Trade-off or synergy? The relationship between investments in sustainability and organizational growth

Bachelor thesis Economics and Business Economics

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Abstract

The goal of this thesis is to investigate the relationship between organizations' sustainability efforts and growth. By doing quantitative research, this thesis will add to the previous scientific knowledge. From existing literature, I conclude that the relationship between corporate sustainability and growth can be positive and negative. Observations from B Lab certified companies are used. I relate their sustainability scores to the size of their workforce to answer the research question. The Ordinary Least Squares Regression with Fixed Effects shows that there is no significant or strong relationship between sustainability efforts and organizational growth. However, I do find that environmental and governmental sustainability scores are significantly negative related to organizational growth. These results suggests that there are different relationships between areas of corporate sustainability and organizational growth.

Inhoudsopgave

Introduction

In 2015, all United Nations Member States adopted the agenda for sustainable development (United Nations, n.d.-b). At the core of the agenda for sustainable development are the 17 Sustainable Development Goals, of which the ambition is to complete these goals by the year 2030. The Sustainable Development Goals, also called SDGs, foster 169 targets to provide peace and prosperity for people and the planet. The goals range between climate action and peace or reducing inequalities and affordable and clean energy.

To achieve these goals, the UN mentions the need for cooperation. This cooperation is in line with the seventeenth and last SDG: partnerships for the goals (United Nations, n.d.-a). According to this goal, partnerships are essential to reach said goals in 2030. These are partnerships between countries, but also non-profit organizations and companies.

Companies that invest in policies and practices that positively influence the world are a topic that has received much attention from firms and industries themselves, and also in scientific articles. How sustainability efforts are commonly received is through a win-win paradigm (Rost & Ehrmann, 2015). This consists of companies growing with rising revenues due to their sustainable image or more efficient production process. However, is this always the case? Liedong, Taticchi, Rajwani and Pisani (2022) make a case for gracious growth. In this system, sustainability starts within companies among the employees and in everyday routines to slowly gain more strength and importance within the business. According to their research, gracious growth is the solution for companies desiring both a positive social and environmental impact and to increase their profitability. Hahn, Figge, Pinkse and Preuss (2010), on the other hand, state that being stuck looking for win-win situations may not be the solution and that sometimes companies must be willing to forego profit to achieve more sustainable outcomes. This thesis is set around the following research question: *What is the trade-off between sustainability efforts and organizational growth?*

Through the analysis of a dataset on the scores of B Corporations, the research question is answered. B Corporations are companies certified for and scored on their performance in sustainable development in the areas of Environment, Consumers, Community, Workers, and Governance. This combination is a wide range of everything that falls in the scope of corporate social responsibility (CSR) or corporate sustainability.

In this analysis, the performance scoring for B corporations, called Impact Score, will be used to measure the height of their sustainability efforts. The outcome variable, organizational growth, will be expressed in the size of a company. In the dataset of B Lab, the number of employees in full-time equivalents (FTEs) indicates the size.

There has been quite some scientific attention drawn to corporate social responsibility and its effect on business operations. Especially since the publication of Friedman's (1970) argument on the immorality of investing in something else than profitability, the topic has gained more regard. These articles often base their conclusions on qualitative research, such as interviews or case studies. Villela, Bulgacov and Morgan (2019) explored the impact of certification on four small- and medium-sized corporations in Brazil. They found that companies' motivations for certification were much more external, such as profits, than the internal drive to improve sustainability matters. This finding would suggest that certification and sustainability improvements to that point will indeed lead to growth. This thesis will add to that by using quantitative research methods and looking at whether sustainability efforts are still rewarded with growth after certification. This study is also socially relevant in the sense that it can give policy-makers insight in the motives of companies to engage in corporate sustainability. With that knowledge they can target sustainability policies to be the most effective.

To answer the research question, first a theoretical framework is provided to discuss the existing theories about the trade-off between sustainability efforts and the growth of an organization. That section summarises qualitative and theoretical articles to gain a broad view of different reasons for the trade-off. After this, more background on B Lab as an organization and their certification process is offered, to gain a better understanding of the dataset. The dataset is thereafter explained, and summary statistics are presented to illustrate some of the properties of the data. Following that, the methodology is discussed. In this section, the regression equations that will be retrieved are explained, and some robustness tests and advantages and disadvantages of the method are discussed. The thesis proceeds onto the results section, showing the practical outcomes of our methodology and offering some interpretations of the retrieved results. Finally, these interpretations are then continued in the conclusion and discussion. This section is supplemented by critically reviewing the thesis and its limitations to make recommendations for future research ultimately.

Theoretical framework

The following section will dive into the literature on the topic of corporate sustainability and corporate social responsibility. The goal is to provide a deeper understanding of the existing theories concerning the relationship between sustainability and organizational growth, but also of previous case studies. Three categories of this relationship are distinguished and scientific articles will be reviewed and categorized in of the three. This categorization will finally lead to an understanding of what line of thinking is most common in the literature and give a base for composing the hypothesis.

Terminology

Before expanding on the existing theory, it is necessary to define clearly what corporate sustainability encompasses. Sustainability can be perceived in many ways, societal, economic, environmental, and so forth. Include corporate in this, and that will result in a term that can be interpreted according to the one that reads or says it. Wilson (2003) gives a clear definition for corporate sustainability, which throughout this research will also be used as a guideline: "While corporate sustainability recognizes that corporate growth and profitability are important, it also requires the corporation to pursue societal goals, specifically those relating to sustainable development — environmental protection, social justice and equity, and economic development."

Another concept that must be discussed to answer the research question is organizational growth. This concept can be expressed in three ways: sales, employees, and assets. A study by Weinzimmer, Nystrom and Freeman (1998) investigated these three measures in multiple industries and firms for 20 periods and concluded that the measure of sales is the most common and most robust to use in analyses. However, all three can be good indicators of organizational growth. Whether employees or assets can give a good indication of the growth of an organization differs for the type of industry that organization finds itself in. The value of assets is the most appropriate measure for capital-intensive industries, whereas for labour-intensive industries, the number of employees is more common.

Friedman's theory

The first theory on the trade-off between corporate sustainability and organizational growth being discussed is derived from Milton Friedman's argument from the 1970s. In his article he stated that the social responsibility of business does not exist. According to Friedman (1970), people within a company may have social responsibilities, but a business only has one responsibility: profitability. When a company invests according to social responsibility principles and that does not lead to profitability, it would be spending someone else's money.

Friedman states that these investments will ultimately lead to lower revenues, higher prices or lower salaries, which come at the expense of shareholders, consumers, or employees and are thus morally reprehensible.

