The influence of social responsibility on employee productivity and sales growth

Evidence from certified B corps

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Abstract

Purpose – The purpose of this paper is to examine whether B corps' (for-profit entities whose owners voluntarily commit to conduct business in a socially responsible manner, beyond traditional CSR, that generates profits, but not at the expense of stakeholders) commitment to social issues influences two aspects of financial performance: employee productivity and sales growth.

Design/methodology/approach – This paper is an exploratory analysis of B corps. This paper examines B corps with B Lab's B Impact Assessment reports and PrivCo financial data, for descriptive information. This paper also analyzes the financial impact of obtaining and reporting on excellence in both employee and consumer focus, as well as the differences in financial growth between B corps and non-hybrid peers.

Findings – Overall, results suggest that, among B corps whose treatment of employees (consumers) is recognized as an "area of excellence," employee productivity (sales growth) is significantly higher. Additionally, sales growth is significantly higher for B corps relative to their peer, non-hybrid, matched firms.

Practical implications – Results from this study inform states considering the adoption of the B corp legal status – this legal status does not hinder firm profitability, but instead enhances long-term firm value while allowing firms to beneficially affect their communities, consumers, employees and the environment.

Social implications – Results from this study provide important insights regarding the current paradigm shift from the traditional business focus on profit maximization to a fruitful coexistence of profits with social interests and initiatives, within a structure of dissolving national boundaries and increasingly divergent logics.

Originality/value – This paper provides an initial empirical examination of B corp performance.

Keywords Corporate social responsibility, Benefit corporation, Hybrid organizations, B corp, Employee productivity, Sales growth

Paper type Research paper

> [B corps] might turn out to be like civil rights for blacks or voting rights for women – eccentric, unpopular ideas that took hold and changed the world. (Richardson, 2010)

Introduction

While more than 200 studies in the corporate social responsibility (CSR)[1] literature have examined whether firms may operate in the best interest of society while still earning a

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profit for shareholders[2], the vast majority of these studies have analyzed traditional corporations whose managers elevate the interests of owners/shareholders over other stakeholders (employees, customers, the community, the environment, etc.) by focusing primarily (if not exclusively) on maximizing profits. However, in recent years, many businesses have moved beyond traditional CSR activities to form hybrid organizations[3], focusing on the duality of social impact and financial continuity (Haigh, *et al.*, 2015; Holt and Littlewood, 2015; Santos *et al.*, 2015; Rawhouser *et al.*, 2015; Lee and Jay, 2015; Martin and Osberg, 2015). One form of hybrid organization emerging in the USA and throughout the world is the certified "B corp.[4]" A B corp is a for-profit entity (corporation, partnership, etc.) whose owners voluntarily commit to conduct business in a socially responsible manner that generates profits, but not at the expense of other stakeholders. This voluntary commitment creates an opportunity to examine a unique and different organization/stakeholder relationship than the historical social enterprise (SE), where there exists a form of inoculation from the short-termism that plagues traditional companies, stakeholders have increased access to accountability and transparency around each company's mission through annual reports and stakeholders can rely on the company-specific mission commitment through leadership changes (Lab, 2016). These are all attributes that make B corps fundamentally different from other traditional companies previously examined. Conversely, because of their dual mission, B corps face operational challenges and tensions not experienced by traditional businesses that may hinder B corps' financial performance and ultimate survival. As hybrid organizations grow and develop in the face of globalization, other traditional organizations strategically respond in a variety of ways different from their responses to traditional competitors, including acquisitions and integration, a change in strategy to compete in social endeavors (i.e. mimic) or competing against hybrids for market position without developing social missions (Lee and Jay, 2015; Haigh *et al.*, 2015). The different challenges facing hybrid organizations likely influence the relationship between their mission and their profitability in ways fundamentally different from traditional firms and from similar organizations in the past. Because established companies face the greatest threats from hybrid organizations in the area of sustainability-minded employees and customers (Lee and Jay, 2015), we venture to address whether B corps' social commitments influence two aspects of financial performance: employee productivity and sales growth. This is an important question, as attention to hybrid organizations continues to grow, while both their potential difficulty with financial stability (Santos *et al.*, 2015) and our understanding of their impact "remain embryonic" (Holt and Littlewood, 2015).

Beginning in 2007, B Lab, a non-profit organization in the USA, developed and has continued to offer the B corp certification to achieve the following goal: "Our vision is simple yet ambitious: people using business as a force for good" (Lab, 2016). B corp certification involves a three-step process:

(1) complete an "impact assessment" (earning at least 80 of 200 possible points) and submit supporting documentation to B Lab;

(2) revise articles of incorporation (as permitted by state law) to include the social mission; and

(3) agree to terms of membership, for which a fee is also required, which ranges from \$500 to \$50,000 depending on the company's sales (Hiller, 2013).

Before certifying an applicant firm as a B corp, B Lab evaluates the self-assessment (and in some instances audits this assessment) and then issues a B Lab Impact Assessment (BIA) report for public consumption[5]. Since 2007, the number of B corps has continued to grow[6], including household names such as Ben & Jerry's, Patagonia and Seventh Generation (Lab, 2016). These for-profit companies pledge to strive for social, as well as economic goals, and yet are not bounded by a cultural market expectation that they will commit to only their social mission until it affects stakeholders. Two other well-known examples of B corps are Warby Parker and Etsy. Warby Parker, an eyeglass manufacturer, has forged a partnership with the non-profit organization VisionSpring to donate one pair of eyeglasses in the developing world for each pair it sells. According to Neil Blumenthal and Dave Gilboa, co-founders of Warby Parker, the company's social mission helps to attract and retain talented employees and is also a selling point with consumers (Surowiecki, 2014). Mirroring this sentiment, Mike Grishaver, a former top manager at Pandora, joined the executive ranks at Etsy due in a large part to Etsy's status as a certified B corp, which legitimized its claims to be a purpose-driven business: "I love the idea of having an impact on local communities and driving economic value for everyone involved" (Ashoka, 2014). Thus, it stands to reason that B corp certification may enhance employee commitment to the firm (resulting in enhanced productivity) and consumer demand for the firm's products or services (resulting in heightened sales growth) relative to peer, non-hybrid firms.

While B corps have existed for almost a decade, to our knowledge, no one has conducted an empirical examination of these firms' performance, presumably because all but three B corps are privately held and thus lack publicly available financial data[7]. We rely on data from PrivCo, a database used in prior literature when examining private company financial information (Cox *et al.*, 2017), to fill this gap in the literature. Specifically, using a sample of 89 unique B corps with available BIA reports and PrivCo financial data, we first provide details on the year of founding, the initial year of B corp certification, an industry breakdown and a US state location breakdown. Then, using a sample of 123 B corp firm-year observations with complete data, we provide descriptive statistics concerning firm age, sales, number of employees, employee productivity (i.e. sales per employee) and one- and three-year sales growth. Next, using this same B corp sample, we test whether better CSR performance (measured by a higher total score on the BIA report) enhances employee productivity and sales growth. We find no association between B corps' total scores and employee productivity; however, among B corps whose treatment of employees is recognized as an "area of excellence" (reflective of successful social activity beyond traditional CSR), employee productivity is significantly higher[8]. While we find no association between B corps' total scores and either one- or three-year sales growth, among B corps whose treatment of consumers is recognized as an "area of excellence," sales growth is significantly higher. Finally, we match these 123 B corp observations with non-B corp peer observations (based on revenues, number of employees, firm age, and industry)[9]. Contrary to our expectation, we find that employee productivity does not differ significantly between the groups. In contrast, consistent with our expectation, both one- and three-year sales growth rates are significantly *higher* for B corps relative to their matches.

