From Blurred to Blended:
Exploring the Institutional Environment and Public Benefit of For-Profit B-Corporations

Stephanie Moulton, The Ohio State University
Adam Eckerd, Virginia Tech

WORKING DRAFT

Prepared for the
Association for Public Policy Analysis and Management Conference
November 8, 2013
Washington, DC

Abstract:
While the distinctions between organizational sectors have never been particularly clear, the emergence of new corporate forms that intentionally blend for-profit organizational forms with public purposes blur the lines further. More than 600 organizations nationwide are now certified as "B-Corporations", legally integrating public purposes, accountability and transparency into their founding documents and stated corporate missions. However, rather than a new monolithic organizational form that will be equally associated with public benefit, we expect that these organizations vary considerably in the extent to which they achieve public benefit. Because B-Corporations explicitly incorporate stakeholders and stakeholder value into their business model, it is hypothesized that the institutional environment will be a strong predictor of organizational behavior, including the extent to which B-Corporations achieve public benefit. For this study, we employ a unique panel data set collected as part of the initial and ongoing certification process, which has been made available to the researchers under contract with Duke University and B-Lab, and provides a first look at the characteristics and performance (including public benefit) of certified B-Corporations. Using multivariate analysis, we explore the relationships between different components of the institutional environment for a specific organization, and measures of community and environmental impact. The findings from our analysis have implications for public management research and organizational theory, and the interactions between corporate structure and institutional environments on the public benefit of private sector organizations.

Introduction

Private corporations have long been known to pursue social objectives in addition to their profit motivations. At one extreme, entrepreneuers willing to forgo the distribution of profit to shareholders/owners can incorporate as a nonprofit organization. However, it is not accurate to draw the line too starkly between profit and social purposes; nonprofit organizations frequently leverage the market (indeed, earned revenue is the primary source of income for nonprofits). And, for-profit corporations also pursue social outcomes. The notion of "double" and "triple" bottom line has become common parlance for business executives. Socially conscious businesses have attracted a new segment of the market, suggesting that pursuing social objectives can in fact be part of a profit making strategy.

While symbolically adding a social purpose to a corporation is relatively easy, evaluating the true impact of socially conscious firms proves to be more difficult. The business literature on corporate social responsibility (CSR) is indicative of the complexity; not only is the concept of CSR in and of itself nebulous, but finding comparable (reliable, valid) data to measure indicators of performance on outcomes other than profit proves to be near impossible. This is not only a challenge for theory building and scholarly research, but also for socially focused firms to signal their social performance to stakeholders and potential investors and for the public generally as these firms pursue public objectives. In light of these criticisms, many challenge that CSR and related movements are entirely symbolic, designed to capture new markets rather than impact public outcomes. Regardless of social interests, these organizations are still for-profit entities accountable to shareholders to make a profit.

Since 2008, new forms of organization in the U.S. have arisen in part to help address this challenge. In many states, companies can now be chartered as low profit liability companies (L3Cs) and benefit corporations, designations which require organizations to explicitly state their social purpose. Further, socially conscious firms can elect to be certified by the nonprofit *B-Lab* as a Certified B-Corporation (CBC), by amending governing documents and scoring a required number of points on the B Impact Assessment. While focus has been placed on the importance of these new structures for (1) legal authority to pursue social outcomes, and (2) the potential to leverage new financial resources such as program related investments (PRIs), perhaps more important is the legitimization of social/public purposes within the organization through the certification process.

In this paper, we suggest that the primary contribution of the alternative forms of business that have developed over the last decade, including L3Cs and benefit corporations, may be their potential impact on shaping the institutional environment of a given organization. For example, the Impact Assessment administered by B-Lab evaluates a firm's performance on several impact areas, including employees, the community, the environment, and accountability. Rather than viewing all of the indicator items as representing a collective impact score, we suggest that the impact indicators can be separated

into external to the organizational core (e.g., charitable giving and environmental impact), and those that represent internal processes. The choice to focus on social objectives that are internal or external to the organizational core implies focusing attention to different stakeholder groups that comprise the institutional environment. Drawing from institutional and stakeholder theories, we suggest that the performance of an organization on measures of social outcomes is related the relative influence of the institutional environment and the interests represented.

This paper proceeds as follows. First, we review the literature on structural options to organize for a social purpose, including the distinction between nonprofit and for-profit organizations, and describe the newer organizational structures such as L3Cs, benefit corporations and CBCs. Second, we consider the literature on corporate social responsibility (CSR) and the role of external evaluators, incorporating insights from institutional and stakeholder theories. We then explore data on more than 1,200 socially focused firms completing the B-Lab Impact Assessment between 2008-2011, including 417 CBCs. Through factor analysis and logistic regression analysis, we explore variation in the institutional environments of evaluated firms, and the relationships to social outcomes.

Forms of Organizing for Social Benefit

While the blurring of the sectors has been acknowledged for decades, leaders in the social enterprise movement suggest that there is a new transformation, adding a "fourth sector" to public, nonprofit and for-profit organizations(André 2012; Haigh and Hoffman 2012; Sabeti 2009; Waddock and Mcintosh 2011). The fourth sector is defined to include hybrid organizations that operate in between nonprofit and for-profit entities, leveraging market forces to accomplish social objectives in addition to profit. Under the shared label of "social enterprise", the location of an entity within the nonprofit or for-profit sector takes a back seat to the blended purposes of profit and social mission. But is this really unique or new? Is there really such thing as a "blended" organization?

Despite their shared social purpose and similar method of earning revenues, there are still crucial legal distinctions between nonprofit organizations and their for-profit counterparts. Perhaps the single most important defining characteristic of nonprofit organizations is the non-distribution constraint – while nonprofit organizations can be profitable in their operations, this excess revenue must be invested back into the operations of the organization rather than distributing profits to shareholders or owners. Further, nonprofit organizations are not controlled by owners or shareholders, but rather by their board of directors. By law, this "independent board" is responsible for the affairs of the organizations. While there is some question about the degree to which the board is truly independent of the director/founder, there is increasing pressure for sound governance practices, including reforms to the IRS Form 990 in 2006 under the Pension Protection Act (Fremont-Smith 2007; Sloan 2008). Thus, entrepreneurs starting social

enterprises using the nonprofit organizational form are subject to constraints on the distribution of profit and limits on their degree of control over the organization – constraints that are not imposed on entrepreneurs who opt for for-profit structures.