If companies follow this philosophy where the only goal is to increase profitability, then sustainability is only a means to achieve that goal. Therefore, according to this theory, a trade-off between sustainability efforts and the growth of a company will be positive, or at least non-negative, otherwise a company would not be motivated to make the investment.

Johnson (2003) demonstrates that there are different levels on which companies can approach corporate social responsibility. Among them is the strategic level, where organizations' motives for CSR are solely strategic, meaning that they engage in them for increased financial performance. These companies focus on improvements in HR practices and customer satisfaction, whereby a competitive advantage is obtained, conform to Friedman's theory.

Profits and sustainability as a goal
The second view differs from Friedman's in that both profit and sustainability can be seen as a goal for a company. The article by Hahn et al. (2010) was already highlighted in the introduction. They criticize how corporate sustainability is commonly perceived not to compromise the needs of future stakeholders and they make an effort to go beyond the notion that "economic, environmental and social aspects are mutually reinforcing". An analytical framework is proposed to look more at trade-offs instead of win-win situations because Hahn et al. believe that will reveal more potential for positive corporate contributions to sustainable development. Following this line of thinking, companies will invest in sustainability even though it might result in lower profits, sales, or number of employees because they believe it will make a positive impact and that the company also strives for this. Hence, this theory predicts a negative relation between sustainability efforts and organizational growth.

In a second article, Figge and Hahn (2012) further expand on this. They state that the "green business case" (to use sustainability efforts as a means to create economic value) does not provide a suitable basis for corporate environmental strategies and that environmental concerns should be treated equally as financial performance. B Lab agrees with this, and this is something to which B corporations pledge by certifying. This is supported by the finding that B corporations experience a slowdown in revenue growth of 20 per cent, which more than doubles for smaller and younger companies (Parker, Gamble, Moroz & Branzei, 2019). Based on the data of 250 North American certified B corporations over 2011-2014, that conclusion was made on in-depth interviews. This could show that companies that genuinely want to contribute to sustainability, for example by certifying, first must accept that this will not increase

profitability. Companies that want to achieve this are categorized by Johnson (2003) as social advocates. These organizations want to be an agent for social change and, while they are for-profit, also fight for a cause based on their moral beliefs, independent of the costs of those beliefs. Examples are choosing more expensive, environmentally friendly packaging materials or giving preference to minority suppliers. This focus on sustainability goals results in a weaker relationship between social and financial performance than seen with companies at the strategic level. Accordingly, in a study on 500 US companies, environmental and CSR disclosure was negatively associated with a company's operational and financial performance (Alareeni & Hamdan, 2020)

Customers and employees' influence
The third theory is similar to the first in the way that it also predicts a non-negative or positive relation. However, the cause for this relationship is different. It lies within the morale of consumers and employees that ask companies to act in a socially and/or environmentally responsible manner. Mohr, Webb and Harris (2001) describe in their paper that consumers with knowledge about social responsibility issues tend to buy more from companies that behave accordingly. Consumers taking into account the social and environmental behaviour of corporations could explain the finding that a change in corporate social performance is positively associated with sales growth for a sample of 400 social investors (Ruf, Muralidhar, Brown, Janney & Paul, 2001). This is also seen in consumers' reasons to buy from B corporations, which is in the first place motivated by social and environmental responsibility issues (Bianchi, Reyes & Devenin, 2020). Certification, in this case, helps to provide validity to a company's social or environmental behaviour. In the same way, (potential) employees also associate social responsibility with being a good employer (Verčič and Ćorić, 2018), and that could lead to higher employment numbers. Therefore, in this last theory, sustainability is also a goal but has the positive side-effect of a growing number of customers and employees or employee engagement.

Caroline Flammer supports this in her study in which she applies a Regression Discontinuity Design to CSR business proposals that pass or fail by a small margin of votes. She finds that CSR policies that do make it lead to positive returns and better accounting performances, implying a higher value (Flammer, 2015). Not only does this point to a positive relationship between CSR policies and financial performance, but one of the findings was also that this effect was channelled through higher labour productivity (employees) and sales growth (consumers).

In a case study on the business of fashion company Brunello Cucinelli, a company known for its ethical corporate culture, "gracious growth" is put forward as the key to combining sustainability and profitable growth (Liedong, Taticchi, Rajwani & Pisani, 2022). This model has been executed by Brunello Cucinelli and at the heart of it lies the focus on culture as an instrument for true sustainability combined with profit, for which efficiency is a condition. The study makes a good argument for a positive relationship and is qualitatively substantiated by interviews, archival data review, and observations. However, since it looks at just one company, it is hard to tell whether this "gracious growth"-model works for other industries or organizations. The study is therefore more of an example of how a business can be organized in a way that is both profitable and sustainable, than a prediction of the relationship between sustainability and growth in reality.

Hypothesis

To summarize, there are three ways to perceive and predict the relationship between the sustainability efforts of a company and the growth of an organization; two that predict a non-negative relationship and one theory that goes beyond that notion and promotes a framework for a trade-off between the two variables. After reviewing the literature, it is clear that it is not a question of which of these theories is valid but of which theory most managers support. Schwartz and Saiia (2012) demonstrate this in their article where they look at multiple real-life business cases and categorize the decision-making of the managers in what they call the "narrow view" or "broad view" of CSR, which represent the first and second theory in this section. They conclude that companies make different considerations in choosing for what reasons they engage in corporate sustainability and find diverging results. Therefore, while all three theories make compelling cases, I think that most companies will still prioritize their profits over sustainability as this is the most classic and straightforward view on the matter, and it does not require a business to take multiple stakeholders into account at once. For that reason, the hypothesis that will be tested over the following sections of this thesis is:

There is a positive relationship between the sustainability efforts of a company and their growth.

B Lab

This thesis uses data from certified B corporations, and the organization behind this certification process is B Lab. The B in both B corporation and B Lab stands for benefit. B Lab is a non-profit organization with the mission to transform the global economy to benefit all people, communities, and the planet (B Lab, n.d.). The organization was founded in 2006 and has since then been active in and mostly known for the certifying of businesses. Next to certifying companies, B Lab partners with a wide range of stakeholders to share insights and try to achieve an economic system change that parallels their business values. A sample of these partners are Fairtrade Original, UN Global Compact and the Imperative 21.

B Corps Certification

Reasons for companies to get certified are diverse. Kim, Karlesky, Myers and Schifeling (2016) state that companies that certify do so to stand out amongst a range of "green-washing" firms in their respective industry. More and more organizations tend to profile themselves as green and sustainable while this may not be such a big part of their business, so by certifying, these other companies want to prove that they are indeed consciously active with these sustainability goals. Another reason for companies to certify is to "join the movement of creating a new economy with a new set of rules". This can be seen as a reaction to profit-driven utterances of organizations by a high level of income inequality and or mass lay-offs.