This study contributes to the CSR and hybrid organization literature in a variety of ways. First, research on B corps is nascent. Previous studies (André, 2012; Hiller, 2013; Rawhouser *et al.*, 2015) have meticulously discussed the certification process for B corps, compared and contrasted B corps with benefit corporations, examined the legal status of the organizational form and called for additional research on these mission-driven firms, particularly as it relates to overall impacts. We answer this call by conducting the first empirical assessment of B corp performance (i.e. Can these firms do good *and* do well and continue to survive over time?). Second, one challenge of CSR research is operationalizing the ill-defined construct of "strong CSR performance." This becomes more difficult with hybrid organizations where understanding and demonstrating impact to stakeholders is critical and underdeveloped (Holt and Littlewood, 2015; Mäkelä *et al.*, 2017). Scholars have used various proxies for this nebulous construct, such as inclusion on a list of ethical corporate citizens (Filbeck *et al.*, 2009; Blazovich and Smith, 2011) and the strength and concern ratings from Morgan Stanley Capital International (Waddock, 2003; Chatterji *et al.*, 2009)[10]. B corps provide researchers with at least three new measures of strong social performance, especially with respect to hybrid companies: B corp certification (i.e. an indicator variable coded 1 if certified and 0 otherwise), total scores from B corps' BIA reports (i.e. a continuous variable ranging from 80 to 200) and "area of excellence" recognitions (i.e. five indicator variables, each coded 1 if recognized and 0 otherwise)[11]. We examine all three of these measures in this study. Third, we recognize that most researchers lack access to the private-company financial data that we obtained from PrivCo. However, as more public companies seek B corp certification (and as private B corps' demand for capital grows, resulting in transitions to public ownership), we call for future studies to extend our hypotheses and tests to assess B corp performance as sufficient financial-statement data become available. Finally, our results concerning how and when divergent stakeholder interests contribute to B corp success informs stakeholder and institutional theory with respect to hybrid organizations (Smith *et al.*, 2013; Ramus *et al.*, 2017), in the face of researcher concerns and doubts regarding the long-term sustainability of hybrid organizations (Eikenberry, 2009; Zahra *et al.*, 2009; Ramus and Vaccaro, 2017). Our findings may encourage additional states to allow businesses headquartered within their borders to organize as benefit corporations, in accordance with the second step in the B corp certification process.

The balance of this study is organized as follows: Next, we discuss the evolution of CSR and hybrid organizations in both the USA and in Europe. Then, we review prior research examining the influence of CSR on employee productivity and sales growth within the traditional company research stream and present our hypotheses. In the following section, we detail our sample selection procedure, the empirical methods that we use to test our hypotheses and the results of these tests. Finally, we discuss the significance of our results, the limitations of our conclusions and the possible avenues for future research involving B corps.

Evolution of CSR and hybrid organizations in the USA and Europe

Howard Bowen, a pioneering advocate of CSR, described it as:

> [. . .] the obligations of businessmen to pursue those policies, to make those decisions, or to follow those lines of actions which are desirable in terms of the objectives and values of society (Bowen, 1953, p. 6).

Although CSR has gone through various stages of development since this time (Lee, 2008), many executives hold a very limited view of social responsibility, making the pursuit of profitability and social impact a possibility (Varenova *et al.*, 2013). This narrow perspective is culturally dependent, evolving from different national business systems, resulting in substantial differences between the USA and Europe (Sison, 2009). The conventional view of the firm, at least in the USA, is that its sole responsibility is to "make as much money as possible" for the owners/shareholders (Friedman, 1970). Further, the legal obligation of US corporations is to adhere to the doctrines of shareholder primacy and profit maximization (Sneirson, 2011, Hiller, 2013; Sison, 2009), and an allocation of corporate resources to social issues traditionally has been considered in direct opposition to these doctrines (Eikenberry and Kluver, 2004; Dart, 2004).

Scholars in the 1980s began to question whether an economic trade-off truly exists between social and financial performance or whether firms may instead create value for owners/shareholders by considering the interests of other stakeholders, supporting the long-standing European perspective that firms are part of society and therefore have duties beyond those prescribed by law (Sison, 2009). Specifically, Freeman (1984) introduced stakeholder theory, one theory often discussed in the hybrid organization literature (Smith *et al.*, 2013; Holt and Littlewood, 2015), rejecting management's sole fiduciary duty toward shareholders (Sison, 2009), which holds that managers should make decisions that account for the interests of all individuals or groups who can substantially affect, or be affected by, the welfare of the firm, not only shareholders and creditors but also employees, customers, the community, the environment, etc.

Despite the various types of hybrid organizations:

> [. . .] a unifying characteristic of these organizations is the multiple and often conflicting demands that surface through their commitments to both social missions and business ventures. These commitments juxtapose divergent identities, goals, logics, and practices, which creates tensions for leaders and their organizations (Smith *et al.*, 2013, p. 409).

Proponents of CSR investment and the hybrid organizational form contend that a consideration of a broad set of diverse firm stakeholders enhances managerial ability, fosters innovation and investment efficiency and leads to better overall firm performance (Haigh *et al.*, 2015; Cooney, 2012; Haigh and Hoffman, 2012; Kania and Kramer, 2011; Santos *et al.*, 2015; Haigh *et al.*, 2015; Porter and Van der Linde, 1995a, 1995b; Esty and Porter, 2005; Austin *et al.*, 2006; Martin, 2007; Plambeck and Weber, 2009; Grant and Berry, 2011; Dixon-Fowler *et al.*, 2013; Miller *et al.*, 2012; Cook *et al.*, 2017).

SE is the foundation of the hybrid organizational form. These firms engage in entrepreneurial initiatives to provide goods or services to people/communities whose needs are not met by public providers (Ramus and Vaccaro, 2017; Defourny and Nyssens, 2013). SE organizations initiate and operate differently depending on their geographical orientation (Ramus and Vaccaro, 2017; Kerlin, 2006; Defourny and Nyssens, 2013; Galera and Borzaga, 2009; Defourny and Nyssens, 2008). In particular, within the USA, SEs are often profit-driven activities undertaken by non-profit organizations (Defourny and Nyssens, 2013) and are generally much broader and more focused on revenue generation (Kerlin, 2006), with a goal of collecting revenue to support a social activity (Galera and Borzaga, 2009). Within Europe, on the other hand, SEs are more cooperative in nature, where those benefiting from the organizations contribute in some form (Kerlin, 2006). These SEs are more interested in enhancing the social impact of their productive activities (Kerlin, 2006) as opposed to creating a profit based on their activities. Defourny and Nyssens (2013) argue that SEs are growing and therefore a broader and more recent type of SE organization embraces all forms of businesses that are driven by social missions.

While research argues that both CSR and SE activities differ between the USA and Europe, mainly due to different "national business systems" (Sison, 2009), more recently literature is recognizing the globalization of corporations and the dissolution of national borders and geographical distances (Scholte, 2005; Scherer *et al.*, 2009), where the appropriate firm behavior, even with respect to CSR, is ill-defined (Scherer and Palazzo, 2008). This globalization and resulting ambiguity for firms create opportunities for firms to go beyond the traditional CSR conceptualization where they only respond to society's moral and legal standards (Scherer and Palazzo, 2007) to a place where they are setting forth to redefine those standards by engaging in social and political activities (Scherer *et al.*, 2006). In addition to CSR activities, the globalization of the business form is likely to influence the ways that hybrid organizations operate and more closely align in their organizational form between countries. Within the USA, it is just this type of activity, redefining the corporate obligation, legalizing a focus on social or environmental issues at the expense of profits, creating social impact reporting to communicate firm-specific impacts on societal issues, etc., undertaken by B corps that will allow firms to focus on social activities even at the expense of profits, much like European SEs. Globalization also increases the theoretical lenses relevant for understanding the tension between social and business focus of hybrid organizations (Smith *et al.*, 2013; Ramus *et al.*, 2017) to include institutional theory.

