-corps started with the foundation of the B Lab in 2006, and the first Benefit Corporations were certified in 2007 (Benefit Corporations, 2015). After that, in 2010, Maryland became the first state in the US to legislate benefit corporations. The distinction between legislated benefit corporations and actually certified B-corps, investigated in this thesis, is important. The biggest difference is that legislated benefit corporations report their social performance by themselves, while the certified B-corps have to achieve the minimum score of 80 points at the BIA and are

recertified every two years (B Lab, 2015). In addition, legislation is only available in 30 states in the US, while actual certification is available for every company in the world. Some companies are legislated, but do not take the BIA and are therefore not certified. On the other hand, most certified B-corps are not legislated because it is not possible in their country or state, or because their corporate structure does not meet the legislation requirements. This thesis only researches the certified B-corps because their performance reports are approved by the B Lab, while the legislated benefit corporations have no check on their self-reported performance. Besides, the BIA provides scores that are public and easy to compare.

Both the number of certified and legislated B-corps have grown rapidly over the past years, which also led to more interest of multinational and public companies (Benefit Corporations, 2015). Most recent examples of big companies joining the B-corps are Natura (The Guardian, 2015) and the partnership with Danone (<http://bcorporation.eu/blog/partnership-agreement-with-danone-opens-doors-multinationals-to-measure-what-matters>). B-corps want more multinational and public companies to join to enlarge social impact and these recent developments show that this might indeed be the near future for the B-corps.

4.4 Strategy integration of CSR

A key hypothesis of this thesis is that CSR only leads to financial benefits if CSR is integrated into the company strategy, mainly based on the argumentation of Porter & Kramer (2006; 2011). This is also a key characteristic of the B-corps. They have a business model that focuses on social and environmental impact, but they are also profit organizations that want to provide benefits to their shareholders. Other possible operationalizations like KLD, CRI, IR and GRI do not take this intrinsic motivation and strategy integration argument into account. Therefore, being a B-corp is expected to be a better indication of CSR performance than high KLD or CRI ratings. In addition, test scores on the BIA are expected to be a reliable and valid measure of CSR. B-corps want to serve society through solving social and environmental problems, which is also consistent with the idea of shared value. The BIA is focused on this intrinsic motivation of companies. This is a completely different starting point than big companies who want to make money for their shareholders, and might try to earn for example a Fairtrade certification if they think they can make instant money out of it or boost their KLD ratings or improve their GRI reporting.

4.5 Summary

Started in 2006, the Benefit Corporations (B-corps) are a new type of company that uses the power of business to serve society. Their most important achievements are:

- Development of the B Impact Assessment (BIA) score as a measure of CSR.
- 1550 businesses from 42 countries and 130 industries have joined.
- Over 20.000 businesses use the BIA to measure and improve social performance.
- Legislation of benefit corporations in 30 states in the US.
- Growing interest of multinational and public companies, with Natura and Danone as the most recent examples.

Especially their focus on strategy integration and intrinsic motivation might make being a Benefit Corporation and the BIA scores a more reliable and valid measure of CSR than CRI, KLD, GRI, IR or any other measure.

5. Hypothesis development

5.1 Research question 1: Do B-corps financially outperform their non B-corps counterparts in the long run?

The debate on CSR started when Milton Friedman (1970) stated that ‘the only responsibility of business is to maximize profits’. Good economic performance is of course an important contribution of business to society (Carroll, 1979). CSR only goes further than financial performance. First, it is about going further than the law requires (Davis, 1973). Second, it is about focusing on a long-term society perspective instead of a short-term self-centered perspective (Frederick, 1960; Steiner, 1971; Johnson, 1971).

In the past decades companies were forced to focus more on CSR because of high external pressure through increased media attention and initiatives like GRI (Waddock, 2008). The Iron Law of Responsibility (Davis, 1960) and principle of legitimacy (Wood, 1991) dictate that society determines whether business earns its ‘license to operate’ or not. Society consists of multiple stakeholders that are normative on corporate behavior (Wood & Jones, 1995). Therefore CSR is attractive to companies, it has become a strategic necessity (Falkenburg & Brunsael, 2011). This has little to do with CSR, because it leads most companies to only do what the law requires and keep focusing on their short-term self-centered perspective. Because of all sorts of negative events and the ‘greenwashing’ and ‘window-dressing’ practices, society has lost a lot of confidence in business (Waddock, 2008; Porter & Kramer, 2011).

The Benefit Corporations (B-corps) try to change this business culture in a way consistent with the theory of Porter & Kramer (2006; 2011). These corporations are profit organizations and financial performance is crucial for the existence of business and therefore also for the B-corps. But they do what other companies fail to do. They go further than the law requires, because they have a strong intrinsic motivation to serve society and be not only the best in the world, but also the best for the world (Benefit Corporations, 2015). Two theories are crucial in this. First, B-corps integrate CSR into their strategy (Porter & Kramer, 2006). Therefore CSR has the potential to become a strategic advantage on their competitors (Falkenburg & Brunsael, 2011). Second, they do not, like most companies, focus on friction between government and business. Instead they focus on shared value creation through working together with society (Porter & Kramer, 2011). The social impact hypothesis states that this focus of the B-corps leads to better financial performance (FP), because of a better reputation, more consumer trust,

innovative and distinctive products and a better and more inspiring working place leading to higher employee productivity (Shen & Chang, 2009). This hypothesis is overall confirmed by most research (Orlitzky et al., 2003), although a lot of research is inconclusive and finds mixed results. CSR and FP appear to be related with bidirectional causality (Ullmann, 1985; Orlitzky et al., 2003). There is an ongoing positive circle between CSR and FP. High FP gives companies possibilities to invest in CSR, but on the other hand, they will only invest in CSR if they believe that it leads to higher FP. So high FP leads to more CSR and CSR leads to higher FP and so on. Therefore it is expected that the explicit focus of B-corps on CSR leads to higher FP than is achieved by their counterparts and also shows the positive circle between more CSR and higher FP. B-corps might be the way to a still profitable but, more important, also sustainable and reliable business world that works together with society and regains its trust. This effect might not be visible in for example one fiscal year, because it takes time to turn CSR investments into FP. Therefore it is important to focus on a long term of at least five years, leading to the first hypothesis:

H1: In the long run, Benefit corporations financially outperform their counterparts.