Conversely, organizing as a nonprofit organization is associated with tax benefits not currently available to for-profit organizations pursuing social purposes. Nonprofit organizations currently receive exemption from federal income tax for revenues, and most receive property tax exemption for owned real estate. To the extent that these exemptions are justified based on the social or public benefits provided by the nonprofit sector (the subsidy rationale), it stands to reason that for-profit organizations providing for similar benefits could also be eligible for exemption. However, economists and scholars have contended for decades that nonprofit tax exemption is not primarily a subsidy, but rather is a function of the tax base for the organizations and their limits of capital formation (Hansmann 1981). In fact, the [OMB/CBO] does not even include tax exemption for nonprofits as a "tax expenditure" as they do other tax subsidies provided to individuals and corporations. By contrast, donations to 501(c)3 public charities that are itemized deductions on individual tax forms are included as a tax expenditure. One could make the case that donations to for-profit charities deserve exemption (see discussion of PRIs below), if justified strictly as a subsidy. Again, however, nonprofits face limits on capital formation (can't sell stock) that make this argument tenuous.

Legal distinctions and subsequent managerial realities between the nonprofit and for-profit sectors thus temper claims of an emerging fourth sector. But what about alternative business structures that legally integrate the pursuit of profit and social purposes into the corporate documents of the organizations, such as L3Cs and benefit corporations? In the U.S., alternative business structures are currently authorized at the state level.[1] Vermont was the first state to adopt legislation authorizing L3Cs in 2008. Maryland became the first state to pass benefit corporation legislation in 2010. To date, 9 states have adopted legislation authorizing L3Cs, and benefit corporation legislation has been enacted in 20 states and is under consideration in 18 states.[2] A corporation need not be located in an authorizing state to receive L3C or benefit corporation status—it can incorporate in one of the authorizing states and conduct business in its home state as a foreign entity.[3] As of June, 2013, there were about 600 L3Cs and 200 benefit corporations. Further, more than 700 private companies (LLCs and Corporations) are also CBCs, though this is a designation conferred by the non-profit B-Lab and not state legislation (to be discussed below).

[1]Other countries have similar alternative structural forms that have emerged over the last decade. In 2004, England created community interest company (CIC).
[2]Some states have adopted their own version of a benefit corporation; for example, benefit LLCs (Maryland), flexible purpose corporations (California) and social purpose organizations (Washington). For more information on legislative progress by state, see: http://www.bcorporation.net/what-are-b-corps/legislation
[3]More than 40% of L3Cs are registered in MI and IL.

To become an L3C or benefit corporation, legislation generally requires the alteration of the articles of incorporation to include specific language regarding the entity's social purpose or charitable goals. For L3Cs, charitable or educational goals must be the primary purpose of the organization, with profit as a secondary pursuit.[4] Benefit corporations also have a social purpose, including a general public benefit to have a "positive impact on society and the environment" and a specific public interest, ranging from creating jobs to supporting the arts;[5] however, rather than being the primary purpose of the organization, the non-financial purposes are to be considered in conjunction with profitability when making decisions as part of the fiduciary duty of the directors and officers. There are a few key additional key differences between the two structures. First, L3C designation is only available to limited liability companies (LLCs), while benefit corporations are corporations (with exceptions in some states). Thus, some of the differences between LLCs and corporations, such as tax at the individual rather than corporate level, generally confer to these organizations (Wexler and Fei 2009)[6].

Second, L3C legislation is explicitly designed to allow leveraging of program related investments (PRIs) from nonprofit foundations, whereas this is typically not part of legislation for benefit corporations (though some benefit corporations may still be eligible). PRIs are investments that foundations can make out of their endowment assets for charitable purposes; rather than invest in a typical earnings account, the PRI is invested in charitable activity as a loan to the organization, with an expected return on the investment (interest) over time. Third, requirements for accountability and transparency vary by structure. As noted previously, the L3C requires the charitable or educational purpose to be the primary pursuit of the organization; L3Cs are accountable to the IRS to ensure that they fall in line with this requirement, but do not have specific reporting or governance requirements. By contrast, benefit corporations have a social purpose, but this is not required to be their primary purpose. However, they are required by legislation to produce an annual benefit report that assesses their social and environmental performance "against a third party standard."[7] This report is to be distributed to shareholders, and is to be posted on company websites. While state legislation does not generally designate a specific third party, most provide the standards and impact assessment available through the nonprofit B-Lab as the model. Thus, many benefit corporations become CBCs, which is a status conferred by B-Lab. In fact, any organization (regardless of corporate

[4]See for example Vermont's L3C requirements: http://www.sec.state.vt.us/corps/dobiz/llc/llc_l3c.htm
[5]Specific public interests include: (1) providing low income/underserved individuals or communities with beneficial products or services; (2) promoting economic opportunity for individuals or communities beyond jobs from normal business; (3) preserving the environment; (4) improving human health; (5) promoting arts, science or the advancement of knowledge; (6) increasing flow of capital to entities with a public benefit purpose; and (7) any other identifiable benefit for society or the environment.
[6] For example, while both structures protect officers and directors from personal liability, the corporate structure allows for the sale of stocks and bonds, thus providing greater access to capital. The corporate structure also allows for more flexibility when adding new investors or managers without a need for legal changes to the corporate documents.
[7]http://benefitcorp.net/selecting-a-third-party-standard/list-of-standards

structure) can become a CBC so long as it receives a minimum score on the B-Lab impact assessment, and amends its articles of incorporation to include a social and environmental purpose (BLab 2012).

What are the motivations for organizations to pursue legal status as a new entity (L3C or benefit corporation), and/or certification as a B-Corporation? Research on the companies adopting these new designations is limited, given the short period of time since their creation and the small number of organizations to date. Most research in published journals is conceptual business legal scholarship, with little or no data (André 2012; Cummings 2011). Schmidt (2012) provides an unpublished qualitative review of early adopters of the L3C structure in Vermont. There is also best practices scholarship that provides insights to firms considering various structures (Haigh and Hoffman 2012; Wexler and Fei 2009). Perhaps most informative are industry-provided case studies and surveys, unpublished or available online through company websites (BLab, 2012; Capriccioso, Zwetsch, & Shaver, 2012). InterSector Partners conducted a survey on L3Cs in 2010 and 2012, and has summarized the results in a report (Capriccioso, Zwetsch, and Shaver 2012). B-Lab partners with Duke University to produce an annual report on certified B-Corporations (BLab 2012) and disseminates a white paper on the motivations for the benefit corporation model.[8] From a review of these and other online sources, the rationales for alternative structures and certifications are distilled into three categories: legal permission to pursue social purposes, access to capital, and branding/marketing.[9]