Recent research suggests that firms are increasingly facing institutional pluralism and complexity (Greenwood *et al.*, 2011; Kraatz and Block, 2008), increasing the demands placed on the firm (Pache and Santos, 2010). With globalization and dissolution of national borders, there are new institutional logics, or sets of practices, values, beliefs and norms (Friedland and Alford, 1991; Thornton *et al.*, 2012), presenting varied and often incompatible demands, leading to uncertainty and conflict (Greenwood *et al.*, 2011; Pache and Santos, 2010; Thornton, 2002). Hybrid organizations have conflicting social welfare and commercial or profit-driven logics (Pache and Santos, 2013; Battilana and Dorado, 2010; Battilana *et al.*, 2012). The coexistence of multiple, divergent logics creates institutional complexity (Besharov and Smith, 2014; Greenwood *et al.*, 2011); operating at the crossroads of these two logics creates difficulties for hybrid leaders, but also provides leaders the opportunity and discretion to enlist the support of various stakeholders (Pache and Santos, 2013) and develop novel and creative solutions to the conflicting demands (Seo and Creed, 2002; Tracey *et al.*, 2011; Battilana and Dorado, 2010; Canales, 2014). It is the ability of hybrid organizations to succeed at their social initiatives, while also creating profits to fund future endeavors, which will improve the likelihood of their survival. Therefore, we rely on the overlapping perspectives of stakeholder and institutional theory to inform our examination of B corps.

The focus on the association between social performance and financial performance has been explored extensively in the academic literature (Orlitzky *et al.*, 2003; Dixon-Fowler *et al.*, 2013; Margolis *et al.*, 2009 for meta-analyses). Although overall results have been mixed, most studies in this literature stream have examined traditional firm commitments to CSR, as opposed to investigating the relationship between firms moving beyond traditional CSR (i.e. hybrid organizations such as B corps) and the resulting financial performance, even if financial performance is not the central factor of consideration.

B corps as hybrid organizations

A hybrid organizational form gaining recent attention in the USA and throughout the world is the B corp (Rawhouser *et al.*, 2015). According to the B corp website (Lab, 2016), "B Corp certification is to sustainable business what LEED certification is to green building or Fair Trade certification is to coffee"[12]. As mentioned previously, after submitting its self-impact assessment to B Lab, a firm receives a BIA report that provides an overall score for the firm (on a 200-point scale) (André, 2012; Rawhouser *et al.*, 2015); earning an overall score of at least 80 points in the first step in B corp certification. If a firm operates in a state that permits benefits corporations as a legal form, the firm must then modify its articles of incorporation accordingly. Finally, to become certified, the firm must agree to membership terms and pay a fee to B Lab; the membership terms represent a contractual agreement between B Lab and the firm to operate in accordance with the firm's social mission (Hiller, 2013). Thus, B corp certification potentially serves as a new proxy for commitment to CSR, specifically among hybrid organizations, much like appearance on a list of ethical corporate citizens or accruing a large number of strengths and/or a small number of concerns in the MSCI ratings.

The advent of B corps in 2007 offers a natural experimental setting to examine whether a commitment beyond traditional CSR enhances or impairs two aspects of firm performance crucial to the strategic advantage of hybrid ventures: employees and customers (Lee and Jay, 2015). As a result of high corporate executive pay, managerial corruption, price gouging of customers, poor treatment of workers and lack of care for the environment, distrust of public corporations is at a record high (GFK, 2011). B corp certification reflects a grass-roots effort to change the *status quo* of corporate malfeasance to rebuild public trust. The growing public consensus is a desire for firms to focus less on short-term profits and more on long-term financial and social value (Time, 2012). Social value creation occurs when an organization is able to either realize the same social benefit with less cost or realize a greater social benefit at equivalent cost (Porter and Kramer, 1999). Creating social value is an arduous and challenging process (Miller *et al.*, 2012), one which requires measurement and monitoring to support success (Holt and Littlewood, 2015; Nicholls, 2009; Austin *et al.*, 2006). Nicholls (2009) investigates community interest companies (CICs) in the UK to better understand the relationship between the policy agenda of the legal form and the construction of its reporting practices. Unlike CICs, where governmental policymakers were the dominant actors (Nicholls, 2010), B corp reporting practices were developed outside the government framework by an independent third party. Nicholls (2010) asserts that CIC reporting, which is not based on social impact measurement modes, varies significantly across companies, potentially undermining the legitimacy of the organizational form. Contrarily, B corps actually report performance in a consistent format, offering researchers an opportunity to use data from BIA reports to assess whether strong social performance is positively or negatively correlated with financial performance. This is important as a lack of clear, qualitative, standardized metrics exists for measuring and comparing the performance of hybrid firms (Smith *et al.*, 2013; Mäkelä *et al.*, 2017). Given the infancy of B corp certification and the under-examination of hybrid organizations, we aim to address whether B corps can outperform non-B corp peer firms on two elements of financial performance important for their success in the face of non-hybrid competition: employee productivity (employees) and sales growth (consumers).

CSR and employee productivity

A long stream of management research has examined the association between CSR and employee job satisfaction, commitment to the employer and ultimately productivity (Viswesvaran and Ones, 2002; Rupp *et al.*, 2006; Branco and Rodrigues, 2006; Collier and Esteban, 2007; Valentine and Fleischman, 2008; Rodrigo and Arenas, 2008; Elçi and Alpkan, 2009; Kim *et al.*, 2010; Jones, 2010; Hansen *et al.*, 2011; Rupp, 2011; Mirvis, 2012; De Roeck and Delobbe, 2012; Bauman and Skitka, 2012; Glavas and Godwin, 2013; Rupp *et al.*, 2013; Vlachos *et al.*, 2013, 2014). Drawing on social identity theory and signaling theories, Turban and Greening (1996, 2000) and Backhaus *et al.* (2002) find that strong CSR performance provides a competitive advantage in attracting job candidates[13]. Riordan *et al.* (1997) report that corporate image (an employee's perceptions about the actions, activities and accomplishments of the employer) is positively associated with job satisfaction and negatively associated with turnover intentions. Similarly, an "ethical work climate" improves employees' job satisfaction (Sims and Keon, 1997) and attachment to the organization (Lee *et al.*, 2013) and employees' perceptions of their employers' "corporate citizenship" positively affect those employees' organizational commitment (Brammer *et al.*, 2007, Ditlev-Simonsen, 2015), especially if those employees believe strongly in the importance of CSR (Peterson, 2004). Turker (2009) and Rego *et al.* (2010) also examine organizational commitment and find that CSR initiatives in general (and CSR initiatives that benefit employees in particular) enhance commitment. Ellemers *et al.* (2011) report that an employee's perceptions of her employer's CSR activities affect perceived morality of the organization and, in turn, that employee's organizational commitment and job satisfaction. Du *et al.* (2014) draw on internal marketing and psychological contract theories, argue that employers' CSR programs help to fulfill employees' developmental and ideological job needs, and find that these programs engender greater job satisfaction and reduced turnover intentions.