5.2 Research question 2: Are the B Impact Assessment scores correlated with financial performance?

Research on the CSR – FP relation has used a lot of different operationalizations of CSR. Widely used measures like CRI and KLD are still criticized and possibly flawed (Griffin & Mahon, 1997; Chatterji et al., 2009). This has led to significant measurement errors in the research, which explains a great part of the variation in results and conclusions (Orlitzky et al., 2003). The B Impact Assessment of B Lab certifies the B-corps. This is a new measure of CSR that has not (yet) received attention in research on the CSR – FP relation. The assessment is very comprehensive, focuses on the intrinsic motivation of companies instead of providing new minimum law requirements and is widely used in business (Benefit Corporations, 2015). Therefore it might be a more reliable and valid measure of CSR than for example CRI, KLD, GRI or IR. Consistent with the first hypothesis, the BIA scores as measure of CSR are expected to be correlated with FP. Therefore, the second hypothesis is:

H2: B Impact Assessment scores are positively associated with financial performance.

6. Research design

6.1 Operationalization of theoretical constructs

The hypotheses are researched by statistical analysis on firm data. In order to do this, the variables CSR and FP need to be operationalized.

For H1, CSR is a dummy variable, where B-corporations are '0' and non-B-corps are '1'. The non-B-corps or counterparts are selected on SIC code and country. For H2, CSR is measured by the test scores of B-corps on the B Impact Assessment (BIA). The measures used for FP are dependent on the available data. Therefore, section 6.2 goes further into the sample selection and data collection. As section 3.4 explained, a lot of variables influence the CSR – FP relation. Which of these variables can be added to the research as control variables is also dependent on the available data. Section 6.3 goes further into that. After that, section 6.4 summarizes the research design in the Predictive Validity Framework (Libby, 1981).

6.2 Sample selection and data collection

6.2.1 PrivCo

Since almost all B-corps are privately held, it is hard to find financial data of them. The PrivCo database is the biggest database on private companies, mostly from the United States. Most B-corps are also from the United States. So this research is dependent on the PrivCo database. PrivCo provides data on 269 B-corps, but financial data is not available for all of these companies. Besides, for all companies that do provide financial data, only revenues and number of employees are available. Therefore, widely used FP measures like ROA, ROS and total assets (growth) are not available. Three measures for FP are available: revenue growth, productivity and productivity growth. Productivity of a company is measured by revenues divided by the number of employees. Observations for which there is no financial data available are dropped from the research. Since the research focuses on long term performance (growth) of companies, observations that do not include consecutive years of revenues are also dropped. This is also necessary to calculate revenue growth or productivity growth. The oldest available financial information on the B-corps is from 2009. Therefore, the financial data included in the research is from 2009 – 2014. So a total of six fiscal years is researched, this meets the condition to research at least five years to be able to find a long term effect, like mentioned in section 5.1.

6.2.2 Benefit Corporations

The website of the B-corps provides B Impact Assessment test scores of all 1550 current B-corps over time (Benefit Corporations, 2015). However, some of the companies that are mentioned as B-corps in PrivCo are not mentioned on the B-corps website. Some of those B-corps are only legislated and not certified. Others probably dropped under a BIA score of 80 and therefore lost their certification. These observations are dropped as well. After dropping those PrivCo observations that do not provide financial information, data on consecutive years of revenues or BIA scores, 117 B-corps are left to analyze. Table 2 provides an overview of the distribution of dropped observations of the B-corps.

Table 2 – Dropped B-corp observations

B-corps in PrivCo	269
No financial data	113
	156
Not on B-corps website	27
	129
No consecutive years of data	12
FINAL SAMPLE	117

The total BIA scores of B-corps are divided into five subcategories: Environment, Workers, Customers, Community and Governance. The Customer category was recently replaced by the Impact Business Model category and is therefore not researched in this thesis. The relation of the scores of each of these categories with FP might also be interesting. For example, it might be that work environment and training (category Workers) are significantly related to FP, but transparency and accountability (category Governance) are not. So besides the total BIA score, research on H2 is also done on the BIA scores of the four subcategories.

6.2.3 B-corps counterparts

The PrivCo database does not provide a tool to search for comparable companies as the B-corps. Since there is no reason to expect that public firms divide from private firms in revenues and productivity, the COMPUSTAT database on public firms is used to find the B-corps counterparts. All public firms that have the same SIC code and are from the same country as the B-corps are selected as counterparts. The PrivCo database provides multiple SIC codes for some companies, but every company has a primary SIC code. The Orbis database provided

primary SIC codes on these companies. This selection process provides a total of 1970 companies to compare with the B-corps.

6.3 Control variables

The research done so far on the CSR – FP relation indicates that a lot of control variables have to be added to make the research reliable (see section 3.4). Based on this prior research, variables that can have effect on the CSR – FP relation are firm risk, capital intensity, R&D intensity, advertising intensity, intangible resources, industry, industry growth rate, firm growth rate, firm size, liquidity and prior FP. Due to a lack of data in the PrivCo database, a lot of these variables cannot be measured. Underneath is a listing of these variables, how they are measured by earlier research and the lack of data for that specific measure:

Firm risk: ratio of debt to assets. Balance sheet information not available.

Capital intensity: ratio of assets to sales. Asset information not available.

R&D intensity: ratio of R&D investments to sales. R&D investments information not available.

Advertising intensity: ratio of advertising expenses to sales. Advertising expenses information not available.

Intangible resources: ratio of R&D investments to number of employees (measure for innovation used by Surroca et al. (2010)). R&D investments information not available.

Liquidity: ratio of cashflow to revenues. Cashflow information not available.