First, an alternative corporate structure can provide legal permission to owners and directors who wish to pursue social objectives, in addition to profitability for shareholders. Without such protection, directors may be forced by shareholders to make decisions with regard to profit that compromise their social objectives, or risk lawsuits. A well known example is the case of ice cream company, Ben & Jerry's. The founders/owners held strong social and environmental values; however, they were forced by their shareholders to sell the company to Unilever based entirely on profit considerations, forfeiting their control and their social and environmental values (André 2012). Despite the salience of this case, the actual likelihood of a corporation being sued for pursuing social objectives is rare. In fact, while alternative corporate structures are relatively new, legislation that allows corporate directors and offices to consider non-shareholder interests has been around since the 1980s. Referred to as "constituency statutes" or "non-shareholder statues", 33 states have legislation that protects corporations choosing to make

[8]See the white paper motivating the benefit corporation structure: http://benefitcorp.net/for-attorneys/benefit-corp-white-paper

[9]To date, no tax advantages are provided to L3Cs or benefit corporations. The City of Philadelphia is allowing up to 25 benefit corporations between to receive a tax credit of $4,000 against their corporate business tax in years 2012-2017. However, this is a limited tax credit, and should not be considered similar to the tax exemption available to nonprofit organizations, which is based on the non-distribution constraint as much or more than their social purpose. A survey of L3Cs in one state confirms this distinction; all of the companies said that they would not have considered a nonprofit form of organizing given the limits on profit distribution and the lack of control, and some bias against the nonprofit form as being inefficient (Schmidt 2010).

decisions based in part on social objectives (Cummings 2011). Perhaps more of a concern is related to executive succession, and whether or not new directors and officers will share the same social mission of the founders. By legally amending the corporate documents to include the social mission (either in line with state legislation or for B-Corporation certification), this risk is reduced. Essentially, it helps to ensure an ongoing fiduciary responsibility (sometimes referred to as "fidelity to mission") for non-financial outcomes.

Second, integrating social missions into the organization's corporate documents may allow socially conscious businesses access to alternative forms of capital. Social entrepreneurs often mention capital formation as the biggest challenge for dual mission enterprises; they are not eligible to receive the same types of charitable contributions and grants as are nonprofit organizations, and they may be viewed skeptically by private investors who are looking for market-rate immediate returns on their investment (Capriccioso, Zwetsch, and Shaver 2012; Cummings 2011). By distinguishing themselves as a new type of company and certifying their compliance with social and environmental standards, L3Cs, benefit corporations and CBCs may be able to have strategic access to forms of socially conscious capital, such as socially responsible investments (SRIs) and PRIs.

While legal protection and access to capital may be compelling arguments for an alternative business structure or certification, the most important purpose according to many of the entrepreneurs is the ability to brand their companies in line with their social missions (Capriccioso, Zwetsch, and Shaver 2012; Cummings 2011; Schmidt 2010).This is not necessarily mutually exclusive from capital formation or fiduciary responsibility; communicating a social mission to customers and stakeholders—in addition to shareholders—is a necessary component of attracting similarly aligned capital and generating business revenue from socially conscious consumers. Having a metric or standard by which to compare social performance over time and to other similar organizations, such as the B-Lab impact assessment, can provide a mechanism to enable fiduciary responsibility and accountability. But if the primary benefit is related to branding and marketing, there may be little distinction between the new forms and ubiquitous CSR programs at companies using other corporate forms.

Corporate Social Responsibility: The Role of External Evaluators & The Institutional Environment

Stated CSR programs have been common since at least the early 1980s. However, the concept of a business pursuing a social goal has not been universally embraced. Friedman (1970) claimed that the only responsibility a business can (or should) have is a responsibility to deliver profitability to owners and shareholders, who then may, as individuals, improve society however they see fit. Any instance of a corporate entity enacting social programs was inherently undemocratic to Friedman as the corporation is an "artificial individual" and can therefore only have artificial responsibilities (1970). Nevertheless, a

majority of US companies mention CSR on their websites (Maignan and Ralston, 2002), and companies around the world appear to be following suit (Matten and Moon, 2008). Most studies of CSR come from a marketing perspective and have focused on the relationship between a company having a CSR program and its subsequent financial performance (Margolis and Walsh, 2003). The results of CSR programs in producing financial benefits are decidedly mixed (Orlitzky, Schmidt, and Rynes, 2003) largely due to variation in slack resources. Firms whose financial performance is weak are less likely to engage in socially responsible corporate behavior, conventionally defined, than firms whose financial performance is strong (Margolis & Walsh 2001; Orlitzky et al., 2003), because firms that are less profitable have fewer resources to spare for socially responsible activities than firms that are more profitable (Waddock & Graves 1997).

Nevertheless CSR programs are often touted regardless of profitability or the extent to which CSR is integrated into organizational operations. This has led to criticisms of "greenwashing" (Laufer 2003) – organizations using CSR strictly for marketing purposes but not being accountable for their social performance. If CSR is not necessarily profitable and CSR efforts are not measured against any social objectives, then these programs may represent the classic case of a mimetic process – organizations using CSR for no reason other than the expectation that they have a program. Further, if most companies have CSR programs, then can an organization hope to differentiate itself in the marketplace through a CSR program?

Perhaps one way to differentiate is through third-party certification. For example, in the nonprofit sector, being evaluated by the Better Business Bureau (BBB) has been associated with increased financial contributions from donors (Sloan 2008). In the same way, socially conscious investors seek signals that they are investing in a firm that meets certain externally identified criteria. Investor groups and pension managers like TIAA-CREF have developed independent social evaluation criteria, primarily focused on business processes (Chatterji, Levine, and Toffell, 2009). The third-party organization B-Lab has taken the lead in developing an impact rating assessment that can be used to evaluate firms according to social and environmental standards. Specifically, the rating system includes sections on accountability, employees, community, and environmental impact. In addition to being part of the certification process, the impact assessment may provide a shared language and metric for organizations not even seeking B-Corporation status. For example, while L3C enterprises don't have the same requirement to be evaluated according to a third party standard, an L3C entrepreneur noted borrowing language from the B-Corporation standards to provide some clarity around defining the company's social purpose (Capriccioso, Zwetsch, and Shaver 2012). This suggests that the assessment has symbolic and perhaps differentiation value, but does it hold organizations accountable for changes in behavior?

As noted by critics, B-Lab in and of itself has no real authority to hold organizations accountable (André 2012).[10] Andre (2012) concludes that because the nonprofit B-Lab is funded in part by the corporations it certifies, it is not truly independent and therefore is likely to be captured by business interests rather than enabling them to achieve social purposes. While a potential concern, it is often the case that organizations are rated and evaluated by organizations for a fee. For example, nonprofit organizations wishing to become officially certified by the BBB's Wise Giving Alliance must pay a fee, based on the size of the organization. In this case B-Lab, provides a mechanism (the impact assessment) by which firms can assess their social purpose. Whether or not firms change their behaviors is dependent on the individual firm's accountability relationships, not only to shareholders, but also to employees, board members and the local community. These accountability relationships are embedded within the institutional environment for the organization, and can vary significantly between organizations, thus resulting in different behaviors for otherwise similar firms.