According to Jim Copeland, Jr., former CEO of Deloitte Touche Tohmatsu, "The best professionals in the world [. . .] want to work for companies that exhibit good corporate citizenship" (World Economic Forum, 2003, p. 17). CSR initiatives reveal the values of a company and thus are a legitimate and compelling way to attract and retain good employees, enhance job satisfaction and ultimately improve productivity (Bhattacharya *et al.*, 2008). Gully *et al.* (2013) find that communicating the firm's CSR values to prospective employees improves the mix of people attracted to and willing to work for the firm; thus, B corps may advertise their certification in recruiting materials to attract a better applicant pool from which to hire. Jones *et al.* (2014) examine the underlying mechanisms through which CSR activities are attractive to job seekers and find that anticipated pride from being affiliated with the firm, perceived value fit with the firm and expectations about firm treatment of its employees all contribute to firm attractiveness; thus, B corps may tout the virtues of their BIA reports (especially if B Lab recognizes their treatment of employees as an "area of excellence") to lure better workers[14]. Again, we also argue that "area of excellence" recognizes firms successful in moving beyond traditional CSR. Morgeson *et al.* (2013, p. 820), in a special issue of *Personnel Psychology* concerning the interplay of CSR with human resource management/organizational behavior, provide a list of suggested future research questions, one of which is: "How is CSR related to employee performance, including productivity?" We attempt to address this question in a setting where firms go beyond the traditional CSR activities by seeking and obtaining B corp certification, by testing the following set of hypotheses:

H1a. Within the sample of B corps, a higher total score on the BIA report is associated with greater employee productivity.

H1b. Within the sample of B corps, recognition of employees as an "area of excellence" is associated with greater employee productivity.

H1c. B corps report greater employee productivity than non-B corp peer firms.

CSR and sales growth

A long stream of marketing research has examined the association between CSR and consumer perceptions, purchase behavior and ultimately sales growth (Murray and Vogel, 1997; Handelman and Arnold, 1999; Mohr *et al.*, 2001; Auger *et al.*, 2003; Salmones *et al.*, 2005; Marin and Ruiz, 2007; Singh *et al.*, 2007; Helmig *et al.*, 2016; Chun, 2016). The preponderance of evidence indicates that CSR positively influences consumer behavior. Based on a telephone survey, Smith and Alcorn (1991) report that almost half (46 per cent) of their respondents are likely to switch brands to support firms making charitable contributions. Brown and Dacin (1997) investigate the influence of CSR by manipulating levels of philanthropy and community involvement; the authors provided subjects with a CSR report card (Grades A through F) for a fictitious firm and find that higher CSR grades are associated with higher consumer evaluations of the firm and its products. Mohr and Webb (2005) provide evidence that both environmental and philanthropic CSR activities positively influence consumers' evaluation of companies and purchase intentions; in fact, environmental CSR activities affect purchase intent more than price. Carrigan and de Pelsmacker (2009) report that, even during the beginning of the "great recession" when discount retailers were thriving, socially conscious consumers continued to patronize firms with strong CSR performance. Lev *et al.* (2010) study revenue growth directly and find that firms' charitable contributions are positively associated with future revenue, suggesting that corporate philanthropy enhances economic performance.

However, some studies find that CSR has a negligible (or even negative) effect on purchase decisions. Maignan (2001) finds that US consumers allocate more importance to companies' economic responsibilities than to their ethical or philanthropic responsibilities. While Sen and Bhattacharya (2001) provide evidence that a company's CSR initiatives enhance customers' perceptions of the company, the degree of customer support (or lack thereof) for the company's "CSR domain" (i.e. the specific CSR issue the company espouses) moderate this association; in fact, incongruence between the company's CSR domain and the customer support for that CSR domain can *decrease* customers' intentions to buy the company's products. Carrigan and Attalla (2001) report that, although consumers may *say* they want to support ethical companies and punish unethical firms, their *actual* purchase behavior seems unaffected by ethical considerations; price, quality and value outweigh ethical criteria in buying decisions.

Mahon (2002) contends that corporate social performance enhances a firm's reputation and calls for research on whether and how firms may leverage their reputations to generate competitive advantage in the marketplace. Pivato *et al.* (2008) hypothesize that the first result of CSR activities is to build trust among stakeholders; their results indicate that companies' strong CSR performance engenders consumer trust that, in turn, encourages consumer brand loyalty in those companies' products. Relatedly, Pomering and Dolnicar (2009) find that CSR has the potential to positively influence consumers' attitudes and purchase intentions, but a necessary prerequisite is consumer awareness of firms' CSR activities. B corp certification is a means through which companies can build consumer awareness and trust. As the number of certified B corps has grown (and as more household names like Ben & Jerry's and Patagonia have sought and obtained this certification), we expect that seeing the certified B corp symbol on companies' websites, marketing materials and products will become synonymous with strong social performance in consumers' minds, beyond that of traditional CSR, resulting in greater sales. We formalize this expectation in the following set of hypotheses:

H2a. Within the sample of B corps, a higher total score on the BIA report is associated with greater sales growth.

H2b. Within the sample of B corps, recognition of consumers as an "area of excellence" is associated with greater sales growth.

H2c. B corps report greater sales growth than non-B corp peer firms.

Sample

We obtain our initial sample of 540 B corp firm-year observations from B-Lab[15]. Of these 540 observations, we are able to match 123 observations (representing 89 unique firms, some with multiple years of data) with financial data in the PrivCo database to conduct our empirical analyses. PrivCo is an independent organization providing access to financial research on more than 854,500 private companies. This information includes company name, year founded, industry, ownership structure, fiscal year-end, one- and three-year sales growth rates, location and financial information, including income-statement, balance-sheet and cash flows statement data. PrivCo obtains this information from publicly available sources and provides as much information as possible for each firm, for a fee. The information available for each firm is different, dependent upon PrivCo's research results. Because hybrid organizations have a strategic advantage in the dimensions of employees and consumers (Lee and Jay, 2015), we focus on employee productivity (i.e. revenues per employee) and sales growth in our empirical analyses.

Models

We use the following model to test *H1a* and *H1b*:

$$\begin{aligned} EmpProd = {} & \alpha + \beta_1 TotalScore + \beta_2 AOEAccountability + \beta_3 AOECommunity \\ & + \beta_4 AOEConsumers + \beta_5 AOEEmployees + \beta_6 AOEEnvironment \\ & + \beta_7 Age + \beta_8 Female + \beta_9 Minority + Industry\ Indicators + \varepsilon \end{aligned} \tag{1}$$

We estimate this OLS regression model using our sample of 123 B corp firm-year observations. The response variable in this model (*EmpProd*) captures employee productivity as the ratio of sales per employee. To test *H1a*, we examine the β_1 coefficient on *TotalScore*. Similar to Stevens *et al.*'s (2015) use of self-reported questionnaire responses to measure the attention of hybrid firms to social and economic goals due to the lack of publicly available performance metrics (Smith *et al.*, 2013), we rely on B corp annual BIA reports, having undergone third-party assessment and audits by B Lab, for performance measurements. If better corporate social performance (as reflected by a higher *TotalScore*) positively influences employee productivity, we expect a positive β_1 coefficient. To test *H1b*, we examine the β_5 coefficient on *AOEEmployees*. If recognition of employees as an "area of excellence" (as reflected by a value of 1 for *AOEEmployees*) positively influences employee productivity, we expect a positive β_5 coefficient.