The variables that can be measured are added to the research as control variables and measured as follows:

Industry (growth): industry four-digit SIC code

Firm growth rate: yearly revenue or employee growth of the firm

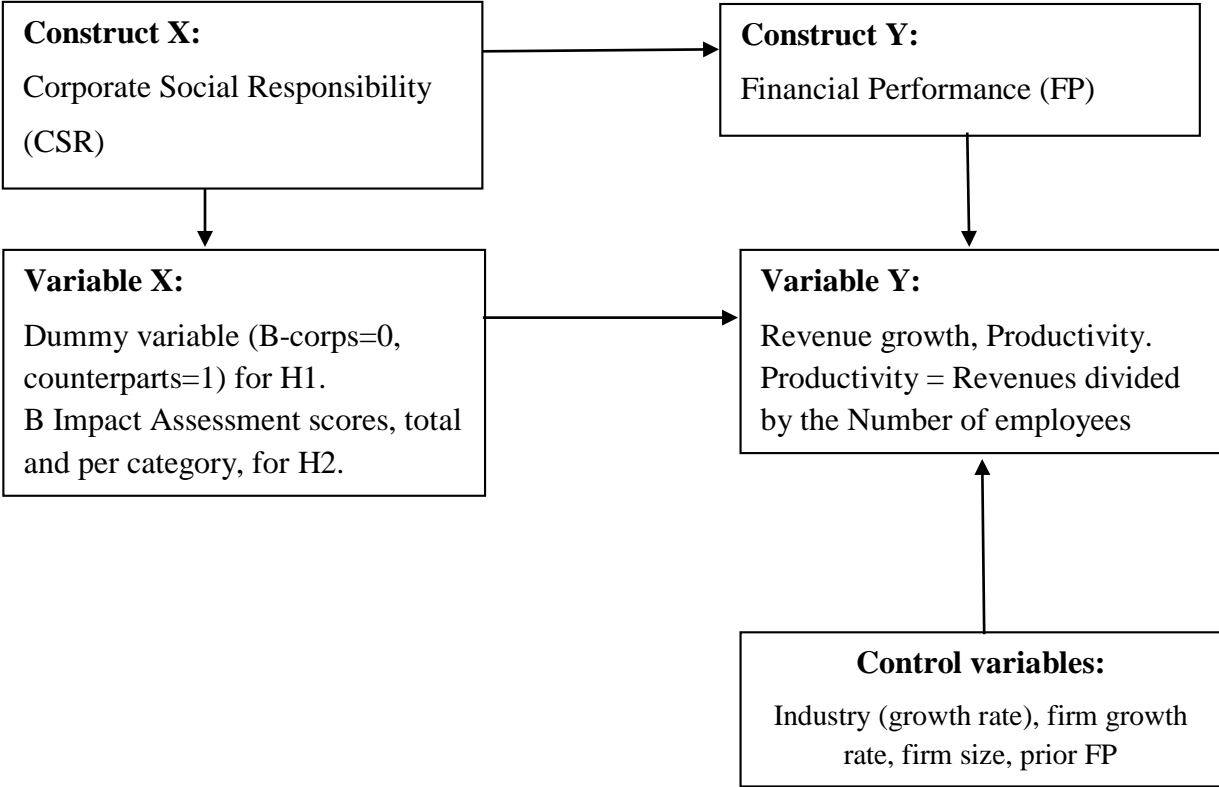
Firm size: yearly revenues or number of employees of the firm

Prior FP: the FP on t-1

6.4 Predictive Validity Framework

The research method is summarized in Libby boxes below (Libby, 1981). Besides providing a clear overview of the research, the purpose of this framework is to assess the predictive validity of the research. Because of the lack of data on B-corps, the predictive validity of the research is questionable. Mainly because the options for operationalization of FP (variable Y) are limited. ROA and ROS are the most common measures for FP, but these information is not

available for the B-corps. Revenue growth and productivity are limited alternatives for these measures. These variables only show information about financial performance on the top of the income statement. In addition, the research only controls for a limited set of variables. According to prior research (see section 3), other variables also effect the CSR - FP-relation: firm risk, capital intensity, R&D intensity, advertising intensity, intangible resources and liquidity. Due to the lack of data in the PrivCo database, the research does not control for the effect of these variables. Both the operationalization of FP and the limited set of control variables significantly lower the predictive validity of the research.



7. Empirical results and analysis

7.1 Descriptive statistics

As mentioned in section 6, the research includes a total of 117 Benefit Corporations and 1970 counterparts that potentially compete with those B-corps. The observations are filtered on outliers. Mainly to ensure that companies of similar size are compared. Some of the counterparts are even ten times larger in number of employees or revenues than the largest B-corp. Therefore, no observations are included with over 2000 employees, lower than 100.000 or higher than 700 million in revenues and lower than 20.000 or higher than 3 million in productivity. This leads to a total of 272 observed financial years of B-corps and 4188 of counterparts, in the period of 2009 to 2014 (see table 3 for the distribution of observations over time).

Table 3 – Distribution of observed financial years over time

Year	2009	2010	2011	2012	2013	2014	TOTAL
B-corps	30	51	59	50	51	31	272
Counterparts	662	666	674	693	729	764	4188

The sample size for Hypothesis 2 includes 173 observations of BIA scores. The B-corps receive a new BIA score only every two years, leading to a lot of financial observations that could not be matched with BIA scores. To solve this problem, the BIA scores were interpolated. So, if for example the BIA score in 2010 was 100 and in 2012 it was 110, then the interpolated BIA score in 2011 is 105. There is no reason to expect that the actual BIA score would be significantly higher or lower than 105. The BIA measures variables that an organization cannot change very fast. This is also confirmed by the dataset, in which the BIA scores of an organization only rarely change more than 10 points in two or three years.

Table 4 (next page) provides an overview of the variables used in the analysis. As mentioned in section 6, PROD and REV_G are the measures for FP and therefore the dependent variables in the regression analysis. REV(_G) and EMP(_G) are measures for the control variable firm size (growth). LAG_REV(_G) and LAG_PROD(_G) control for prior FP. IND controls for the industry that the companies operate in. B_CORP is the variable that tests for H1 and the BIA variables test for H2.