To get certified, a company, which can be any for-profit entity, must complete three steps in the process designed by B lab. These steps are characterized as essential pillars for certification: "verified social and environmental performance, public transparency, and legal accountability" (B Lab, 2021). The verification of performance is done through the Impact Assessment, to make sure that companies are indeed conscientiously busy with sustainability. The content of the assessment will be discussed later in this section. The track in which the assessment is conducted is decided by the size, sector, and location of an organization. Location is divided into the categories developed and emerging, and the other two determinants will be explained in the data section. The second pillar of legal accountability is a way to ensure that B corporations not only perform well currently but that they want to keep committing to their values in the future (B Lab, 2022b). It obligates companies to anchor their mission in legal documentation like the Articles of Incorporation. In this way, B corporations owe accountability to all stakeholders derived from the impact areas and not just their shareholders. Another way in which this pillar is ensured is the obligation to verify an updated impact assessment every three years and after a change of control or initial public offering. Lastly, public transparency is expressed in giving the possibility to let others view the outcome of your Impact Assessment,

which means that companies need to at least share their scores on the website of B Lab (B Lab, 2021). To summarize, companies need to adhere to the criteria of transparency and accountability and need a minimum score of 80 points in their Impact Assessment to be certified. To complete this process, companies do need to consider the time and effort it takes. According to B Lab (2021), it usually takes a few weeks to complete the assessment for larger companies. This is due to the information that needs to be collected from different departments. After this, the verification process will take 4 to 8 weeks, bringing the total time needed to a maximum of three months. There are also costs that come with being certified, which differ per region and size of the annual sales of a company. It can range between €1000 a year for annual sales up to €149,000 and €50.000 for companies with annual sales in the category €750,000,000-€1,000,000,000 (B Lab, 2022c). It takes work, time, and money to become a B-certified company. This makes it plausible that enterprises do not certify impulsively and thus have a strong will to be certified for their efforts in sustainability.

Impact Assessment

As the data derived from the impact assessments will be a large part of the data analysis, the structure of the assessment will be further discussed now. The impact assessment is a tool to allow a business to assess, compare and improve its social and environmental performance by filling out an extensive questionnaire (B Lab, 2020b). The number of questions per area differs across the sectors in which an organization can be categorized. This can be seen in Image 1. There is an exception for companies in the size category of 0 FTEs so that they do not need to fill in the question on workers. About the way of scoring points to questions, B Lab (2020b) states the following: "Each question is assigned a relative weighting based on how difficult the practise is to implement and the directness of the indicator in assessing a positive impact on workers, communities, environment, and/or customers as determined by B Lab's independent Standards Advisory Council. (…) Generally speaking, questions measuring specific outputs and outcomes are more heavily weighted than questions about policies and practices"

Topics	1-9 to 1000+				
	Manufacturing	Agriculture	Wholesale/Retail	Service with Significant Environmental Footprint	Service with Minor Environmental Footprint
Mission & Engagement	4	4	4	4	6
Ethics & Transparency	6	6	6	6	9
Financial Security	17	17	17	17	20
Health, Wellness, & Safety	10	10	10	10	12
Career Development	5	5	5	5	8
Engagement & Satisfaction	8	8	8	8	10
Diversity, Equity, & Inclusion	10	10	10	10	15
Civic Engagement & Giving	8	8	8	8	12
Economic Impact	10	10	10	10	15
Supply Chain Management	12	12	12	12	8
Environmental Management	10	5	10	10	7
Air & Climate	15	9	15	15	7
Water	8	7	7	7	2
Land & Life	12	24	13	13	4
Customer Stewardship	5	5	5	5	5
TOTAL	140	140	140	140	140
BIA Area Scoring					
Governance	10	10	10	10	15
Workers	40	40	40	40	50
Community	40	40	40	40	50
Environment	45	45	45	45	20
Customers	5	5	5	5	5

Image 1: Number of questions per Impact Area and their sub-topics as divided per sector (B Lab, 2020b)

The B Impact Assessment allows a maximum of 200 points in their questionnaire. The threshold for certification is a minimum of 80 points in total, and the distribution of these points over the sub-areas does not matter. This means that there are no minimum points to score on a sub-area, the total of 80 overall is sufficient, and this can be derived from just one area. The sub-areas are characterized as stakeholder-focused and can be viewed in Image 2, complemented by the topics that are included in the corresponding area. In the assessment, companies are only scored on positive performance, and there are no points deducted for bad performance. The assessment is designed to be as objective as possible and also relies on third-party certifications such as Fair-Trade and USDA Organic. B Lab mentions that they also want to aspire and educate organizations on how to improve their performance through these assessments (B Lab, 2020d). Because there are higher costs related to companies with higher sales and the fact that it is more difficult to score points in the assessment in a higher size category, it might be attractive for companies to alter answers in a way that it is cheaper and easier to certify. B Lab takes this into account by taking a sample of companies randomly and checking whether their answers are filled in truthfully (B Lab, 2022a). Therefore, the answers in the dataset are expected to be representative of these companies.