In the literature on CSR, there has been a strong push to consider the institutional environment as a critical determinant of how firms respond to CSR pressures (e.g. Campbell, 2007). The institutional environment includes influences at multiple levels, including macro/regulative (legal structure, ownership), meso/associative (affiliations and stakeholders), and micro/cultural (mission, values and communication) (Bies et al. 2007; Galaskiewicz 1991; Marquis, Glynn, and Davis 2007; Scott 2001, 2003; Terlaak 2007; Campbell 2007; Moulton 2009). Perhaps most commonly, the regulatory and structural components of institutional environments have been associated with socially responsible behavior. We may expect that publicly traded corporations have unique pressures to develop robust CSR programs, or that manufacturers might feel expectations to focus CSR efforts on mitigating the environmental impact of their manufacturing processes. For example, in an analysis of environmentally responsible behaviors for manufacturing firms, Williamson et al. (2006) found that regulatory structures and cost reductions were the primary drivers of behavior, particularly for small and mid-size companies (Williamson, Lynch-Wood, and Ramsay 2006). However, this does not discount the importance of other stakeholder groups internal and external to the organization.

Combining insights from stakeholder theory (Fligstein and Freeman 1995), we suggest that firms will be more likely to invest in producing social outcomes if they are monitored on their social performance by stakeholders, both internal and external to the organization, including employees, consumers, suppliers and the local communities in which the companies operate (Campbell 2007, 947). Research on corporate philanthropy demonstrates the importance of both the regulative and associative (stakeholder) features of the institutional environment on the charitable giving of private firms (Wang and Qian 2011). For example, the deductibility of private contributions as defined by the IRS tax code has

10

long been known to be a strong driver of giving behavior (e.g.,Clotfelter 1985). However, research by Galaskiewicz (1991) demonstrated that firms are more likely to make charitable contributions if managers belonged to business or professional organizations also dedicated to philanthropy, such as the Chamber of Commerce (Galaskiewicz 1991).

Thus, B-Lab's assessment of the social impact of firms may in and of itself play an integral role in setting the environmental expectations for these new organizational structures. However, the extent to which social and environmental outcomes are achieved is likely moderated by the diverse institutional environments of rated firms.

Data & Methods

For this study, we employ unique data from the B-Lab Impact Assessment, including indicators reported for the initial and ongoing certification process from 2008-2011. This dataset has been made available to the researchers under contract with Duke University and B-Lab, and provides a first look at the characteristics and social performance of certified B-Corporations. The dataset includes indicators from 1,413 companies completing the impact assessment, of which 417 sought and obtained certification as a CBC. In addition to including the entire sample of organizations completing the assessment, we also restrict the data to the 417 CBCs, as data provided by these firms was reviewed and validated by B-Lab as part of the certification process.[11] CBCs have to obtain a minimum score on the B-Lab Impact Assessment, and must revise their governing documents to include "due consideration" for the interests of employees and other stakeholders, and the impact of the company on the community and the environment. Organizations not becoming certified but completing the impact assessment are referred to as "Other Sustainable Businesses" by B-Lab (B-Lab 2012).

To become a CBC, a reviewed company has to receive a sore of 80 or higher on the Impact Assessment out of a possible 200 points. According to the B-Corps Index Report (2012), the median score for certified companies from 2008-2011 was 105, while the median score for the Other Sustainable Businesses was 84. For this analysis, we use the underlying variables rather than the scores in order to identify and describe relationships between different constructs. The complete assessment includes more than 650 variables on a variety of indicators related to company structure and governance, employee considerations, community factors and outcomes, and environmental strategies and impact. To preserve the confidentiality of the companies, no company identifying information was provided to researchers (for example, geographic identifiers, date founded, and industry type were not provided).

[11]According to B-Lab, "Each B Corp goes through an assurance process which includes a phone review of their assessment with B Lab Staff, providing supporting documentation to validate their answers. In addition 10% of B Corporations are reviewed on-site for a deeper review every year."

For the analysis, we focus on a subset of indicators from the assessment representing each of the impact categories. Not all firms are provided with all indicator items; the impact assessment is tailored to individual companies based on the size of the firm (measured by number of employees in categories: 0, 1-4, 5-29, and 30+) and the sector of the firm (manufacturing, service and retail). Even when a company is provided a question, they may choose to leave it blank. Therefore, when extracting indicator items for our analysis, we try to limit our selection to those for which at least 50 percent of companies provided a valid response. While we do not focus on the actual ratings produced by B-Lab for indicator areas, we do include variables in our analysis that B-Lab has identified has identified as "key performance indicators" (KPIs) for their annual Impact Report. B-Lab identifies 29 KPIs based on the breadth of practices they cover, ease of interpretation for the general public, and the significance of the item to the total impact score (B-Lab 2012). Table 1 provides a summary of the KPIs that we employ in our analysis, by impact area and construct (as defined by B-Lab). Items in italics are included by the research team, but were not originally identified as KPIs by B-Lab for their annual report.

[Insert Table 1 Here]

All items are coded as dichotomous variables (0 or 1) for our analysis. For each indicator item, we include three sets of summary statistics. First, we summarize the item only for CBCs, treating missing observations as missing. Second, we include the proportion of CBCs with the given indicator, recoding missing observations as "0". Finally, we include the proportion of all respondents with the given indicator, recoding missing observations as "0". In theory, the organizations are not provided any points for items they fail to complete, so we feel comfortable with this approach to recode the data. However, some organizations may not respond to items if they are not applicable (for example, firms without employees would not respond to the employee questions). The proportion of organizations responding positively to a particular item can vary substantially depending on how missing observations are treated; thus we include both for CBCs in Table 1 for descriptive purposes. This difference is important to keep in mind when drawing inferences from the impact assessment data.

Table 1 summarizes the items by impact area, as defined by B-Lab. B-Lab identifies four key areas: workers (employees), community, environment and governance. Within each area, several different constructs are measured with indicator items. For example, in the workers impact area, constructs include: (1) job creation; (2) compensation, benefits and training; and (3) worker ownership. When missing observations are excluded and the sample is limited to CBCs, the proportion responding positively to a given indicator item is generally the highest. Further, limiting the sample to CBCs results in a higher proportion than including the entire sample (with Other Sustainable Businesses). For example, while 59.2 percent of *responding certified* organizations (n=201) report increasing their employee base by more than 5 percent in the last 24 months, this characteristic is indicative of only 28.5 percent of *all certified*

organizations (n=417), and 21.9 percent of *all respondents* (n=1,413), with missing observations coded as "0".