Table 4 – Variable definitions

<i>REV</i>	=	Total revenues in year x
<i>REV_G</i>	=	Growth in total revenues compared to a year earlier
<i>EMP</i>	=	Number of employees in year x
<i>EMP_G</i>	=	Growth in number of employees compared to a year earlier
<i>PROD</i>	=	Productivity, measured as total revenues divided by number of employees, in year x
<i>LAG_REV(_G)</i>	=	Lagged (growth in) total revenues
<i>LAG_PROD(_G)</i>	=	Lagged (growth in) productivity
<i>IND</i>	=	SIC code of the company (Dummy variables)
<i>B_CORP</i>	=	Dummy variable; 0=B-corp, 1=Counterpart
<i>BIA_T</i>	=	Total BIA score in year x
<i>BIA_E</i>	=	Category 'Environment' BIA score
<i>BIA_W</i>	=	Category 'Workers' BIA score
<i>BIA_C</i>	=	Category 'Community' BIA score
<i>BIA_G</i>	=	Category 'Governance' BIA score

The descriptive statistics (see table 5a and 5b on the next page) show some interesting facts. First, it shows that the counterparts are on average larger in revenues and number of employees compared to the Benefit Corporations. Therefore, it is extra important to control for firm size (growth). Second, the range of growth in revenues, number of employees and productivity is much larger for the counterparts. No filters were set on these numbers, except for dropping some very specific outliers. For example, there are multiple counterparts with revenue, employee or productivity growth below -90%. But there are also multiple counterparts with growth of over 1000%. Since there is no specific information on this, these observations are not dropped. A possible explanation is that some of these counterparts had large financial injections, which only rarely happens to B-corps. On the other hand, some of these companies might have collapsed and restarted after that. All observations on the counterparts are observations of still active companies, so bankruptcy is no possible explanation for growth below -90%. This might be an indication that B-corps are more stable companies than their counterparts. Third, the B-corps show higher growth rates than their counterparts, both in size (EMP and REV) and productivity. This shows that the B-corps are fast growing companies, gaining more and more market share. That makes them an interesting community of companies for research. Finally, it is interesting to see that B-corps have a slightly higher average productivity than their counterparts, despite the fact that they are smaller companies on average. It would be logical to expect that the counterparts would have higher productivity, because of benefits of scale. Apparently the B-corps somehow make up for that.

Table 5a – Descriptive statistics H1 (variable definitions in table 4)

Dataset	Variable	Mean	Median	S.D.	Min.	Max.
B-corps	REV	35.902.868	9.470.000	70.906.213	480.000	535.400.000
Counterparts	REV	125.906.245	67.765.000	142.897.403	137.000	698.861.000
B-corps	REV_G	40%	17%	75%	-48%	800%
Counterparts	REV_G	10%	2%	70%	-99,63%	1591%
B-corps	EMP	123	45	251	3	1785
Counterparts	EMP	456	274	473	2	2000
B-corps	EMP_G	28%	13%	45%	-62%	318%
Counterparts	EMP_G	7%	1%	47%	-96%	1633%
B-corps	PROD	353.717	229.706	394.645	26.471	2.382.576
Counterparts	PROD	320.378	231.086	299.703	22.200	2.893.400
B-corps	PROD_G	12%	3%	39%	-69%	223%
Counterparts	PROD_G	7%	0%	67%	-97,22%	1816%
B-corps	LAG_REV	29.668.204	7.914.000	60.453.893	242.000	410.250.000
Counterparts	LAG_REV	120.632.309	66.780.500	136.415.171	105.000	694.429.000
B-corps	LAG_PROD	342.579	218.482	410.931	41.142	2.550.000
Counterparts	LAG_PROD	320.092	231.995	293.184	21.413	2.962.467
B-corps	LAG_REV_G	46%	19%	84%	-35%	800%
Counterparts	LAG_REV_G	15%	1%	93%	-99,63%	1960%
B-corps	LAG_PROD_G	10%	4%	36%	-60%	170%
Counterparts	LAG_PROD_G	12%	-1%	105%	-97,88%	2322%

Table 5b – Descriptive statistics H2 (variable definitions in table 4)

Variable	Mean	Median	S.D.	Min.	Max.
REV	46.474.209	10.720.000	80.155.887	480.000	535.400.000
REV_G	39%	19%	74%	-30%	800%
EMP	134	45	247	3	1587
EMP_G	28%	12%	47%	-62%	318%
PROD	429.397	256.474	469.365	26.471	2.382.576
PROD_G	12%	3%	38%	-69%	223%
BIA_E	21	19	14	3	67
BIA_W	30	29	9	8	62
BIA_C	28	22	16	10	91
BIA_G	12	12	3	3	22
BIA_T	107	104	19	80	164
LAG_REV	38.001.146	9.130.000	67.329.926	460.000	410.250.000
LAG_PROD	407.780	242.222	471.767	41.142	2.550.000
LAG_REV_G	45%	19%	87%	-26%	800%
LAG_PROD_G	12%	5%	36%	-56%	170%

Table 6a – Correlations H1 (variable definitions in table 4)

Variable	EMP	REV	PROD	PROD_G	REV_G	EMP_G	LAG_REV
REV	0,76 ***						
PROD	-0,14 ***	0,27 ***					
PROD_G	-0,08 ***	-0,04 ***	0,20 ***				
REV_G	-0,05 ***	-0,02	0,16 ***	0,77 ***			
EMP_G	0,02	0,00	-0,05 ***	-0,14 ***	0,27 ***		
LAG_REV	0,75 ***	0,97 ***	0,25 ***	-0,09 ***	-0,09 ***	-0,04 ***	
LAG_PROD	-0,13 ***	0,26 ***	0,84 ***	-0,12 ***	-0,09 ***	0,08 ***	0,27 ***

Table 6b – Correlations H2 (variable definitions in table 4)

Variable	REV	REV_G	EMP	PROD	PROD_G	BIA_E	BIA_W	BIA_C	BIA_G	BIA_T	EMP_G	LAG_REV
REV_G	-0,05											
EMP	0,70 ***	0,02										
PROD	0,41 ***	-0,06	-0,10									
PROD_G	0,02	0,58 ***	-0,03	0,09								
BIA_E	0,48 ***	-0,11	0,16 **	0,47 ***	0,08							
BIA_W	0,07	-0,03	-0,03	-0,03	-0,14 *	-0,25 ***						
BIA_C	-0,14 *	-0,03	-0,08	-0,01	-0,03	-0,17 **	-0,10					
BIA_G	0,06	-0,01	0,19 **	-0,19 **	-0,11	-0,10	0,00	0,05				
BIA_T	0,06	0,07	0,03	0,09	0,00	0,07	0,23 ***	0,62 ***	0,18 **			
EMP_G	-0,11	0,50 ***	0,08	-0,18 **	-0,24 ***	-0,18 **	-0,02	-0,03	0,08	0,00		
LAG_REV	0,99 ***	-0,13 *	0,67 ***	0,42 ***	-0,05	0,49 ***	0,10	-0,14 *	0,06	0,07	-0,14 *	
LAG_PROD	0,38 ***	-0,16 **	-0,09	0,93 ***	-0,15 *	0,41 ***	0,03	-0,03	-0,18 **	0,08	-0,09	0,43 ***

*, **, *** indicate significance of the coefficients at 10%, 5% and 1% confidence level, respectively.
Variables are defined in Table 4.