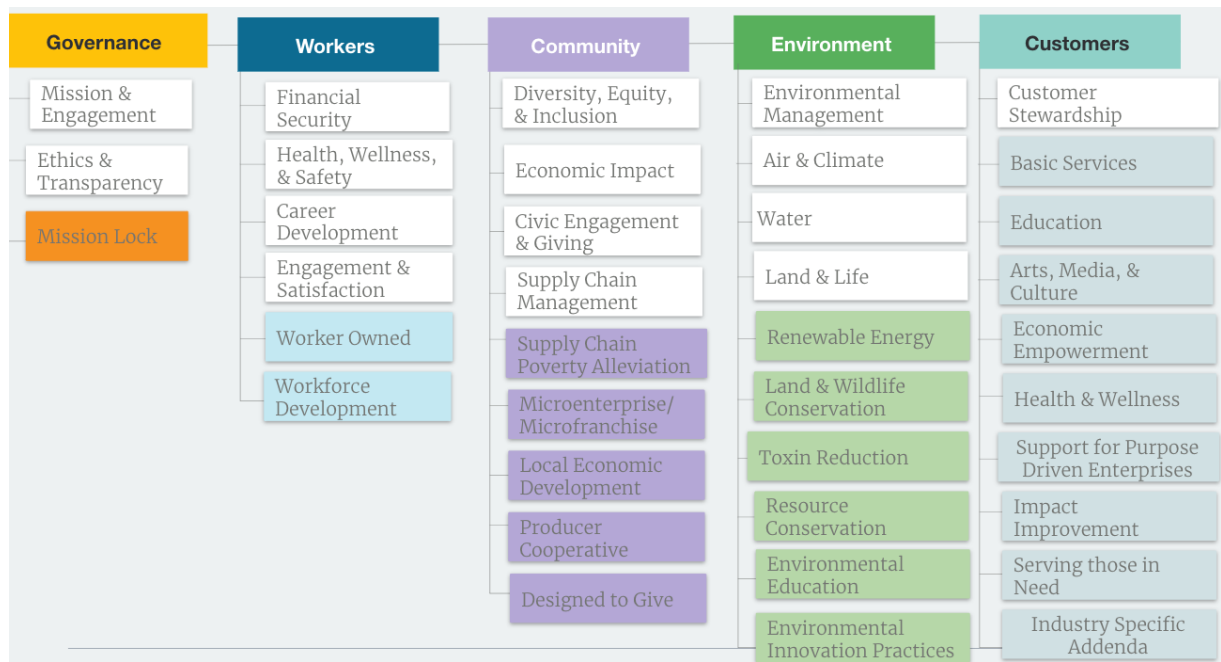| Governance	Workers	Community	Environment	Customers
Mission & Engagement	Financial Security	Diversity, Equity, & Inclusion	Environmental Management	Customer Stewardship
Ethics & Transparency	Health, Wellness, & Safety	Economic Impact	Air & Climate	Basic Services
Mission Lock	Career Development	Civic Engagement & Giving	Water	Education
	Engagement & Satisfaction	Supply Chain Management	Land & Life	Arts, Media, & Culture
	Worker Owned	Supply Chain Poverty Alleviation	Renewable Energy	Economic Empowerment
	Workforce Development	Microenterprise/ Microfranchise	Land & Wildlife Conservation	Health & Wellness
		Local Economic Development	Toxin Reduction	Support for Purpose Driven Enterprises
		Producer Cooperative	Resource Conservation	Impact Improvement
		Designed to Give	Environmental Education	Serving those in Need
			Environmental Innovation Practices	Industry Specific Addenda

Image 2: B Lab's Assessment five Impact Areas and related topics (B Lab, 2020a)

Data

To find out whether there is a trade-off between the sustainability efforts of a company and their growth, the B Corp Impact dataset (B Lab, 2007-2022) is used. This is a detailed register of the Impact Assessments of all certified companies since the founding of B Lab, 2007 until 2022. Per company, each separate assessment and the year in which this was done since certification is included. This varies between one and six sets of Impact Assessments per company. Even though the data relies on the answers that companies give themselves, it is expected to be representative due to the random checks that B Lab does on B corporations and their answers. The impact score is a sum of the scores on different sub-areas: Community, Customers, Environment, Governance, and Workers. The scores of these sub-areas are also included in the dataset. The size of a company in the year of each assessment is given and based on numbers of workers in full-time equivalents, founders and partners who own 10%+ of the company excluded. This variable is divided in 7 categories, which are 0, 1-9, 10-49, 50-249, 250+, 250-999, and 1000+. These first few variables are important for the data analysis that will answer the research question. These are the company characteristics on which the dataset offers some additional data. The first is *Industry Category*, which categorizes the product of an organization in one of 17 categories to give a basic understanding of their main business activities. There were two categories – health and legal – that contained 1 and 2 observations, respectively. These observations were, for simplification reasons, added to the category of Health & Human Services and Legal Services, which reduces the number of categories to 15. The *Sector* in which a company is grouped is also included and is a determinant of the track in which companies complete the assessment. These sectors are agriculture, manufacturing, wholesale/retail, service with minor environmental footprint and service with significant environmental footprint. The country in which a company runs the majority of their business, either in workers or facilities, is stated in the dataset, with a total of 87 different countries. If a company is not certified by the B Lab anymore due to an impact score below 80, the variable of *Current Status* indicates this with a value decertified. Previous impact scores of these companies that did exceed the threshold remain in the dataset. The number of observations is 9296, and the number of companies in the dataset is 5906.

Summary statistics

To offer some insight into the buildup of the dataset, the following summary statistics are presented. Table 1 presents how many observations are in each size category of the dataset. The size is based on the number of employees in full-time equivalents, excluding founders and partners that own 10% or more of the company. For this table, each assessment was included,

also a company's second, third, and so on observation, because the size of the company can change over time. More than a third of the B corporations are in the second size category with one to nine FTEs. After that, 10-49 is by far the biggest category with over 30% of observations, followed by 0 and 50-249.

As can be seen in Table 2, the number of companies in the data that are decertified is 1435, accounting for 24 per cent of the companies in the database. Only the last assessment that was sufficient for certification is included in the dataset for these companies. The average number of assessment that the decertified companies went through were 1.5, which is roughly the same as the certified companies.

Table 1: Distribution of B corporations in size categories

Size	Frequency	Percentage
0	**1,419**	15.26
1-9	3,455	37.17
10-49	2,823	30.37
50-249	1,132	12.18
250-999	313	3.37
1000+	122	1.31

Table 2: Number of currently certified B corporations in dataset

Certification status	Frequency	Percentage
Certified	4549	76.02%
De-certified	1435	23.98%

Table 3 shows the distribution of the B corporations over the fifteen industry categories. The most significant share of companies falls into the business products & services category, followed by consumer products & services. The smallest number of B corporations fall in the Transportation & Logistics and Legal Services category, accounting for 0.47% and 1.25%, respectively.

Table 3: Distribution of B corporations in industry categories

Industry Category	Frequency	Percentage
Agriculture	163	2.76%
Building	237	4.01%
Business Products & Services	2,220	37.59%
Consumer Products & Services	1,660	28.11%
Education & Training Services	232	3.93%
Energy & Environmental Services	242	4.10%
Financial Services	498	8.43%
Health & Human Services	178	3.01%
Legal Services	74	1.25%
Media	99	1.68%
Restaurant, Hospitality & Travel	150	2.54%
Retail	124	2.10%
Transportation & Logistics	28	0.47%

Table 4: Distribution of B Corporations per country (top 10)

Country (10/87)	Frequency	Percentage
United States	2,188	36.56%
United Kingdom	740	12.37%
Canada	481	8.04%
Australia	444	7.42%
Brazil	239	3.99%
Chile	200	3.34%
Italy	170	2.84%
France	169	2.82%
The Netherlands	163	2.72%
Argentina	150	2.51%

B corporations are now found in over 80 countries, but only the ten most common countries are shown in Table 4. The United States accounts for 36% per cent of all B corporations, after that the United Kingdom (12%) and Canada (8%). While the number of countries in which B corporations are located is growing, the most significant part is still located in the most

developed countries. In the top ten, only Brazil, Chile and Argentina are categorized as an emerging market by B Lab.