We use the following model to test *H2a* and *H2b*:

$$\begin{aligned} Growth = {} & \alpha + \beta_1 TotalScore + \beta_2 AOEAccountability + \beta_3 AOECommunity \\ & + \beta_4 AOEConsumers + \beta_5 AOEEmployees + \beta_6 AOEEnvironment \\ & + \beta_7 Age + \beta_8 Female + \beta_9 Minority + Industry\ Indicators + \varepsilon \end{aligned} \tag{2}$$

As with Model (1), we estimate this OLS regression model using our sample of B corp firm-year observations. The response variable in this model (*Growth*) captures sales growth over one- and three-year periods (*Growth1yr* and *Growth3yr*, respectively). Because of the data required to calculate these response variables, our sample size decreases to 109 (64) observations in the *Growth1yr* (*Growth3yr*) model. To test *H2a*, we examine the β_1 coefficient on *TotalScore*. If better corporate social performance (as reflected by a higher *TotalScore*) positively influences sales growth, we expect a positive β_1 coefficient. To test *H2b*, we examine the β_3 coefficient on *AOEConsumers*. If recognition of consumers as an "area of excellence" (as reflected by a value of 1 for *AOEConsumers*) positively influences sales growth, we expect a positive β_3 coefficient. Additionally, we control for the age of the firm (*Age*) and whether or not the firm is owned by a female (*Female*) or a minority

(*Minority*) as the age of the firm (Cho *et al.*, 2010) and the characteristics of its owners (Stevens *et al.*, 2015; Adams *et al.*, 2011) are important to understanding the values of interest to an organization.

B corp landscape

Table I provides an overview of the 89 unique B corps in our sample[16]. In Table I, we present the years that these 89 B corps were founded. Of the 72 firms disclosing their years of founding, the majority (38 firms, 52.7 per cent) were founded in the 2000s. Relatively few B corps (10 firms, 13.9 per cent) were founded prior to 1990, suggesting that our sample contains relatively young firms. In Table II, we present the years that these 89 B corps earned their initial certifications. B corp certification is becoming more common, with few of our sample firms obtaining certification in our first sample year 2007 (three firms) and many more firms obtaining certification in later years (25 in 2010 and 30 in 2011). Table III presents a breakdown of our Sample B corps by industry. While our sample is spread across a wide variety of industries, food/beverage (13 firms, 14.6 per cent) and IT software/services (11 firms, 12.4 per cent) are the most common. Table IV presents a breakdown of our Sample B corps by location. The majority of B corps are located in California (25 firms, 28.1 per cent), New York (12 firms, 13.5 per cent), Oregon and Pennsylvania (each with seven firms, 7.9 per cent).

Descriptive statistics and correlations

Table V provides descriptive statistics for our B corp sample. Each firm-year observation receives a *TotalScore* (200 possible) and five area scores (*Accountability*, *Community*, *Consumers*, *Employees* and *Environment*) based on the five basic areas of the BIA report. The Accountability area evaluates transparency of the organization, focusing on the firm's mission, stakeholder engagement and transparency of practices and policies. The Employees area analyzes a company's relationship with its workers, mainly measuring how employees are treated by means of compensation, benefits, training and ownership opportunities. This area also evaluates the overall work environment, including job flexibility, health and safety practices, etc. The Consumers area focuses on companies structuring their business operations to create public benefits through their products or services (e.g. creating economic opportunities for individuals or communities, supporting mission-driven enterprises, or for creating benefits for underserved population). The Community area evaluates supplier relationships, diversity, involvement in the community and community service and charitable giving practices. The Environment area analyzes a

Table I.
B Corp landscape: years of B corp founding

	Decades							
	Undisclosed	1960s	1970s	1980s	1990s	2000s	2010s	Total
N	17	3	2	5	18	38	6	89

Table II.
B Corp landscape: initial years of B corp certification

	Year						
	Founded	2007	2008	2009	2010	2011	Total
N	13	3	10	8	25	30	89

Industry	*N*	(%)
Apparel/footwear	4	4.49
Architecture/design/planning	2	2.25
Books/other media	2	2.25
Building materials	1	1.12
Carbon capture/credits	1	1.12
Catering/event management	1	1.12
Credit provider	1	1.12
Education/training services	1	1.12
Electronics	1	1.12
Fabricated metal products	1	1.12
Food/beverage	13	14.61
Home/personal care	8	8.99
Hospitality	1	1.12
Housewares/home furnishings	3	3.37
Insurance	2	2.25
Investment advice	2	2.25
IT software/services	11	12.36
Legal	1	1.12
Management consulting	2	2.25
Marketing/communication services	3	3.37
Medical cannabis	1	1.12
Nonprofit consulting/fundraising	1	1.12
Office products/printing	2	2.25
Online marketplace	1	1.12
Paper/paper products	1	1.12
Power generation	1	1.12
Real estate development	1	1.12
Renewable energy installation	2	2.25
Retail sales	2	2.25
Sustainability consulting	1	1.12
Telecommunications	2	2.25
Travel/leisure	1	1.12
Undisclosed	12	13.48
Total	89	100

Table III.
B Corp landscape:
B corp industries

firm's environmental performance through its facilities, resource and energy use, emissions, transportation channels and the supply chain.

Each observation in our sample qualifies for B corp certification, as indicated by the minimum *TotalScore* of 80.3. The mean (median) *TotalScore* is 104.5 (100.8). For the five areas that B Lab evaluates, mean (median) scores range from a low of 10.9 (10.3) for *Accountability* to a high of 30.2 (30.1) for *Employees*. During our sample period, if a firm-year observation receives an area score above 60 per cent, that area is labeled an "area of excellence" (*AOEAccountability*, *AOECommunity*, *AOEConsumers*, *AOECommunity*, *AOEEmployees*, *AOEEnvironment*). Based on these "area of excellence" certifications, our sample firms perform best in the area of accountability, with 78.9 per cent receiving certification in this area, and worst in the area of Community, with only 21.1 per cent receiving certification in this area. We also create a composite "area of excellence" variable (*AOETotal*) by summing the five individual "area of excellence" variables; *AOETotal* ranges from 0 to 5. The mean (median) for *AOETotal* is 2.09 (2), indicating that the average B corp in our sample receives "area of excellence" certification in two of the five areas.

Location	N	(%)
Arizona	1	1.12
California	25	28.09
Colorado	5	5.62
Georgia	1	1.12
Iowa	1	1.12
Maryland	1	1.12
Massachusetts	4	4.49
Michigan	1	1.12
Montana	1	1.12
New Hampshire	1	1.12
New York	12	13.48
North Carolina	3	3.37
Ohio	1	1.12
Oregon	7	7.87
Pennsylvania	7	7.87
Texas	1	1.12
Vermont	2	2.25
Virginia	2	2.25
Washington	4	4.49
Washington, DC	1	1.12
Canada	3	3.37
Undisclosed	5	5.62
Total	89	100

Table IV.
B Corp landscape:
B corp locations

Variable	N	Minimum	Mean	SD	Median	Maximum
Sales	123	151,000	40,190,563	137,673,301	5,200,000	1,300,000,000
Employees	123	3	184	684	28	5500
EmpProd	123	8,824	294,814	357,585	176,628	2,352,500
Age	123	1	18.9	35.3	9	222
Growth1yr*	109	−11.6	40.2	52.4	22.4	300.0
Growth3yr*	64	−10.0	55.3	121.6	23.9	933.0
Female	123	0	0.049	0.216	0	1
Minority	123	0	0.024	0.155	0	1
TotalScore	123	80.3	104.5	18.2	100.8	155.3
Accountability	123	0.0	10.9	3.8	10.3	25.0
Community	123	7.7	26.7	13.8	22.3	85.0
Consumers	123	0.0	18.8	14.5	16.6	57.5
Employees	123	0.0	30.2	9.8	30.1	61.9
Environment	123	0.0	17.7	18.5	13.0	174.4
AOEAccountability	123	0	0.789	0.410	1	1
AOECommunity	123	0	0.211	0.410	0	1
AOEConsumers	123	0	0.293	0.457	0	1
AOEEmployees	123	0	0.455	0.500	0	1
AOEEnvironment	123	0	0.341	0.476	0	1
AOETotal	123	0	2.089	1.109	2	5