In addition to indicators representing impact, we also include a variety of indicators from the assessment that measure structural and task characteristics of the organizations. Ideally, we would be able to include more precise measures for characteristics such as industry and profits; however, as these variables could be used to identify the companies, they are not included in the dataset. Table 2 provides a summary of available indicators, including the following: (1) structure, categorized as LLC, S-Corporation, C-Corporation or "other"; (2) ownership, indicating 50% or more from small investors, nonprofit organizations or employees; (3) sector, indicating manufacturing, wholesale or service; (4) company size, measured by number of employees, in categories corresponding to the categories assigned by B-Lab for the assessment; (5) revenues, in categories of <$1 million, $1-10 million, or greater than $10 million (data is not normally distributed); (6) an indicator for more than 5 years with a given supplier, as a proxy for company age; (7) the social purpose of the organization, where organizations can select all that apply; and (8) the unique service population of the organization, if applicable, where organizations can select all that apply.

[Insert Table 2 Here]

As demonstrated in Table 2, the highest percentage of certified organizations are C-Corporations (42.9%), however, more than one-third are LLCs (34.1%). Only 4 certified organizations at the time of this assessment (2011) identified themselves as benefit corporations; these organizations are included in the "other" category, along with cooperatives, sole proprietorships, limited partnerships and partnerships. More than one quarter of certified organizations are primarily owned by employees (50% or more of ownership). Most of the respondents are in the service sector (72.9% of certified organizations), with 13.7 percent from wholesale and 13.4 percent from manufacturing. In terms of organizational capacity, most of the organizations are very small; one in four have no paid employees, and an additional 26 percent have only 1 to 4 employees. Only 13.4 percent of certified organizations have more than 30 employees. Similarly, more than half of the certified organizations (56.6 %) reported less than $1 million in revenues, with one-third reporting $1-10 million and about 10 percent reporting more than $10 million. Only 28.8% report having a relationship with a significant supplier for more than 5 years, suggesting that the majority of respondents are newer organizations.

It is also important to consider the task environments of the organizations. To do this, we first coded responses to self-reported "beneficial products or services," where organizations were provided with a list of items and were asked to identify if their organization has a "direct impact", "indirect impact," or "no impact" on the given item. We coded organizations as serving the specific purpose if they selected "direct" impact on a particular item. The highest reported purpose among certified organizations

(18.2%) is to preserve the environment, followed by capital development, or "increasing the flow of capital to purpose driven enterprises" (13.4%). Further, 8.9% of certified organizations reported "promoting the arts, sciences or the advancement of knowledge", 6.5% reported improving health, and others reported promoting economic equality for individuals (8.2%) or the community (6.2%). We also considered the targeted service population as another measure of the task environment. Specifically, organizations were asked to select from a list any applicable underserved populations specifically served by their products or services. More than half of the certified organizations (56.6%) reported serving minorities, with 39.1 percent reporting serving nonprofit organizations, 12.7 percent serving domestic low income households, 7.4 percent serving international low income households, and 5 percent serving persons with disabilities.

The purpose of our analysis is primarily descriptive, to explore the indicators included on the B-Lab Impact Assessment, and how variations in performance on community and environmental outcome indicators relate to the institutional environment of the organizations. To do this, we first identify those items from the key performance indicator list that could be considered outcome measures. For our purposes, we consider outcomes to be those items that have or are intended to have a direct impact on the community or environment. Primarily, we consider indicators of charitable giving and volunteering, and environmental impact to be outcome measures.

We consider the other key performance indicators to be measures of the institutional environment and the relative priority that the organization places on a given stakeholder group including employees, boards of directors and the local community. For example, if the organization provides health and retirement benefits to all of its employees and includes employees as owners in the corporation, we would expect employee interests to be more strongly represented in organizational decision-making. Similarly, if the organization patronizes local suppliers and the majority of the company is housed within the local community, we expect community interests to be more strongly represented in organizational decision-making. Finally, if the organization holds regular board meetings and has the board or other third party review its financial statements, we expect that board governance will be more strongly represented in corporate decision-making. Rather than include all of the individual indicator items within each of the three groups, we conduct a principal components factor analysis and extract three factors representing the uncorrelated components associated with each of the three constructs. The factor analysis also helps us to identify which components of the impact assessment load most strongly on the representative factors.

Finally, to explore the relationships between the institutional environment and the measures of social impact, we conduct a series of logistic regression models. Specifically, we regress each outcome measure on a vector of explanatory variables including the extracted factors, structural characteristics, and indicators of the task environment.

Results

By design, the B-Lab assessment includes indicators grouped into categories by impact area. Rather than treating all indicator items equally, we divide our list of key performance indicators (from Table 1) into those that are process oriented and those that are outcome oriented. Process oriented indicators are drawn from the employee, accountability, and community sections of the impact assessment. For example, Table 1 includes several of these process oriented indicators: providing health insurance, working with local suppliers, having managers come from traditionally underrepresented groups, and having an independent advisory board that meets regularly. We expect that these items represent the degree to which the company considers the interests of the workers, board and local community, respectively. We do not include certain indicator items from the community section that relate to charitable giving or volunteer activities, as these are more in line with our definition of social outcomes. We also include the environmental impact items as measures of social outcomes.

First, we employ principal components factor analysis to (1) identify the extent to which the process indicators load as expected by stakeholder group; and (2) extract the uncorrelated components (factor scores) of the stakeholder focus areas to include in exploratory regression analysis. As can be seen in Table 3, the process-oriented measures load as expected on three primary factors (all with Eigenvalues >1): (1) employee factor, (2) board governance factor, and (3) local community factor. These factors appear regardless of whether we limit the results to the certified organizations or the entire set of firms that opted in to the B-Lab assessment. In terms of the relative strength of different indicator items, the employee factor loads strongly (as expected) on increasing employment opportunities, employee health insurance premiums (full and part time workers), providing retirement benefits and employee ownership in the company. In addition to items from the "worker" area of the impact assessment, the employee factor also loads strongly on the indicators for hiring management from previously excluded populations, sharing financial information with employees, and evaluating employees on social and environmental goals. The board governance factor loads strongly as expected on the indicators for board independence, providing financial information to the board, and ensuring that the board meets at least twice annually. Finally, the local community factor loads strongly on the indicators for local suppliers, ownership of the company by community residents, customers living in the same community as owners, and a company focus on serving the local economy.