Even though the B corporation movement started in 2007, the majority of the organizations in the dataset were not assessed back then. This results in a different number of re-certifications and thus observations per company, which is shown in Table 5. The maximum number of assessments taken is 6, which is the case for ten companies, and the largest part of the companies has just had one assessment. Therefore, the average number of assessments is 1.6.

Table 5: Number of Impact Assessments per company

No. of assessments	Frequency	Percentage
1	3,862	64.54%
2	1,286	21.49%
3	569	9.51%
4	190	3.18%
5	67	1.12%
6	10	0.02%

Figure 1 shows the frequency of the different heights of impact scores for all assessments in the sample. The lower scores are the most frequently observed, with a score of just above 80 being observed nearly 1500 times. Behind this threshold, the frequency seems to decline exponentially. This means that for the regression that will be retrieved, there will be a slight sensitivity for the estimation of scores above a 100, as there are fewer observations.
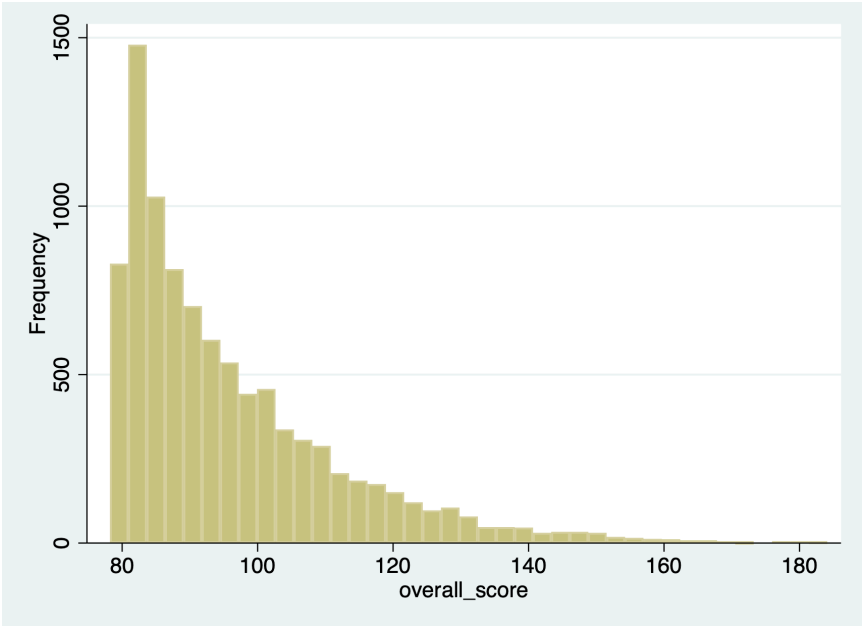

Figure 1: Frequency of impact scores for certified B corporations between 2007 and 2022

Table 6 shows the average, minimum and maximum for the overall impact score, and this is specified for each impact area. The average overall score is 96.04, roughly 16 points above the minimum score of 80 for B certification. Because of this minimum score, it is remarkable that for the overall score, the minimum observed value is 78.20. More specifically, five companies with an overall score below 80 are included in the data; these companies are all currently decertified. The highest observed sub-score is for the Community-area, which is also the area with the highest average score. The lowest average of 13.23 is found in the Governance category.

Table 6: Average, minimum and maximum scores per Impact Area

Variable	Obs.	Avg.	Std. Dev.	Min	Max
Overall	9296	96.04	16.14	78.20	184.10
Community	9,296	29.33	14.53	1.70	125.40
Customers	8,950	14.55	16.22	0.00	79.40
Environment	9,296	17.78	13.35	0.00	96.90
Governance	9,296	13.23	4.09	1.90	41.30
Workers	8,328	24.13	9.42	0.00	81.80

Table 7 shows the correlation between scores of the different Impact Areas. Interestingly, almost all Impact Areas are negatively correlated to other Areas. In some cases, this correlation is not very strong. However, between Consumers and Environment, the correlation is -0.5, which would mean that a two-point increase in the impact score of the one area would be related to a one-point decrease in the other. Looking at table 7, one could conclude that companies tend to focus their efforts more on one area than trying to invest in all areas simultaneously.

Table 7: Correlation between Overall Score and Impact Areas of the Impact Assessments

	Overall Score	Community	Consumers	Environment	Governance	Workers
Overall Score	1.0000					
Community	0.4146	1.0000				
Consumers	0.4004	-0.1603	1.0000			
Environment	0.1607	-0.0148	-0.5053	1.0000		
Governance	0.2206	-0.0808	0.0455	-0.1466	1.0000	
Workers	0.1744	-0.2980	-0.0569	-0.2003	-0.1872	1.0000

Research methodology

The dataset from B lab will be used to see what the relation is between higher impact scores on the size of the company. This will be done through an Ordinary Least Squares (OLS) Regression with fixed effects. The dependent variable in this analysis is *Size,* which is a categorical variable with inconsistent differences between the categories. Because an OLS regression will be used, the variable of size will be altered to make the interpretation of the coefficients clearer. Assuming that the average of each size category is found in the middle value, these categories will be rewritten as their mid-value. For example, category 1-9 will be 5 and 10-49 will become 29.5. For the category of 1000+ there is no mid-value, so this is estimated to contain 1500 FTEs on average.

As the main interest is the trade-off between sustainability efforts and the growth of a company, the company fixed effects are also essential to include by treating the data as panel data. In the Ordinary Least Squares Regression, the size of the company will be a proxy for the growth, and the height of the impact scores indicates the sustainability efforts of a company.