Note: *Because the two sales growth variables require multiple, consecutive years of data to calculate, some observations lack complete these variables in the PrivCo database

Table V.
B Corp descriptive statistics and correlations: descriptive statistics

The employee productivity of our B corp sample firms (*EmpProd*, measured as sales per employee) is highly variable, with a mean of $294,814, compared to a median of $176,628. The size of our B-corp sample firms (*Employees*, measured as the number of employees) ranges from only 3 to 5,500 employees, with a mean (median) of 184 (28) employees. The mean (median) age (*Age*) of our sample is 18.9 (9) years[17]. B corps appear to be growing rapidly, with a mean (median) one-year sales growth rate (*Growrth1yr*) of 40.2 (22.4) per cent and a three-year sales growth rate (*Grwoth3yr*) of 55.3 (23.9) per cent. Finally, only 4.9 (2.4) per cent of the B corps in our sample are female (minority) owned. Appendix 2 defines all variables used in our study.

Table VI provides correlations between the response and explanatory variables from our two regression models. None of our three response variables (*EmpProd*, *Growth1yr*, or *Growth3yr*) is significantly associated with *TotalScore*. The only significantly positive correlation between a response variable and an "area of excellence" variable is between *Growth3yr* and *AOECommunity*. *TotalScore* is positively and significantly correlated with four of the five "area of excellence" variables, indicating the need to examine multicollinearity diagnostics when estimating our regression models.

Results

H1a and H1b

Results for the influence of B corp social performance on employee productivity appear in Table VII[18]. While we fail to find support for *H1a*, we do find support for *H1b*: the β_5 coefficient for *AOEEmployees* is positive and marginally significant ($p < 0.1$). The fact that *TotalScore* coefficient is insignificant and *AOEEmployees* is the only "area of excellence" variable that positively influences employee productivity may indicate that the "pride" and "value fit" constructs previously discussed (Jones *et al.*, 2014) may not be the underlying mechanisms, but rather some version of self-interest. We also find that the β_9 coefficient on *Minority* is positive and significant ($p < 0.05$), indicating higher employer productivity in minority-owned firms. Taken together, these results provide evidence that B corps with high overall social performance scores do not have more productive employees, but those B corps that treat their employees well (as evidenced by earning "area of excellence" recognition for providing employees with generous compensation and benefits, an ownership stake in the firm and/or a comfortable work environment) do have more productive employees.

H2a and H2b

Table VII provides our results regarding the influence of B corp social performance on subsequent sales growth. Similar to our previous analysis, we do not find that firms with high overall social performance experience significant growth, failing to support *H2a*. While the β_1 coefficients for *TotalScore* are positive in both models, neither is significant. We do find partial support for *H2b*. The β_3 coefficient for *AOEConsumers* in the *Growth3yr* model is positive and marginally significant ($p < 0.1$), but is not significant in the *Growth1yr* model. Because many B corps are newly certified, these results may indicate that consumer awareness of B corps' social performance increases over time. We also find that the β_8 coefficient on *Female* is positive and marginally significant ($p < 0.1$) in the *Growth1yr* model, indicating higher sales growth in female-owned firms. Surprisingly, the β_3 coefficient on *AOECommunity* is negative and significant ($p < 0.05$) in the *Growth1yr* model; however, this result disappears in the *Growth3yr* model. The VIFs for our regression models range from 1.03 to 2.56, indicating that correlations among our explanatory variables do not impair our statistical results and associated inferences. Also, the condition indices for our

Table VI.
B Corp descriptive statistics and correlations: correlations

Variable	Emp Prod	Growth 1yr	Growth 3yr	Total Score	AOE Accountability	AOE Community	AOE Consumers	AOE Employees	AOE Environment	Age	Female
Growth1yr	*−0.213*										
Growth3yr	−0.176	*0.393*									
TotalScore	0.091	0.122	0.102								
AOEAccountability	−0.033	0.100	0.046	*0.277*							
AOECommunity	0.005	−0.029	*0.283*	*0.458*	0.171						
AOEConsumers	0.039	0.068	0.001	*0.404*	0.027	0.017					
AOEEmployees	0.153	0.124	0.112	0.160	0.074	−0.074	−0.049				
AOEEnvironment	0.062	−0.076	−0.148	*0.408*	0.163	0.005	0.102	0.099			
Age	0.063	−0.185	−0.147	0.007	0.106	−0.016	−0.148	0.121	−0.031		
Female	0.052	0.089	0.053	−0.028	−0.068	0.068	0.020	−0.131	−0.084	−0.091	
Minority	0.027	−0.111	−0.042	0.123	0.082	0.047	0.014	0.067	*0.220*	−0.027	−0.036

Note: Correlations in *italics* are significant at the 0.05 level

Explanatory Variables	EmpProd	Response Variable Growth1yr	Growth3yr
Intercept	102586	−21.88	−1.62
Total Score	877	0.16	0.39
AOEAccountability	−52974	15.29	15.17
AOECommunity	−38961	−41.18	−5.96
AOEConsumers	−57218	1.39	34.33*
AOEEmployees	99022*	10.34	14.67
AOEEnvironment	−35383	−17.32	−33.70
Age	−1118.00	−0.20	−0.36
Female	−152787	40.88*	19.28
Minority	732613**	−3.46	−5.83
Industry indicators	Yes	Yes	Yes
N	123	109	64
R^2	50.10%	42.72%	92.50%

Notes: **The coefficient is significant at the 0.05 level. *The coefficient is significant at the 0.1 level

Table VII. Results of estimating Models (1) and (2)

models are all below 25; less than 30 indicates that multicollinearity is not an issue (Belsley *et al.*, 1980).

H1c and H2c

It is possible that we fail to find support for *H1a* and *H2a* (linking B corps' total scores to their employee productivity and sales growth, respectively) because employees and consumers are happy to work for and buy from socially conscious firms that have achieved B corp certification, regardless of these firms' total scores reported on their BIA reports. If this is true, we should find that B corps experience greater employee productivity and sales growth than their non-B corp peer firms, as we predict in *H1c* and *H2c*. To evaluate these hypotheses, we match each B corp observation with a peer private-company observation, based on sales, employees, age and industry (two-digit SIC code, Cao and Narayanamoorthy, 2014; Bova *et al.*, 2015)[19]. Both B corp and non-B corp data originate from PrivCo, ensuring that variables are measured comparably between the two samples. Table VIII provides the results of this match-sample analysis. To confirm that our matching procedure was

Variable	Means B corps	Peers	Difference	Medians B corps	Peers	Difference
Sales	40,190,563	40,114,759	75,804	5,200,000	6,005,000	−805,000
Employees	184	184	0	28	30	−2
EmpProd	294,814	398,067	−103,253	176,628	192,895	−16,267
Age	18.9	17.3	1.6	9	10	−1
Growth1yr	40.2	22.4	17.8***	22.4	11.7	10.7***
Growth3yr	55.3	25.5	29.8**	23.9	14.9	9.0***
Female	0.049	0.130	−0.081**	0	0	0**
Minority	0.024	0.089	−0.065**	0	0	0**

Notes: ***The difference in means (medians) is significant at the 0.01 level using a *t* test (Wilcoxon test). **The difference in means (medians) is significant at the 0.05 level using a *t* test (Wilcoxon test). *The difference in means (medians) is significant at the 0.1 level using a *t* test (Wilcoxon test)

Table VIII. Matched-sample comparison of B corps with peer firms successful, we find no statistically significant differences (neither means nor medians) between our B corp and matched samples in terms of *Sales*, *Employees* or *Age* (industry was identical). Given the similarity of these two samples on these dimensions, we proceed by evaluating differences in employee productivity and sales growth.