[Insert Table 3 Here]

We also conduct an exploratory factor analysis of the indicator items we identified as representing social outcomes, primarily to identify which indicator items most strongly comprise the community

impact and environmental impact constructs. These strong indicator items (rather than extracted factor scores) serve as the dependent variables for our regression analysis. As shown in Table 4, two primary factors emerge as expected (with Eignenvalues > 1): community impact factor and environmental impact factor. The environmental impact factor loads most strongly on the incorporation of the environment into the company mission statement, a business model designed to benefit the environment, printed materials that are environmentally friendly, recycled office materials, purchasing carbon offsets, and engaging with suppliers, partners or customers to reduce environmental impact. The community impact factor loads strongly on a business model designed to generate charitable giving, donating to charities (both measures), having a written community service policy, and making customers and suppliers aware of the social mission. We again see these factors emerge whether including only the CBCs or the entire sample.

[Insert Table 4 Here]

As a final stage in our analysis, we explore the relationships between the three extracted stakeholder factors, as well as structural and task characteristics, on community and environmental outcomes. For community outcomes, we select three indicators: giving at least 5% of *revenues* to local charitable organizations; giving at least 10% of *profits* to charitable organizations; and having a business model designed to promote charitable giving. The environmental outcomes selected include: entering into formal agreements with partners to reduce environmental impacts across the supply chain; having a business model designed to minimize environmental impact; purchasing carbon offsets; and using recycled and recyclable materials in business operations.

Table 5 presents results with community oriented outcomes and Table 6 with environmental outcomes. We note first that few task environment or structural variables show consistent relationships with these outcome indicators. As expected, we find that firms that identify their social purpose as environmental impact are more likely to demonstrate positive performance on three of the four environmental outcome indicators. Other social purpose indicators are not consistently associated with the outcome variables. In terms of structure, wholesalers are a bit more likely to focus on certain environmental outcomes (tailoring their business model to the environment and working with suppliers to ensure a green supply chain), and S-corporations are more likely to have a model focused on the environment. Larger firms (with more employees) are more likely to engage in charitable giving, perhaps indicative of greater slack resources.

We do find significant relationships between particular stakeholder factors and social outcomes. Specifically, the local factor and the employee factor are associated with social outcomes. As might be expected, organizations with a higher score on the local community factor are more likely to donate to

local nonprofits (although this is not associated with general donation of 10% of profits to charities). The local factor is also associated with organizations that formally work with suppliers to reduce their environmental impact, have a business model that incorporates environmental aspects, and utilize recycled (and recyclable) materials in business operations. The employee factor is associated with utilizing recycled materials in business operations, being engaged with suppliers to reduce environmental impacts, and utilizing a business model designed to promote charitable giving. Interestingly, the board governance factor is not associated with any of the outcome variables.

[Insert Table 5 Here]

[Insert Table 6 Here]

We also include an indicator for whether or not customers and suppliers are aware of the firm's social mission. Keeping market participants informed of the social mission could indicate a firm that either clearly intertwines its social mission with its business practices, or a set of stakeholders that demand the firm be held accountable for the progress being made on meeting the social mission. We find that this indicator is strongly associated with both charitable giving and environmental outcomes.

Conclusions

In this research, we considered the potential effects of a new corporate emphasis on building social purpose into the company mission. We suggested that new corporate forms have emerged that both reflect this emphasis, but also hold the potential to shape the institutional environments in which firms operate. Using B-Lab's assessment tool for evaluating whether to certify firms as certified benefit corporations, we argued that rather than viewing all of the indicator items in the assessment tool as representing a collective impact score, that the impact indicators can be separated into those that represent external outcomes (e.g., charitable giving and environmental impact), and those that represent internal processes, and specifically, attention to different stakeholder groups that comprise the institutional environment. Indeed, we find meaningful variation on process oriented indicator items by stakeholder; factor loadings confirm that the indicators distinctly represent three stakeholder interests: employees, the community and the governing board. Some of the items that load strongly in each area (for example, employee) are not necessarily those items included in the "worker" portion of the B-Lab impact assessment, but logically describe attention to employee interests (e.g., sharing financial information with employees, and hiring management from underserved populations).

We also explore the extent to which attention to particular stakeholder interests, as measured by three extracted factors, is associated with social outcomes. We employ measures of social outcomes most

strongly associated with the constructs of community impact, and environmental impact, respectively. We find consistent evidence that attention to local interests is not only associated with charitable giving (particularly at the local level), but also with positive environmental outcomes. Interestingly, this is not just local environmental outcomes; attention to local interests generally is associated with positive performance on environmental impact across the board, including ensuring the use of recycled materials and even purchasing carbon offsets. Moreover, we also find some evidence that focus on employee interests (employee factor) is associated with some environmental outcomes, particularly those that most reflect employees' day to day activities, such as using recycled materials in operations and formally engaging with customers and suppliers to reduce the environmental impact of activities along the supply chain. Conversely, we do not find a strong relationship between board focus and either charitable giving or a focus on environmental outcomes. This does not imply that transparency and board oversight are not important; rather, they do not appear to have a significant independent effect on the outcomes measured by this assessment.

We also find that sharing information about social mission with market participants- customers and suppliers- is associated with an increase in charitable giving, as well as with environmental outcomes, although this latter result is only consistent when considering all organizations that are assessed but not when just considering CBCs. While we cannot observe here the extent to which these market participants either ask for or receive detailed information regarding the social impacts of the firm, we do note the relationship between accountability to various stakeholder groups and increased performance on these social outcomes. It appears that the mere act of reporting, whatever form that reporting takes, predisposes these firms to be more focused on social outcomes rather than only an alteration of internal processes.

Stakeholders are important, as institutional actors that shape the behavior of firms. This does not necessarily mean that new structures are not also reflective of institutional mechanisms. While B-Lab's purpose is to certify B-Corporations, very few of the firms that have requested certification so far are actually one of the new structures (benefit corporation or L3C). This places the certification organization in a potentially important space. Our findings indicate that an outcome orientation is more likely when stakeholders are aware of the social mission. Social outcomes are notoriously difficult to measure for nonprofit and public organizations, and the same is likely to be true with for-profit firms. As stakeholders become increasingly interested in outcome information, B-Lab could be in a position to set the standards that institutional environments will expect from for-profit firms. For example, program/overhead expense ratios (program expenses and non-program expenses as proportions of total expenses) are ubiquitous as measures of nonprofit performance, yet these measures are derided as lacking validity as measures of any meaningful outcome. Indeed, even the two organizations arguably most influential in the

institutionalization of these measures, the BBB and Charity Navigator, have recently publicly argued the invalidity of the program and overhead expense ratios[12]. Yet the use (or, overuse) of these ratios goes back to some of the first efforts by states to regulate the newly forming charitable sector in the early 20th Century. During this time of rapid industrialization and urbanization, philanthropy was moving beyond local religious congregations. As the sector began to grow, states and residents began to demand more information about which organizations were "legitimate" and which were not. One early standard several states used was the program/overhead expense ratio, a ratio that, despite considerable contestation regarding its validity, is still widely used today by third-party nonprofit evaluators.