The correlations (see table 6a and 6b) also show some interesting observations. First, it shows that REV and EMP are significantly correlated (0,76 for H1; 0,70 for H2), indicating that they are both approximately the same measures for firm size. Adding both of them as control variables in a regression analysis with productivity as dependent variable is not possible, since productivity is calculated with REV and EMP as input. So it is positive that the correlation between these variables indicates that adding them both to a regression analysis will not add much explanatory power. Second, the correlations between PROD and REV (0,27 for H1; 0,41 for H2) are higher than the correlations between PROD and EMP (-0,14 for H1; -0,10 for H2). The correlations between REV_G and PROD_G show even higher correlations (0,77 for H1; 0,58 for H2) against about the same correlations between PROD_G and EMP_G (also -0,14 for H1; -0,24 for H2). This indicates that EMP might be a more reliable control for firm size. REV as control might measure too much of the same thing as PROD measures. Finally, the correlations between BIA_E and both REV (0,48) and PROD (0,47) are remarkably high. This indicates that of all BIA categories the Environment category is the only category that correlates with financial performance. BIA_T shows no notable correlation with either REV or PROD.

7.2 Regression analysis

Three regression models test for H1 (see table 7a). In this way, all combinations of the two FP measures and the two firm size measures are tested. The models are composed as follows:

MODEL 1: PROD as measure for FP, REV(_G) controls for firm size (growth).

MODEL 2: PROD as measure for FP, EMP(_G) controls for firm size (growth).

MODEL 3: REV_G as measure for FP, EMP(_G) controls for firm size (growth).

This leads to the following regression equations:

$$M1: FP (PROD) = \beta_0 + \beta_1 B_CORP + \beta_2 LAG_PROD + \beta_3 REV + \beta_4 REV_G + \beta_5 IND + \varepsilon$$

$$M2: FP (PROD) = \beta_0 + \beta_1 B_CORP + \beta_2 LAG_PROD + \beta_3 EMP + \beta_4 EMP_G + \beta_5 IND + \varepsilon$$

$$M3: FP (REV_G) = \beta_0 + \beta_1 B_CORP + \beta_2 LAG_REV_G + \beta_3 EMP + \beta_4 EMP_G + \beta_5 IND + \varepsilon$$

Model 2 was expected to show the most reliable results. The correlation matrices showed high correlation between PROD and REV, therefore EMP is probably a more reliable control for firm size. In addition, PROD is probably a more valid measure of FP than REV_G. Growth in revenues can for example be achieved by external influence like a large financial injection, whereas PROD tells more about specific company performance.

Six regression models test for H2. The combinations are just like those in the models for H1, only doubled in number because the scores for the different BIA categories cannot be tested in the same model as BIA_T due to the high combined correlation. So the first three models test for the relation between FP and the total BIA score (see table 7b). The next three models test for the relation between FP and the BIA category scores (see table 7c). This leads to the following regression equations (respectively table 7b and 7c):

$$M1: FP (PROD) = \beta_0 + \beta_1 BIA_T + \beta_2 LAG_PROD + \beta_3 REV + \beta_4 REV_G + \beta_5 IND + \varepsilon$$

$$M2: FP (PROD) = \beta_0 + \beta_1 BIA_T + \beta_2 LAG_PROD + \beta_3 EMP + \beta_4 EMP_G + \beta_5 IND + \varepsilon$$

$$M3: FP (REV_G) = \beta_0 + \beta_1 BIA_T + \beta_2 LAG_REV_G + \beta_3 EMP + \beta_4 EMP_G + \beta_5 IND + \varepsilon$$

$$M1: FP (PROD) = \beta_0 + \beta_1 BIA_E + \beta_2 BIA_W + \beta_3 BIA_C + \beta_4 BIA_G + \beta_5 LAG_PROD + \beta_6 REV + \beta_7 REV_G + \beta_8 IND + \varepsilon$$

$$M2: FP (PROD) = \beta_0 + \beta_1 BIA_E + \beta_2 BIA_W + \beta_3 BIA_C + \beta_4 BIA_G + \beta_5 LAG_PROD + \beta_6 EMP + \beta_7 EMP_G + \beta_8 IND + \varepsilon$$

$$M3: FP (PROD) = \beta_0 + \beta_1 BIA_E + \beta_2 BIA_W + \beta_3 BIA_C + \beta_4 BIA_G + \beta_5 LAG_REV_G + \beta_6 EMP + \beta_7 EMP_G + \beta_8 IND + \varepsilon$$

Since the IND variable consists of 72 dummies for the different industry codes, these regression results are combined instead of shown separately. Showing all of them would make the results very unclear and chaotic. ANOVA analysis was done to calculate the combined significance of the SIC codes. Therefore, IND shows no coefficient and standard deviation. IND was not included as control variable in the regression for H2, since a lot of SIC codes have only one observed B-corp and one observation does not tell anything about the industry.