Contrary to our expectations in *H1c*, we find that neither mean nor median employee productivity differs between the B corps and their peer firms. Consistent with *H2c*, we find that B corps report considerably greater sales growth than non-B corp peer firms, using both *Growth1yr* and *Growth3yr* measures. Specifically, using *Growth1yr*, the B corp mean is 40.2 per cent, the matched-sample mean is 22.3 per cent and this difference is highly significant ($p < 0.01$). Using *Growth3yr*, the B corp mean is 55.3 per cent and the matched-sample mean is 25.5 per cent, and this difference is significant ($p < 0.05$). We also find support for *H2c* when examining sales growth medians[20].

Conclusion

The *status quo* in the business community holds profit maximization as the firm's primary objective and relegates a focus on social issues as secondary to (if not inconsistent with) this objective. In the past decade, some firms have committed to CSR activities and argue that this strategy leads to long-term profit maximization. More recently, an emerging business form, the certified B corp (a type of hybrid organization) aims to address social issues even if that takes precedence over earning a profit for owners, a strategy that goes beyond traditional CSR. This is the first study, to our knowledge, examining the performance of B corps on two dimensions that are strategic advantages for hybrid organizations over traditional firms: employee productivity (employees) and sales growth (consumers). By studying this emerging organizational form, we provide evidence on whether firms must forgo financial performance to pursue a social mission. Because the likelihood of other businesses pursuing B corp certification depends on the likelihood of doing well (financial performance) while doing good (social performance), we address this issue using a sample of 89 existing B corps (123 firm-year observations).

In this exploratory study of whether firms can simultaneously pursue profits while tackling social issues, we find that B corps report similar levels of employee productivity to their non-B corp peers. However, we also find that B corps experience substantially greater sales growth than their non-B corp counterparts. This finding supports the view that incorporating both social and financial considerations into organizational objectives requires increased innovation, efficiencies and integrative thinking, leading to better overall performance (Dixon-Fowler *et al.*, 2013; Miller *et al.*, 2012; Grant and Berry, 2011; Martin, 2007; Plambeck and Weber, 2009; Austin *et al.*, 2006; Esty and Porter, 2005; Porter and van Der Linde, 1995a, 1995b). Within our sample of B corp observations, we also find that a commitment to employees (consumers) is associated with enhanced employee productivity (sales growth).

Throughout the academic literature examining hybrid organizations, researchers have often used stakeholder theory (Freeman, 1984) to inform their thinking about the association between social and financial performance and to motivate their hypotheses and associated empirical tests (Smith *et al.*, 2013; Sison, 2009). More recent research indicates that institutional theory can inform research in the face of globalization and dissolving national boundaries, where firms face increasing institutional logics (Smith *et al.*, 2013; Ramus *et al.*, 2017). Increasing logics result in varied and often incompatible demands and uncertainty, where novel and creative solutions are necessary. Our empirical results are consistent with these theoretical underpinnings in that we provide evidence of superior employee productivity (sales growth) for firms that serve the needs and wants of their employees (customers). Our findings support the assertion that moving beyond traditional CSR, to remain committed to social issues even if that takes precedence over profitability, does not automatically create losses for owners. In fact, as hybrid organizations focus more on social issues, at least those that play to their advantages (better treatment of employees and socially responsible products or services for consumers), they can be more productive and profitable compared to their non-hybrid peer firms they compete against in the marketplace. These results contribute to stakeholder and institutional theory by providing empirical illustrations of one set of situations where divergent stakeholder interests contribute to hybrid organizational success (i.e. by focusing on both employees and consumers). B corps provide a unique opportunity to examine the hybrid organizational social-financial performance association because they report their various stakeholder initiatives to B Lab on an annual basis, providing a source of data for empirical investigation.

Our results provide important insights for entrepreneurs regarding the paradigm shift from the traditional corporate focus exclusively on the owners' wealth maximization to a fruitful coexistence of profits with broader stakeholder interests. These results are also insightful to those interested in the survival of hybrid organizations in a new, global marketplace, with increasingly divergent stakeholder demands and conflicting logics. As managers and owners of B corps realize their competitive advantages in the area of employees and consumers, they may alter their strategy to focus more in these areas. For example, companies may enhance employee productivity by providing employees with more generous compensation and benefits, an ownership stake in the firm and/or a more comfortable work environment. Companies may attract new customers by offering more socially or environmentally conscious products (e.g. organic foods) or producing those products in socially or environmentally conscious ways (e.g. not testing products on animals). Companies may also capitalize on these dimensions in the recruitment of new employees and in the marketing of their products when attempting to compete with more established, traditional firms. Our findings suggest that treating employees and consumers well offers reciprocal benefits to B corps in the form of higher employer productivity and sales growth. Results of our research also inform states considering the adoption of the B corp legal status. It is important for policymakers to understand that this legal status does not hinder firm profitability, but instead enhances long-term firm value while allowing firms to beneficially affect their various stakeholder groups.

Our study is not without limitations. First, we are only able to analyze the employee productivity and sales growth of B corps with financial data in the PrivCo private-company database, which may bias our results. We attempt to overcome this potential bias by matching our B corp sample with non-B corp peer firms by revenues, employees, age and industry. We also note that our sample consists of a very broad range of firm sizes. Second, we rely on B Lab's disclosure of their reporting methodology and on the assumption that the process works as described, resulting in firm responsibility for reported social performance, although this is not unique to our study (Stevens *et al.*, 2015). If social performance as reported to B Lab does not accurately reflect true social performance, our results (and associated conclusions) may be spurious. Third, we acknowledge that our regression models of employee productivity and sales growth lack control variables that prior studies of publicly traded firms have included. Because our sample firms are private companies, our analyses are constrained by the limited data available within the PrivCo database. We acknowledge this limitation but believe our exploratory findings about this emerging organizational form makes a novel, important contribution to both the CSR and hybrid organization literatures. Finally, while the focus of our study is on the financial performance of B corps, the social impact of B corps should be explored in future studies to enhance our understanding of this emerging organizational form. Given these limitations, we believe this is an important first step toward understanding a unique business form and posit that, as B corps grow in both number and size, additional analyses are warranted.

Notes

1. Terms such as CSR, social, social and environmental, sustainability, etc., are used interchangeably throughout the hybrid organization literature (Haigh *et al.*, 2015; Santos *et al.*, 2015; Holt and Littlewood, 2015; Lee and Jay, 2015); therefore, we use the term CSR or social when we refer to B corps' activities throughout the paper, recognizing that hybrid organizations go beyond traditional CSR activities.

2. For example, Alexander and Buchholz (1978); Aupperle *et al.* (1985); Baucus and Baucus (1997); Berman *et al.* (1999); Campbell (2007); Cochran and Wood (1984); Donaldson and Preston (1995); Klassen and McLaughlin (1996); López *et al.* (2007); McGuire *et al.* (1988); McWilliams and Siegel (2000); Mill (2006); Pava and Krausz (1996); Ruf *et al.* (2001); Simpson and Kohers (2002); Stanwick and Stanwick (1998); Waddock and Graves (1997). See Griffin and Mahon (1997) and van Beurden and Gössling (2008) for reviews and Orlitzky *et al.* (2003); Dixon-Fowler *et al.* (2013); and Margolis *et al.* (2009) for meta-analyses of this research.