First, a simple Ordinary Least Squares Regression will be done on the dataset without fixed effects. This will give the following regression equation expressing the relation between growth and sustainability efforts:

$$Y_{i,t} = \beta_0 + \beta_1 * Impact\ Score_{i,t} + \varepsilon_{i,t}$$

Y, the outcome variable, predicts the size of a company *i* in year *t* with impact score *z*. Beta-zero will represent the constant variable. Beta-one represents the relation between the height of the impact score and the size of an organization. Eta is included as the error-term. The first presented regression is the most basic one that will be retrieved. In different stages, this simple regression will be extended with additional variables. The first variable is the number of assessments a company has had. This is an indication of the time since a company has been certified, as most companies recertify after three years. Another variable that will be added to the analysis is *Year*. This will be done to capture the time trend and show whether there are certain shocks in the business cycle that would influence the size of companies. In contrast to the variable of *Assessment Numbers, Year* is included as a categorical variable. This is also the case for the last control variable, namely *Sector*. Sector is included to check whether some sectors are more prone to growth due to characteristics of that sector. The retrieved equation will look like this:

$$Y_{i,t} = \beta_0 + \beta_1 * Impact\ Score_{i,t} + \beta_2 * additional\ variable_{i,t} + \varepsilon_{i,t}$$

Finally, the variables of Assessment Number, Year and Sector will all be added to the equation to see whether their effect holds up or changes after the inclusion of other variables. The equation is then the following:

$$Y_{i,t} = \beta_0 + \beta_1 * Impact\ Score_{i,t} + \beta_2 * Assessment\ Number_{i,t} + \beta_3 * Year_t + \beta_4 * Sector_i + \varepsilon_{i,t}$$

After running above Ordinary Least Squares regressions, fixed effects are added to the analysis. Due to the inclusion of fixed effects, the coefficients only represent the trade-off within companies instead of between companies and are thus more relevant for the research question. The following regression equation represents the relationship between size and height of impact scores within a company:

$$Y_{i,t} = \beta_0 + \beta_1 * Impact\ Score_{i,t} + \alpha_i + \varepsilon_{i,t}$$

The difference between this equation and the ones discussed before is the alfa. This variable captures the fixed effects of company i. This can differ from good leadership to a successful product or from sector to a country where a company is located. This basic form of the regression with fixed effects will be expanded with the same control variables as before, except for sector, as this is already included in the fixed effects.

To test if the effect of the impact score is due to the totality of sustainability effort, the regression will also be carried out for the separate impact areas. It could be that an investment in the Community area has a very different effect on growth than in the governance area, and this will be ruled out or confirmed through these regressions.

The benefit of using the linear regression with fixed effects method is that it decreases the chance of omitted variables in the analysis as they are included in the fixed effects. Also, since the data set allows to be regarded as panel data, it is not difficult to apply. There are, on the other hand, some disadvantages to using fixed effects. Because it controls for omitted variables, there are fewer variables to estimate in the model. Moreover, by using a linear regression method, the outcome variable needed to be altered. The middle of the size category is taken as

the possible average, but this does not need to be the case and can distort the outcome of the analysis.

One other side note to the analysis must be mentioned. The use of the dataset of B Lab may present some external validity issues. While the dataset offers data from different countries, sectors and companies of different sizes, there is the common characteristic that all these companies are certified B corporations. That is obvious, it is unknown what happens with the companies before they get certified. Possibly these companies had reached their saturation point in size and profits and then thought it was the right time to certify. Another distortion could be that companies that certify are organized better than others and therefore have the possibility to certify. Hence, this could result in the self-selection of companies into the sample. Finally, the companies in the dataset all have Impact Scores above 80, indicating that they are already putting more effort than other companies into corporate sustainability policies. The regression retrieved is therefore only representative of the . With an Impact Score below 80, the organizational growth will possibly show very different trends. These assumptions cannot be tested and are thus things to keep in mind when interpreting the results.

Results

This section starts with analyzing the B Lab database in a simple Ordinary Least Squares Regression to look at the effect of a change in Impact Scores on the size of a company. After that, the same analysis will be carried out with the addition of fixed effects. The section will conclude with some robustness checks to see whether there is a difference in a change in impact score originating from one area compared to the other.

Normal OLS regression

*Table 8: OLS Regression results of Impact Scores on the size of a company expressed in FTEs. Control variables such as the assessment number, year dummies and sector are included. * = p>0.10, ** = p>0.05, *** = P>0.01*

	I	II	III	IV	V
Impact Score	-0.00	-0.06	0.14	0.06	0.13
	(0.14)	(0.14)	(0.14)	(0.14)	(0.14)
Assessment number		5.38**			4.43*
		(2.44)			(2.44)
Year					
2008			-54.09		-67.96**
			(33.23)		(32.50)
2009			-57.39*		-62.12**
			(31.61)		(30.80)
2010			-24.68		-22.86
			(36.11)		(33.47)
2011			-41.09		-45.45
			(29.86)		(28.21)
2012			-64.91**		-70.09***
			(27.82)		(25.77)
2013			-67.40**		-76.22***
			(27.82)		(25.80)
2014			-52.05*		-58.17**
			(28.19)		(26.14)
2015			-28.05		-32.19
			(28.65)		(26.64)
2016			-50.23*		-56.47**
			(28.05)		(26.04)
2017			-25.11		-33.09
			(28.36)		(26.35)
2018			-11.60		-22.66
			(28.49)		(26.54)
2019			-11.26		-22.66
			(28.31)		(26.30)
2020			-2.14		-8.50
			(28.67)		(26.63)
2021			-31.67		-36.50
			(29.31)		(27.23)
2022			527.25***		427.27***

	(I)	(II)	(III)	(IV)	(V)
				(27.76)	(27.46)
Sector (Agriculture)					
Manufacturing				64.78***	63.82***
				(16.65)	(16.53)
Service with Minor Environmental Footprint				-56.39***	-56.49***
				(13.80)	(13.71)
Service with Significant Environmental Footprint				-2.25	-3.00
				(15.99)	(15.89)
Wholesale/Retail				-31.21**	-31.48**
				(14.55)	(14.45)
Constant	70.62***	73.85***	85.03***	95.05***	117.83***
	(13.58)	(13.55)	(31.24)	(19.51)	(32.87)
Observations	9,296	9,296	9,296	9,296	9,296
R-squared	0.00	0.00	0.01	0.04	0.05

In Table 8, the results of the Ordinary Least Regression without fixed effects are shown. Regression I solely looks at the correlation between the height of the Impact Score and the size of a company. In this regression, the relation between a change in the impact score and the size is nihil. By looking at this regression, nothing conclusive can be said about the impact of sustainability efforts on a company's growth. The constant-coefficient is very significant and is estimated at 70.62, being the number of workers in a company in FTE equivalent, everything else being equal.

In the second regression, there is the additional variable of Assessment Number. A higher number of assessments means a longer time since a company was first certified. Even though the coefficient of Impact Score in regression II does show a more potent effect, it still is not a significant effect. The coefficient of Assessment Number, however does show some significance. This coefficient is 5.38 and can be interpreted as an increase in the size of a company with 5 FTEs for each assessment after being certified. The relation between a number of assessments and an increase in size will probably not be due to having done an extra assessment but can be seen as the "natural" growth of a company over time independent of their sustainability efforts.