Table 7a – Regression analysis H1

Variable	Pred. Sign	MODEL 1			MODEL 2			MODEL 3		
		Coefficient	S.D.	p-value	Coefficient	S.D.	p-value	Coefficient	S.D.	p-value
Intercept		34.570,0000	25.620,0000	0,177	134.700,0000	27.630,0000	0,000 ***	0,5238	0,1150	0,000 ***
B_CORP	-	9.708,0000	11.630,0000	0,404	-16.970,0000	12.650,0000	0,180	-0,1390	0,0541	0,010 **
LAG_PROD	+	0,8218	0,0088	0,000 ***	0,8093	0,0092	0,000 ***			
LAG_REV_G	+							0,0443	0,0110	0,000 ***
REV	+	0,0001	0,0000	0,000 ***						
REV_G	+	100.900,0000	3.246,0000	0,000 ***						
EMP	+				-9,8950	5,4600	0,070 *	-0,0000	0,0000	0,447
EMP_G	+				-76.790,0000	5.167,0000	0,000 ***	0,3501	0,0214	0,000 ***
IND				0,000 ***			0,000 ***			0,000 ***
Adj. R ²			0,7721			0,7322			0,09736	
Observations			4460			4460			4441	

Table 7b – Regression analysis H2 BIA Total

Variable	Pred. Sign	MODEL 1			MODEL 2			MODEL 3		
		Coefficient	S.D.	p-value	Coefficient	S.D.	p-value	Coefficient	S.D.	p-value
Intercept		1.146,0000	75.580,0000	0,988	41.790,0000	76.780,0000	0,587	-0,0963	0,1732	0,579
BIA_T	+	146,3000	698,1000	0,834	413,5000	702,1000	0,557	0,0025	0,0016	0,115
LAG_PROD	+	0,9146	0,0301	0,000 ***	0,9122	0,0279	0,000 ***			
LAG_REV_G	+							0,1454	0,0365	0,000 ***
REV	+	0,0004	0,0002	0,044 **						
REV_G	+	59.810,0000	17.760,0000	0,001 ***						
EMP	+				-10,9000	53,1800	0,838	0,0001	0,0001	0,551
EMP_G	+				-97.150,0000	27.930,0000	0,001 ***	0,2629	0,0706	0,000 ***
Adj. R ²			0,8698			0,8675			0,2185	
Observations			173			173			161	

Table 7c – Regression analysis H2 BIA Categories

Variable	Pred. Sign	MODEL 1			MODEL 2			MODEL 3		
		Coefficient	S.D.	p-value	Coefficient	S.D.	p-value	Coefficient	S.D.	p-value
Intercept		44.570,0000	82.300,0000	0,589	113.700,0000	80.930,0000	0,162	0,4632	0,1945	0,018 **
BIA_E	+	2.911,0000	1.150,0000	0,012 **	2.816,0000	1.105,0000	0,012 **	-0,0020	0,0023	0,388
BIA_W	+	-1.574,0000	1.547,0000	0,311	-1.808,0000	1.542,0000	0,243	-0,0068	0,0037	0,064 *
BIA_C	+	1.024,0000	820,2000	0,213	593,9000	832,8000	0,477	0,0008	0,0019	0,675
BIA_G	+	-4.430,0000	3.728,0000	0,236	-2.980,0000	3.790,0000	0,433	-0,0054	0,0089	0,544
LAG_PROD	+	0,8835	0,0310	0,000 ***	0,8764	0,0307	0,000 ***			
LAG_REV_G	+							0,1435	0,0369	0,000 ***
REV	+	0,0002	0,0002	0,223						
REV_G	+	62.030,0000	17.260,0000	0,000 ***						
EMP	+				-35,7300	54,3500	0,512	0,0001	0,0001	0,393
EMP_G	+				-82.150,0000	27.870,0000	0,004 **	0,2484	0,0729	0,001 ***
Adj. R ²			0,8775			0,8738			0,2129	
Observations			173			173			161	

Regressions are performed with PROD (Model 1 and 2) and REV_G (Model 3) as dependent variable.

*, **, *** indicate significance of the coefficients at 10%, 5% and 1% confidence level, respectively.

Variables are defined in Table 3.

The regression analysis shows some interesting results. First, there is some indication that B-corps outperform their counterparts (see table 7a). Most part of these results are not significant though. Model 3 shows B-corps significantly outperforming their counterparts. The R^2 of this model is very low though (only 0,09736), just like the R^2 of the other Model 3 analyses. So the explanatory power for REV_G is very low in the models, indicating that the outcomes of Model 3 are not very reliable. But it is interesting that Model 2, which is expected to be the most reliable model, also indicates that B-corps outperform their counterparts. These results are not significant, but are close to that (p-value of 0,18). However, Model 1 shows results the other way around, indicating that the counterparts outperform the B-corps. This results is far from significant though (p-value of 0,4). Also, REV as control for firm size appeared to be highly correlated with the dependent variable PROD (see also section 7.1), making Model 1 also not very reliable. Model 2 is far more reliable, because EMP does not show such a clear link with PROD. In summary; Model 2 indicates that B-corps do outperform their counterparts, only not significantly. So H1 is not confirmed, but cannot be rejected with certainty as well.

Second, the results on the BIA scores show significant and convincing effect of BIA_E on FP (see table 7c; p-value of 0,012 in both Model 1 and 2) but only random effects of BIA_T on FP (see table 7b). Both Model 1 and Model 2 show results that suggest that better environmental performance leads to better FP. This indicates a positive relation between the environmental component of CSR and FP, but no relation between other components of CSR and FP. The effect of the total BIA score on FP is very random. All three models show no significant results and in Model 1 and 2 the effect of BIA_T on FP is not even close to significant. As a last addition; Model 3 indicates a negative significant effect of BIA_W on REV_G. But the low R^2 of this model and the low significance of this result make this not a very reliable effect. Besides, it seems highly unlikely that taking less care of employees leads to higher FP.

Finally, most control variables in the model confirm prior research on these variables. Industry, prior FP and firm size growth all show convincing significant effects on FP in all models and hypotheses. Only the effect of firm size seems unclear. REV is probably too correlated with PROD to be a reliable control for firm size and EMP has a low significant effect on FP for H1, but far from a significant effect for H2. This is extra remarkably since PROD is calculated with REV and EMP. Apparently higher REV lead to higher PROD, probably due to benefits of scale, but the effect of EMP in calculating PROD is quite random. If any effect, it is that more employees lead to lower productivity.

7.3 Summary

In summary, the results show no clear conclusion about H1 and H2. The most reliable result for H1 (Model 2) is not significant, but close to indicating that B-corps do financially outperform their counterparts. The results for H2 clearly show that the BIA total score has no effect on FP, but the Environment category does. Two of the three models, also the two models with highest explanatory power, show a significant positive effect of environmental performance on FP.