We see similar parallels with corporate social responsibility and the B-Lab mission. In the early 20th Century, the nonprofit form was relatively new and rapidly growing and stakeholders desired accountable performance data beyond good intentions. Today, there are new for-profit structures emerging that specify a focus on a social mission. Not surprisingly, there is also increased interest in measuring social outcomes beyond corporate good intentions. With this research, we suggest that it is important to understand how we can best ensure the social accountability of new organizational forms. We find evidence suggesting that the stakeholder groups closest to a particular organization, including the employees and the local community, may play a powerful role in this regard.

[12] See: http://overheadmyth.com

André, Rae. 2012. “Assessing the Accountability of the Benefit Corporation: Will This New Gray Sector Organization Enhance Corporate Social Responsibility?” *Journal of Business Ethics* 110(1): 133–150.

Bevan, G, and C Hood. 2006. “What’s measured is what matters: targets and gaming in the English public health care system.” *Public administration*.

BLab. 2012. *B Corporation Annual Report: 2012*. B Lab.

Bouckaert, Geert, and B. Guy Peters. 2007. “Performance Measurement and Management: The Achilles’ Heel in Administrative Modernization.”

Campbell, J. L. 2007. “Why Would Corporations Behave in Socially Responsible Ways? an Institutional Theory of Corporate Social Responsibility.” *Academy of Management Review* 32(3): 946–967.

Capriccioso, Caryn, Rick Zwetsch, and Erin Shaver. 2012. *Who is the L3C Entrepreneur?* InterSector Partners, L3C.

Clotfelter, C.T. 1985. *Federal tax policy and charitable giving*. Chicago: University of Chicago Press.

Cummings, Briana. 2011. “BENEFIT CORPORATIONS : HOW TO ENFORCE A MANDATE TO PROMOTE THE PUBLIC INTEREST.” *Columbia Law Review* 5(2010): 578–627.

DiMaggio, PJ, and WW Powell. 1983. “The iron cage revisited: Institutional isomorphism and collective rationality in organizational fields.” *American sociological review*.

Fligstein, Neil, and R E Freeman. 1995. “Theoretical and comparative perspectives on corporate organization.” *Annual Review of Sociology* 21: 21–43.

Fremont-Smith, Marion R. 2007. “Search for Greater Accountability of Nonprofit Organizations: Recent Legal Developments and Proposals for Change, The.” *Fordham Law Review* 76.

Galaskiewicz, Joseph. 1991. “Making corporate actors accountable: Institution-building in Minneapolis-St. Paul.” In *The new institutionalism in organizational analysis*, eds. Walter Powell and P.J. DiMaggio. Chicago: University of Chicago Press, p. 293–310.

Haigh, Nardia, and Andrew J. Hoffman. 2012. “Hybrid organizations.” *Organizational Dynamics* 41(2): 126–134.

Hansmann, Henry. 1981. “The Rationale for Exempting Nonprofit Organizations from Corporate Income Taxation.” *The Yale Law Journal* 91(1): 54–100.

Heckman, J, C Heinrich, and J Smith. 1997. “Assessing the performance of performance standards in public bureaucracies.” *The American Economic Review*.

Heckman, JJ, CJ Heinrich, and J Smith. 2011. “Performance Standards and the Potential to Improve Government Performance.” … *Performance of Performance* ….

Heinrich, Carolyn J. 2002. “Outcomes-Based Performance Management in the Public Sector: Implications for Government Accountability and Effectiveness.” *Public Administration Review* 62(6): 712–725.

Kaplan, RS. 2001. “Strategic performance measurement and management in nonprofit organizations.” *Nonprofit management and Leadership*.

Koning, P, and CJ Heinrich. 2013. “Cream Skimming, Parking, and Other Intended and Unintended Effects of High- Powered, Performance- Based Contracts.” *Journal of Policy Analysis and* ….

Krishnan, R, MH Yetman, and RJ Yetman. 2006. “Expense misreporting in nonprofit organizations.” *The Accounting Review*.

Laufer, WS. 2003. “Social accountability and corporate greenwashing.” *Journal of Business Ethics*.

Nicholson- Crotty, S. 2006. “Disparate Measures: Public Managers and Performance- Measurement Strategies.” *Public Administration* ….

Sabeti, Heerad. 2009. *The Emerging Fourth Sector: Executive Summary*. The Aspen Institute.

Schmidt, Elizabeth. 2010. “Vermont ’ s Social Hybrid Pioneers : Early Observations and Questions to Ponder.” *Vermont Law School Legal Studies Research Paper Series* 10(53).

Sloan, M. F. 2008. “The Effects of Nonprofit Accountability Ratings on Donor Behavior.” *Nonprofit and Voluntary Sector Quarterly* 38(2): 220–236.

Tinkelman, D, and B Donabedian. 2007. “Street lamps, alleys, ratio analysis, and nonprofit organizations.” *Nonprofit Management and Leadership*.

Waddock, Sandra, and Malcolm Mcintosh. 2011. “Business Unusual : Corporate.” *Business and Society Review* 116(3): 303–330.

Wang, Heli, and Cuili Qian. 2011. “Corporate philanthropy and corporate financial performance: The roles of stakeholder response and political access.” *Academy of Management Review* 54(6): 1159–1181.

Wexler, Robert A, and Corporation Rosemary Fei. 2009. “Effective Social Enterprise — A Menu of Legal Structures.” 63(6): 565–576.

Williamson, D., G. Lynch-Wood, and J. Ramsay. 2006. “Drivers of environmental behaviour in manufacturing SMEs and the implications for CSR.” *Journal of Business Ethics* 67: 317–330.

Table 1: Select Key Performance Indicators from B-Lab Impact Assessment, by Impact Area