By adding dummy variables for the year in which an assessment is taken interesting results are retrieved. In Regression III this is done and some differences in size coefficients over the years are visible. As 2007 is the base year, there is a sharp decrease visible in the sizes of companies in the years thereafter. A possible reason for this is the economic crisis which unfolded in that year and for which the aftermath reached until the 2010s. The significant negative coefficient of 2012 and 2013 (-63 and -67) align with this thinking. The negative coefficients decrease in their strength up until 2020, in which the trend almost approaches the height of 2007, after

which it drops heavily again. This drop could be explained by the COVID-pandemic which significantly impacted the economy and caused people to lose their jobs (OECD, n.d.). The coefficient of 2022 is very significant in particular, but it must be noted that this is based on only one observation with an assessment in 2022. Therefore, the significance and power of this coefficient should be discarded. By including the time-trend, a change is visible in the coefficient of the Impact Score, which changed signs from negative to positive with a size of 0.14. This would imply an increase of 1 in the impact score, to correlate with a 0.14 increase in the number of full-time employees of an organization. However, the effect is still not significant.

In the methodology, the influence of the sector on company sizes was discussed. Because the sector is also a determinant for the Assessment track an organization should follow, it could also influence their Impact Score and thus could be viewed as a mechanism. The relation between sector and size should therefore be looked at with caution. Nearly all sector dummies are significantly related to the size of a company. Compared to the sector of agriculture, companies in wholesale/retail and services with a minor environmental footprint are smaller by 31.21 and 56.39 respectively less full-time employees. Manufacturing businesses however are on average larger, which is shown by their coefficient: 64.78. Being a company providing services with a significant environmental footprint does not have a strong or significant impact on the size of that company. There are multiple possible explanations for the difference in size between sectors, which go beyond the scope of this paper. The coefficient of the impact score in this regression is small and positive, with a 0.06, but not significant.

The last regression analysis includes all before mentioned variables to see which are still viewed as significant. Ultimately the coefficient of impact score does not change compared to the other regression forms and is not significant as well.

Fixed Effects

*Table 9: OLS Regression with Fixed Effects results of Impact Scores on the size of a company expressed in FTEs. Control variables number of assessments and year dummies. * = p>0.10, ** = p>0.05, *** = P>0.01*

	I	II	III	IV
Impact Score	0.12	0.02		0.02
	(0.12)	(0.14)		(0.15)
Assessment number		10.33***		2.77
		(1.65)		(6.46)
Year dummy's				
2008			-17.34	-17.87
			(11.92)	(11.94)
2009			-13.71	-14.25
			(15.34)	(15.33)
2010			-3.53	-4.80
			(8.48)	(9.09)
2011			-45.19**	-47.15**
			(21.86)	(20.75)
2012			-49.56***	-53.04***
			(12.22)	(13.95)
2013			-40.94***	-45.40***
			(12.27)	(15.16)
2014			-25.76**	-31.47*
			(10.99)	(17.51)
2015			-15.36	-22.06
			(10.85)	(18.10)
2016			-18.72*	-26.75
			(9.96)	(20.62)
2017			-6.02	-15.36
			(10.60)	(23.74)
2018			-5.28	-15.48
			(10.58)	(24.98)
2019			-4.14	-15.33
			(10.58)	(27.86)
2020			7.07	-4.89
			(11.20)	(28.31)
2021			-3.27	-15.68
			(13.03)	(33.48)
2022			omitted	omitted
Constant	59.52***	52.85***	79.18***	84.44***
	(13.16)	(12.77)	(16.50)	(21.39)
Observations	9,296	9,296	9,296	9,296
R-squared	0.00	0.00	0.00	0.01
Number of companies	5,984	5,984	5,984	5,984

In the second part of the analysis, fixed effects are included in the Ordinary Least Squares Regression. This is done to include the effects of time-invariant characteristics of a company, such as leadership, sector, product and so forth. Coefficients in this section should thus be

interpreted as differences within a company originating from a change in the independent variable, instead of differences between companies. The results of these analyses are shown in Table 9. Just like without fixed effects, the first regression only includes the variable of Impact Score. While there is some effect visible (a 0.12 increase for each 1-point increase in the Impact Score) this effect is still not significant. This is true for all the regressions using fixed effects, a small positive coefficient, but no significance. The constant value however does show significance in all four regressions and shows that all other things held equal the size of a company averages between 50 and 60 FTEs, or around 80 when year dummies are included.

The second regression includes the coefficient of Assessment Number and shows a significant positive relationship. Comparing this with the regression without fixed effects shows comparable results and gives reason to think that time since being certified is indeed positively associated with the size of a company.

Again, the dummy variables for Year are included, and the same years show significant effects on the number of FTEs. However, compared to the OLS without fixed effects, the coefficients in the years 2011, 2012, 2013, 2014 and 2016 are smaller in the regression with fixed effects, so it can be assumed that there are some company-specific characteristics influencing these coefficients which the fixed effects filtered out.

In regression IV, Assessment Number and the year dummies are both included. Here the same years show significant effects, although the significance is smaller. The coefficient of a number of assessments has lost its significance, which makes it probable to think that it is not an effect of being certified longer or just having an older company, but that the effect that was visible was due to the present business cycle.

Robustness check

Even though the effect of the Impact Score did not show any significance in the previous part, it is interesting to investigate whether separate Impact Areas correlate with a change in the size of a company. This is done through an additional OLS with Fixed Effects analysis, of which the results are shown in Table 10. In the methodology, it was mentioned that since this analysis uses the number of employees in FTEs as the outcome variable, the Impact Area Workers could influence the outcome. This check is done via regression I, investigating the effect of a higher score in that area on our outcome variable. There is a small and insignificant effect of 0.11 per point in the Workers area. On average, the height of the Workers area is 24.13, which according to the coefficient is associated with an increase of 2.65 FTEs for a company. To check whether

this association holds in another form, it is interesting to include the other Impact Areas in the regression.