The results also indicate, in line with prior research, a significant effect of all control variables on FP. Industry, prior FP and firm size growth show convincing effects on FP. The effect of firm size is less convincing, but also significant in most models. In addition, the relations between total revenues, number of employees and productivity are interesting. More revenues clearly lead to higher productivity, probably due to economies of scale. But on the opposite, it seems that more employees lead to lower productivity. A possible explanation is that an increase in the number of employees makes the company less efficient, which at least partly eliminates the positive effect of economies of scale.

Finally, it is interesting that B-corps clearly show higher growth rates than their counterparts. This does not tell much about financial performance, but it does indicate that B-corps grow significantly faster in size and market share than other companies. This fact makes it at least interesting to research these companies. It might also be an indication that it is only a matter of time until B-corps develop and learn in such a way that they are going to outperform their counterparts.

8. Conclusions

8.1 Main results

This thesis aims to find answer on two questions. The first question is: *Do B-corps financially outperform their non B-corps counterparts in the long run?* Based on theory the hypothesis is that B-corps will outperform their counterparts in the long run. Five main reasons for this have been addressed. First, B-corps show a clear intention to go further than the law requires (Davis, 1973). Second, they focus on the long term society perspective instead of their own self-centered, short term oriented perspective (Frederick, 1960; Steiner, 1971; Johnson, 1971). Third, society is normative on corporate behavior (Wood & Jones, 1995) and determines whether a company has the right to exist (Davis, 1960; Wood, 1991). Fourth, B-corps clearly seek to integrate CSR into their strategy and make it the core of their business (Porter & Kramer, 2006; Benefit Corporations, 2015). Fifth, B-corps do not focus on their possible friction with the government, but seek to work together with society as a whole (Porter & Kramer, 2011). All this together should lead to more consumer trust, a better reputation, more innovation and a more inspirational work place leading to higher productivity according to the social impact hypothesis (Shen & Chang, 2009). This effect is confirmed by most analyses on the CSR – FP relation (Orlitzky et al., 2003). This thesis compares the FP of 117 B-corps with 1970 counterparts, selected on country and SIC code. The most reliable regression model indicates that B-corps outperform their counterparts, but not with a significant effect. Further research is necessary to get a better answer on the research question. In addition, these results are limited due to a lack of data because almost all B-corps are private companies.

The second question of this thesis is: *Are the B Impact Assessment scores correlated with financial performance of B-corps?* Because of the same reasons as mentioned earlier in this section, it is hypothesized that the BIA scores as measure of CSR are correlated with FP. The BIA is a very comprehensive measure for CSR, focuses on intrinsic motivation of companies, is being checked by the independent B Lab and is used by ten thousands of businesses. Therefore it might be a solution for the measurements problems in CSR. For example, widely used measures like CRI and KLD seem to be flawed (Griffin & Mahon, 1997; Chatterji et al., 2009). This study compares 173 BIA scores of certified B-corps with their financial performance. The results suggest that the total BIA score does not affect the FP of a company, but the Environment category does. This indicates that higher environmental performance leads to better FP.

8.2 Practical implications

The main results of this study can have some interesting practical implications. First, the results indicate that the Benefit Corporations are an interesting and fast growing business. They seem to gain market share on their competition. And although no significant results were found, this study shows some indications that the B-corps even are more productive than their counterparts. So the B-corps have the potential to eliminate negative biases about CSR-oriented companies. The results indicate that B-corps are at least equally interesting for investors as non-CSR-oriented companies.

Second, the Principle of legitimacy (Wood, 1991) and the Iron Law of Responsibility (Davis, 1960) suggest that companies like the B-corps are less risky investments compared to other companies. These companies are mostly small businesses that are still on the rise. Often they only have operated for a couple of years, therefore they will still have a lot to learn. But the results indicate that they have an excellent reputation and consumers give increasing trust to these companies. This provides a stable, solid and even necessary foundation for future growth that a lot of other companies do not have. It makes the B-corps a possible big threat for other companies. This makes it interesting for other companies to consider joining the B-corps.

Third, the indication that B-corps are more productive than their counterparts is interesting. This finding is consistent with the hypothesis that companies focusing on CSR provide a more inspiring workplace for employees. Through that they are able to attract the most productive workers and also make all workers more productive. It would be interesting to find out more about how this relation works.

Finally, the results suggest that high environmental performance leads to better FP. This seems logical, since this category of the BIA mostly measures savings on environmental costs. Good environmental performance will make the production process of a company more efficient, protect them from negative events and probably also make the employees more aware of production costs. The other categories (Workers, Community, Governance) are less directly related to FP. Therefore it is not surprising that precisely performance in the environmental category leads to higher FP. This implicates that it is financially interesting and rewarding for companies to improve their environmental performance.

8.3 Alternative explanations

This section addresses some alternative explanations for the conclusions and implications of this study. An explanation for the fact that the B-corps do not significantly outperform their counterparts is that this study excludes discontinued businesses. According to the theory, B-corps should be more stable and solid businesses and therefore have less risk on bankruptcy or other reasons to discontinue the operations. If B-corps have relatively less discontinued businesses compared to their counterparts, this would also be an argument to state that B-corps financially outperform their counterparts.

Another alternative explanation for the somewhat higher productivity of B-corps and their relatively faster growth is that they possibly sell more expensive products. For example, a lot of B-corps sell Fairtrade or biological products, which are generally more expensive than other products. This would raise their total revenues and therewith their productivity, without necessarily increasing their financial performance.

Finally, B-corps are relatively fast growing but there is no evidence that this means that they will eventually outcompete their competition. Other, not CSR-focused companies, might remain to exist because a significant part of the population will continue to choose a low price over high CSR performance. These companies even might be able to perform financially better than the B-corps because of their specific focus on financial performance.

8.4 Limitations

Like all research, this study has some important limitations. The most significant limitation is the lack of data on FP and some control variables. Widely used and better measures of FP like net income, ROA, ROS and ROE were not available for the B-corps. In addition, prior research indicates a significant effect of firm risk, R&D intensity, advertising intensity, intangible resources and strategic necessities or advantages on the CSR – FP relation. For example, investments of B-corps are a form of R&D investments leading to significant intangible resources and strategic advantages. Other intangible resources and R&D investments might be equally effective as CSR resources / investments. Data on these control variables was not available for the B-corps, leading to possibly omitted variables.