3. Hybrid organizations are defined as "enterprises that design their business models based on the alleviation of a particular social or environmental issue" (Haigh *et al.*, 2015, p. 5). This term encompasses many types of specific organizations including B corps, a flexible purpose corporation, a low-profit limited liability company, etc. This type of enterprise has gained more traction recently on a global scale as a "more encompassing term than designations such as 'social enterprise,' reflecting the heterogeneity of legal forms, missions, and the diverse contexts in which these differing business models operate" (Holt and Littlewood, 2015, p. 109).

4. The distinction between certified "B corps" and benefit corporations is important. As discussed in the next paragraph, a certified B corp is a member of a voluntary association and is subject to an assessment and ratings standard that supports CSR (Hiller, 2013). In contrast, a benefit corporation is a legal form, organized under state law, that promotes CSR by providing legal protection to owners and managers who pursue a social agenda in addition to (and perhaps at the expense of) profit maximization (André, 2012). A firm may be certified as a B corp but not be legally incorporated as a benefit corporation or vice versa. In this study, we examine certified B corps, which we refer to simply as "B corps" for the remainder of the paper.

5. Appendix 1 contains a sample BIA report in response to the firm's submitted self-assessment. This particular firm earned 81.3 points, qualifying it for B corp certification.

6. At the time of this writing, there are 1,996 B corps in 50 countries. The total number does not reflect the sample used in our analysis, originally collected in late 2011, but provides the reader with an understanding of the current scope of this unique organizational form.

7. Three B corps (Rally Software, Natura Cosmetics and Etsy) are publicly held.

8. During our sample period, each B Corp had five possible areas of excellence: accountability, consumers, community, employee and environment. The titles of these areas have changed with time (e.g. "accountability" has been relabeled as "leadership" and later "governance"), but the focus of each area remains the same. To be recognized as an area of excellence, a B Corp must earn at least 60 per cent of the possible points in that area. The sample impact report in Appendix 1 indicates that *Employees* is an area of excellence for this particular firm, which earned 75 per cent of the possible points in this area. Note 11 explains that this process of recognizing individual companies for excellent performance has since been replaced with a firm-specific comparison to their industry average in each area measured in the BIA.

9. We also collect our peer firm data from PrivCo to ensure that the B corp and non-B corp data originate from the same source and thus are measured comparably. There are no significant differences between our B corp and non-B corp samples for any of the matching variables, indicating that our matching approach was successful.

10. Morgan Stanley Capital International (MSCI) was previously Kinder, Lyndenberg, Domini (KLD) Research & Analytics.

11. B Lab no longer designates areas of excellence in impact reports. Rather, the reports now provide a column with the firm's industry median score in each category. Going forward, these industry medians allow researchers to create variables for both the presence and magnitude of each firm's social under- or over-performance relative to industry counterparts. This current information is not available for the firms in our sample.
12. In addition to certifying B corps, B Lab, the underlying nonprofit organization, engages in two other key activities: lobbying states to pass legislation allowing firms to incorporate as benefit corporations (see Note 4) and marketing its reporting framework (and its associated database of impact reports) to socially conscious investors, fund managers and consumers (Hiller, 2013).
13. Albinger and Freeman (2000) extend the work of Turban and Greening (1996) by demonstrating that the influence of strong CSR performance on employer attractiveness is especially large for job seekers with high levels of job choice.
14. For example, Marens *et al.* (1999) suggest that acknowledging and respecting employees' interests by implementing an employee stock ownership plan (ESOP) may enhance productivity, mutually benefitting the firm and its workers.
15. We contacted B Lab to request all available data related to B corp firms in late 2011. They provided a proprietary list of all firms, the year of origination, the industry, the corporate structure, the location and the overall and individual scores from each of the firm-specific reports. This sample represents the entire population of B corps at that time.
16. We use firm (rather than firm-year) observations in Table I to avoid biasing our reporting by including multiple observations for the same firm.
17. At the extreme, one sample firm (King Arthur Flour Company) was founded in 1790, resulting in an *Age* of 222 years for its 2012 observation.
18. The R^2 statistics in Table III range from 42.72 per cent in the *Growth1yr* model to 92.50 per cent in the *Growth3yr* model. We attribute these very high R^2 statistics to the inclusion of industry indicator variables in the models. When we remove these industry indicators, the R^2 statistics range from 4.24 per cent in the *EmpProd* model to 14.22 per cent in the *Growth3yr* model.
19. Ideally, we would match on a more traditional measure of firm size (e.g. total assets or market capitalization). However, as we mention in the paper, we are limited to the data available in PrivCo. That said, we match on all available dimensions to ensure that our B corp and non-B corp samples are comparable.
20. We recognize that our sales growth findings may stem from more successful firms choosing to seek B corp certification. However, given that we find no significant differences between our B corp and non-B corp samples in terms of current-year sales discounts this potential endogeneity as the driver of our findings.

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Further reading

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Appendix 1. Sample B impact (B corp 2009)

Certified B Corporation

Sample Company

Composite B Score: 81.3

(> 80 out of 200 is eligible for certification as a B Corporation)

	Company Score	% Points Available
Environment	**13.1**	**28%**
Corporate Offices	9.1	49%
Transportation/Distribution	2.9	50%
Manufacturing Facilities	1.2	5%
Employees Area of Excellence*	**31.7**	**75%**
Compensation & Benefits	17.3	72%
Employee Ownership	7.4	77%
Work Environment	6.9	82%
Community	**12.5**	**29%**
Local	3.1	42%
Diversity/Broad Ownership	4.0	34%
Charity/Direct Services	5.5	23%
Consumers	**19.3**	**40%**
Beneficial Products/Services	0	0%
Beneficial Method of Production/Impact	19.3	100%
Serving those in Need	0	0%
Leadership	**4.7**	**24%**
Governance/Accountability	0	0%
Transparency/Reporting	0.4	13%
Fair Trade/Supplier Code of Conduct	4.3	44%
Total	**81.3**	**41%**

B Lab

Appendix 2

Variable	Definition
Sales	Revenues, from PrivCo
Employees	Number of employees, from PrivCo
EmpProd	Ratio of revenues to number of employees
Age	Firm age in years, from PrivCo
Growth1yr	1-year sales growth rate, from PrivCo
Growth3yr	3-year sales growth rate, from PrivCo
Female	Indicator variable coded 1 if the firm CEO is female, 0 otherwise
Minority	Indicator variable coded 1 if the firm CEO is a racial minority, 0 otherwise
TotalScore	Total score from the firm's BIA report
Accountability	Firm's accountability score from the BIA report
Community	Firm's community score from the BIA report
Consumers	Firm's consumers score from the BIA report
Employees	Firm's employees score from the BIA report
Environment	Firm's environment score from the BIA report
AOEAccountability	Indicator variable coded 1 if accountability is recognized as an area of excellence for the firm, 0 otherwise
AOECommunity	Indicator variable coded 1 if community is recognized as an area of excellence for the firm, 0 otherwise
AOEConsumers	Indicator variable coded 1 if consumers is recognized as an area of excellence for the firm, 0 otherwise
AOEEmployees	Indicator variable coded 1 if employees is recognized as an area of excellence for the firm, 0 otherwise
AOEEnvironment	Indicator variable coded 1 if environment is recognized as an area of excellence for the firm, 0 otherwise
AOETotal	Sum of AOEAccountability, AOECommunity, AOEConsumers, AOEEmployees, and AOEEnvironment

Table AI. Variable definitions

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