Table 10: OLS Regression with Fixed Effects results of Impact Area Scores on the size of a company expressed in FTEs.
* = p>0.10, ** = p>0.05, *** = P>0.01

	I	II	III	IV	V	V1
Impact Area Community	-	0.53** (0.21)	0.28* (0.16)	-	-	0.29 (0.19)
Impact Area Customers	-	-0.11 (0.24)	-	-	-	-
Impact Area Environment	-	-0.59* (0.30)	-	-0.39* (0.24)	-	-0.44 (0.34)
Impact Area Governance	-	-1.98*** (0.56)	-	-	-1.66*** (0.60)	-1.71*** (0.61)
Impact Area Workers	0.11 (0.28)	0.22 (0.30)	-	-	-	-
Assessment number	2.89 (6.81)	5.25 (7.07)	2.48 (6.02)	3.52 (6.03)	5.27 (6.17)	5.59 (6.40)
Year dummy	Yes	Yes	Yes	Yes	Yes	Yes
Constant	96.12*** (21.54)	106.31*** (25.62)	79.55*** (17.74)	92.02*** (17.49)	107.60*** (15.06)	106.60*** (17.46)
Observations	8,328	8003	9,296	9,296	9,296	9,296
R2	0.01	0.00	0.01	0.00	0.01	0.00
Number of companies	5,405	5,192	5,984	5,984	5,984	5,984

The second regression includes all Impact Areas. Here the Community, Governance and Environment areas show a strong and slightly significant effect. For Community, this consists of a positive effect of 0.53 for an increase in their score. A possible explanation for the positive correlation between the community area score and the size of a company could be that topics such as Diversity, Equity & Inclusion and Civic Engagement & Giving are related to that area. An improvement in these areas could make a company a more attractive workplace and increase the number of employees. For the Environment area, on the other side, there is a larger and negative coefficient stated in the regression. The largest and most significant coefficient visible is for the area of Governance, which is related to ethics, transparency, and mission statements. The reason for this large decrease in size for an increase in the Governance score is challenging to find. The area of Workers still does not show any significance when the other Impact Areas are included, which could mean that this relationship is not very convincing.

Upon finding the significant effects, Community, Governance and Environment are investigated in separate regressions to see if the effects hold up. While they decrease in strength, the significance stays similar, which makes it likely that scores in all three areas are in some way related to the size of an organization. Lastly, when Community, Environment and

Governance are combined, only the significance of Governance stays within the same interval of confidence. Both Community and Environment lose their significance but keep the strength of their relationship.

To summarize, in all three methods of analyses, divergent results are visible. The estimated effect of an increase in the overall impact score, if present, seems to be relatively small and is in no regression found significant. This could be due to the broadness of the measure of the Impact Score. Many different variables are included in the assessment, which in the theoretical framework also showed divergent effects, that it is likely that these cancel each other out. There is however a significant difference between the sizes of organizations over the years. At first, this seemed to originate from the time a company had been certified or active in business, but later the numbers pointed more into the direction of business cycles being the cause of the trend. Especially the years 2011, 2012 and 2013 show a strong decrease in FTEs compared to the base year 2007. As mentioned before, it could be that this decrease originates from economic crises that were happening at that time.

In the last part of the results section, the analysis was specified to the separate Impact Areas. This resulted in negative coefficients for both the areas of Governance and Environment and a positive coefficient for Community. For Governance, in particular, this relationship was very significant, the other Impact Areas showed a weaker relationship. For Community, the relationship is likely due to a higher involvement of community and workers in the company's mission or taking good care of employees resulting in higher employee retention. For Environment this can be caused by making the business activities more sustainable. In the literature section, this was claimed to lead to lower financial and operational performances. The exact reasons for the relationships between the Impact Areas and organizational growth are interesting to investigate and recommended to further research.

Conclusion and discussion

This thesis was centred around the question: *What is the trade-off between sustainability efforts and organizational growth?* Over the last few pages, an attempt was done to answer that question. From the existing literature, a broad image could be subtracted with different views on the matter of how the trade-off between sustainability and growth should be perceived. While some articles state that the only goal of a company is profitability, others think sustainability can also be a goal or something to strive after. This divergence was reflected in the empirical findings in the literature; some showed no trade-off, while others found a significant relationship. The theoretical framework shows that the trade-off between corporate sustainability and growth is not a rule that always generates the same results but a choice that managers make based on their own moral beliefs for the responsibility of their organization. Therefore, the hypothesis that followed was that there is a positive relationship between the sustainability efforts of a company and their growth.

Data from the Impact Assessments of certified B corporations was used to test the hypothesis through an Ordinary Least Squares Regression with fixed effects. Even though this was the most practical way for this thesis, there are some caveats to this method and the data. First, there is no control on who gets selected in the sample, companies can decide themselves whether they want to certify or not, leading to self-selection. Secondly, it is unknown what would have happened had a company not been certified, decreasing the external validity of the research. Finally, it is a comparison between companies that are already doing well in terms of sustainability efforts. Perhaps a larger difference would be seen in a regression comparing companies with Impact Scores above and below 80.

Moreover, the outcome measure could be up for discussion. For capital-intensive companies, the number of employees may not be the right indicator for growth, but rather the value of assets. Unfortunately, there was not such a variable available in the dataset of B Lab, but this is a factor that could offer more information on the researched trade-off. However, since the biggest part of the companies in the dataset are service-based, the number of employees will have been a good indicator of organizational growth.

By performing our methodology, no significant relationship between the Impact Score and the size of a company was found. Whether this is due to the absence of an effect of sustainability efforts, or the research design is not entirely decided. However, it is most likely due to a problem that was encountered in the theoretical section of this research, namely the broadness of the term corporate sustainability. This term can range from stimulating diversity to using fewer polluting materials and from organizational transparency to employee engagement. The effects

of these different interpretations also range from positive to negative impacts on organizational growth. Therefore, it will be beneficial to investigate the effects of more detailed sustainability areas in future research.

On the other hand, significant effects were found for the years in which a company was certified and for the Impact Areas of Community, Governance and Environment. Some potential causes for these coefficients were offered. For Community, this could be due to a focus on diversity and inclusion which could make an organization more attractive to work at, but this is not substantiated in the theory. As for Environment, the reviewed literature mentioned a negative relationship between investments in this area and financial performance. A worsened financial position could be the cause of lower numbers of FTEs. Finally, the negative association between Governance and organizational growth, while very strong, did not get any clarification yet in this thesis. To sum up, the retrieved relationships of the Impact Areas raise some interesting questions to be investigated in further research. For example, data-analysis studies could look at the source of the encountered effects by isolating the questions that build up the score of an individual Impact Area. Additionally, in-depth interviews with employees, consumers and managers could provide the underlying reasons and offer new insights on corporate sustainability.

The importance of governmental policies regarding the sustainability efforts of companies is not extensively discussed in this thesis. However, that is a factor that can have an influence on how companies deal with corporate sustainability. For example, if governments offer a lot of subsidies for committing to sustainability goals, this could give a competitive advantage to companies that are already active in that field. On the other hand, if sustainability is encouraged in a country, this could make it more difficult to differentiate as a socially responsible company. With the inclusion of fixed effects, the difference between countries is filtered out, but a possible interaction between sustainability efforts and country is not visible. This focus on the influence of governmental policies is a worthy suggestion for future research on the topic of corporate sustainability.

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