Another limitation is the selection of the counterparts of the B-corps. These companies are on average much larger than the B-corps and are possibly in a different operational stage. Second,

the data of the counterparts was spread over a much wider range than the data of the B-corp. In addition, these companies are public companies whereas the B-corps are private companies. Finally, the counterparts are matched with a relatively simple method of matching on country and SIC code. All these arguments make it difficult to see whether a reliable comparison between the B-corps and these counterparts can be made. The effects of all these observed differences between the data of the B-corps and their selected counterparts is unknown, although controlling for firm size (growth) might have been enough to eliminate the effects of these differences.

Finally, the research model possibly includes an endogeneity problem due to the relation between productivity as measure for FP and the number of employees or total revenues as control variable for firm size. Productivity is measured as total revenues divided by the number of employees. In the regression models with the highest explanatory power, productivity was the independent variable and either total revenues or the number of employees one of the dependent variables. Especially the model with total revenues as control variable might have an endogeneity problem, since total revenues and productivity are highly correlated and the influence of total revenues was very significant. On the other hand, the influence of the number of employees was not highly correlated with productivity and far from significant (regression model 2). In analysis of the results, this regression model is therefore used as the most reliable and valid model, and also the basis for the main conclusions. This possibly eliminates the endogeneity problem.

8.5 Future research

This study leads to a lot of opportunities for future research. The most obvious chance to gain further insights on the FP of B-corps is to gather more extensive (financial) data. This would make a research like this far more reliable and valid. Since the B-corps also stand for transparency, they might choose to lead the way in financial transparency and make research like this easier. The research will also definitely get more interesting if the B-corps lead the way in research on their own financials.

A second chance for future research is to improve the dataset of counterparts. For example by comparing B-corps with private companies instead of public companies. Or by using a less rough, more careful method to select the competition of B-corps, for example by asking the B-corps themselves who their most important competitors are.

Another interesting opportunity is to do field research on some specific B-corps and their competition, in order to analyze specific differences between B-corps and other companies. Financial data shows only a small part of the wider spectrum of differences between companies.

Fourth, research on legislated benefit corporations might also be interesting. These are companies that did not make or pass the BIA, but are legislated in the USA (and increasingly more other countries) by adding social commitments to their statutes and other legal articles. It would be interesting to research the differences between legislated and certified benefit corporations. Does certification really add value to a company?

Fifth, like mentioned in the alternative explanations, research on discontinued companies might be very interesting. B-corps might be more stable companies and therefore better investments than other companies because of less risk on discontinuation.

Last, but certainly not least, future research might focus on more in-depth analysis of the BIA. Facts indicate that BIA might be a better measure for CSR than for example CRI or KLD. It was beyond the scope of this thesis to analyze the BIA in depth. Comparing their method in detail with the methods of for example CRI and KLD might lead to interesting insights. The BIA is possibly the best available method to measure CSR and all of its aspects.

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Appendix: B Impact Assessment

This section provides additional information on the procedure and content of the B Impact Assessment (BIA). Taking the BIA consists of the following steps:

1. *Take the BIA.* Below are some question examples.
2. *Submission of Supporting Documentation.* The BIA randomly selects 6-8 questions that were answered affirmative. The company needs to prove their answers with supporting documentation.
3. *Assessment Review.* A B Lab staff member reviews the questions and documentation.
4. *Additional Documentation.* If the score of a company is more than 80 points, additional documentation has to be uploaded.
5. *Disclosure Questionnaire.* The company confidentially discloses further information to B Lab. If items on these questionnaire are material, the B Lab staff investigates this and may in some cases reject certification.
6. *Background check.* The B Lab staff does a final background check on the company to complete the certification.

The BIA varies for every company depending on the number of employees, sector and location. Therefore, the score weightings are different per company. In any case, the BIA consists of five score categories:

1. *Governance:* These questions cover the best practices that ensure that the company is built to last. It focuses on the company's core mission, stakeholder engagement, governance structures and overall transparency. Examples of questions are:
 - What portion of your management is evaluated in writing on their performance with regard to corporate social and environmental targets?
 - Does the company have a formal process to share financial information (except salary info) with its full-time employees?
 - Has the company worked within its industry to develop social and environmental standards for your industry?
 - Have you ensured that the social or environmental mission of your company will be maintained over time, regardless of company ownership?
2. *Workers:* These questions cover how the company benefits its workers by compensation, training and ownership best practices. It focuses on the overall work environment, for example management/worker communication, job flexibility, corporate culture, worker health and safety practices. Examples of questions are:

- Based on referenced compensation studies, how does your company's compensation structure (excluding executive management) compare with the market?
- What is the minimum number of vacation days / sick days / personal days / holidays offered annually to full-time tenured workers?
- What % of full-time workers were reimbursed for continuing education opportunities in the last fiscal year?
- What % of the company is owned by full-time workers (excluding founders/executives)?
- Based on the results of your employee satisfaction assessment, what percent of your employees are 'Satisfied' or 'Engaged'?
- Do you have a worker health and safety committee that helps monitor and advise on occupational health and safety programs (please choose N/A if the company does not use warehousing or manufacturing facilities)?

3. *Community:* These questions cover the impact of the company on its community. It focuses for example on supplier relations, involvement in the local community, charitable giving and if a company's product or service is designed to solve a social issue. Examples of questions are:

- Which practices apply to the social and environmental performance of Significant Suppliers?
- What % of management is from underrepresented populations?
- Are full-time employees explicitly allowed any of the following paid or non-paid time-off hours options for community service?
- Which of the following underserved populations does your business impact or target (check all that apply)? If you are a business-to-business focused company, think of who the ultimate user of your product or service is.

4. *Environment:* These questions cover the environmental performance of a company. It focuses for example on materials, resource and energy use, emissions, transportation / distribution channels, the supply chain and if a company's product or service is designed to solve an environmental issue. Examples of questions are:

- Which is the broadest community with whom your environmental reviews / audits are formally shared?
- If you lease your facilities, have you worked with your landlord to implement any of the following programs in the past two fiscal years: (Choose n/a if you do not lease your building)
- What % of energy (relative to company revenues) was saved in the last year for your corporate facilities?
- What % of energy used is from renewable on-site energy production for corporate facilities?
- Does your company monitor and record its universal waste production?