Area	Key Performance Indicator	Certified, Reporting[1]		Certified, N=417[2]	All Orgs N=1,413[3]
Workers (Employees)		N	%	%	%
Job Creation	Employee base increased by more than 5% in the last 24 months	201	59.2%	28.5%	21.9%
Compensation, Benefits & Training	Cover at least some of health insurance premiums for individuals	338	80.5%	65.2%	50.7%
	Extend health benefits to part time and flex time employees	226	46.0%	24.9%	20.2%
	Fund a 401(k) plan for employees	201	52.7%	25.4%	18.0%
Worker Ownership	More than 5% of company owned by non-executive employees	219	30.1%	15.8%	11.8%
Community					
Products & Services	*Incorporates social impact in mission statement*	414	90.3%	89.7%	79.1%
Suppliers & Distributers	More than 10% of suppliers are from low-income communities	215	59.5%	30.7%	28.5%
Local Involvement	More than 40% of suppliers are local independent businesses	415	50.6%	50.4%	48.8%
	More than 75% Company held within (owned by) community	337	67.1%	54.2%	55.3%
	More than 50% of customers live in same community as owners	415	45.3%	45.1%	52.2%
	Company is local business focused on serving local economy	399	53.6%	51.3%	55.1%
Diversity	More than 30% of management from excluded populations	199	48.7%	23.3%	19.0%
Civic Engagement & Giving	Donate at least 10% of profits or 1% of sales to charitable organizations	414	30.7%	30.5%	24.7%
	Provide employees more than 20 hours per year of paid time off for community service	307	19.5%	14.4%	10.4%
	Public facing partnership with a nonprofit/ charitable org	415	64.6%	64.3%	54.2%
	Donate 5% or more of revenues to local charities	337	25.2%	20.4%	22.6%
	Business model designed to generate charitable giving	398	57.8%	55.2%	50.7%
	Written community service policy	415	45.3%	45.1%	34.6%

[1]Includes only those Certified B-Corporations who provided a response to the particular indicator item
[2]Includes all Certified B-Corporations, with missing responses coded as "0"
[3]Includes all respondents, with missing responses coded as "0"
Note: Indicators in italics were added by the researches to B-Labs KPIs based on the applicability of the question to the constructs being measured.

Table 1 (cont.): Select Key Performance Indicators from B-Lab Impact Assessment, by Impact Area

Area	Key Performance Indicator	Certified, Reporting[1]		Certified, N=417[2]	All Orgs N=1,413[3]
Environment		N	%	%	%
Products & Services	*Incorporates environment in mission statement*	414	74.6%	74.1%	64.5%
	Business model designed to benefit environment	345	69.6%	57.6%	53.5%
Land, Office, Plant	Reduced energy usage relative to revenues in last 24 months	55	85.5%	11.3%	12.1%
	Generate renewable energy on site	57	22.8%	3.1%	3.1%
	Specify that >75% printed materials have recycled paper content, FSC certified paper, or soy based inks	410	78.3%	77.0%	62.4%
	At least 50% of materials used for office operations come from recycled/sustainable sources	414	61.5%	61.2%	49.3%
	Purchase carbon offsets for company travel, commuting, office operations, and shipments	414	31.6%	31.4%	25.9%
Suppliers & Transportation	At least 25% of vehicle fleet are clean or low-emission	72	29.2%	5.0%	2.8%
	Formally engage with suppliers, partners, or customers to reduce environmental impact	415	66.5%	66.2%	60.3%
Governance (Accountability)					
Corporate Accountability	Board or advisory body with at least one independent member	217	67.7%	35.3%	30.9%
	Advisory board meets at least twice annually	217	87.1%	45.3%	43.0%
Transparency	*Produce financial reports that are reviewed by the Board, other governing body, or independent third party*	358	82.4%	70.7%	64.1%
	Share financial information with full-time employees	308	69.2%	51.1%	42.7%
	Evaluate their managers on social and environmental goals	57	56.1%	7.7%	7.3%
	Customers and suppliers are made aware of service mission	415	77.8%	77.5%	69.5%

[1]Includes only those Certified B-Corporations who provided a response to the particular indicator item
[2]Includes all Certified B Corporations, with missing responses coded as "0"
[3]Includes all respondents, with missing responses coded as "0"
Note: Indicators in italics were added by the researches to B-Labs KPIs based on the applicability of the question to the constructs being measured.

Table 2: Structural & Task Variables

Construct	Certified		All Orgs	
Structure	**N**	**%**	**N**	**%**
LLC	417	34.1%	1413	23.1%
Ccorp	417	42.9%	1413	61.1%
Scorp	417	15.6%	1413	8.8%
Other[1]	417	18.9%	1413	12.2%
Ownership (50% or more)				
Small Investors[2]	417	18.9%	1413	14.9%
Nonprofits	417	1.4%	1413	2.6%
Employees	417	25.4%	1413	14.8%
Sector				
Manufacturing	417	13.4%	1413	15.2%
Wholesale	417	13.7%	1413	9.5%
Service	417	72.9%	1413	75.3%
Capacity				
Employ (0)	411	26.5%	1226	29.9%
Employ (1-4)	411	26.0%	1226	30.3%
Employ (5-29)	411	34.1%	1226	27.7%
Employ (30+)	411	13.4%	1226	12.2%
Revenues (<1 m)	394	56.6%	1306	62.9%
Revenues (1-10 m)	394	33.5%	1306	25.8%
Revenues (>10 m)	394	9.9%	1306	11.3%
5 yr+ Supplier Tenure	417	28.8%	1413	25.4%
Purpose				
Individual Equality	417	8.2%	1413	27.5%
Community Impact	417	6.2%	1413	20.5%
Environment	417	18.2%	1413	32.0%
Health	417	6.5%	1413	16.6%
Arts, Sciences	417	8.9%	1413	23.7%
Capital Development	417	13.4%	1413	26.4%
Service Population				
Low Income (US)	417	12.7%	1413	22.8%
LMI (International)	417	7.4%	1413	13.2%
Minorities	417	56.6%	1413	57.5%
Disabled	417	5.0%	1413	12.3%
Nonprofits	417	39.1%	1413	39.8%

[1]Other includes cooperative, sole proprietorship, limited partnership, partnership, and benefit corporation.

[2]Small investors are defined as "non-accredited investors, including insiders or employees"

Table 3: Factor Analysis of Process-Oriented Items

	Employment Focus Factor		Board/Governance Focus Factor		Local Focus Factor	
Survey Item	**Certified Firms**	**All Firms**	**Certified Firms**	**All Firms**	**Certified Firms**	**All Firms**
Employee base increased by more than 5% in the last 24 months	**0.638**	**0.627**	0.061	0.043	0.15	0.053
Cover at least some of health insurance premiums for individuals	**0.729**	**0.756**	0.04	0.054	-0.065	-0.042
Extend health benefits to part time/flex time employees	**0.539**	0.19	-0.007	-0.026	-0.027	-0.034
Fund a retirement plan for employees	**0.631**	**0.647**	-0.291	-0.241	-0.059	-0.098
More than 5% of the company owned by non-executive employees	**0.472**	**0.498**	0.035	0.055	-0.041	-0.05
At least 10% of suppliers are from low-income communities	-0.167	-0.042	-0.018	0.055	-0.122	0.085
At least 40% of suppliers are local independent businesses	-0.075	-0.026	0.151	0.137	**0.459**	**0.438**
At least 75% of the company is owned by local/community residents	-0.012	-0.063	-0.099	-0.073	**0.835**	**0.811**
At least 50% of customers live in same community as owners	-0.099	-0.042	0.015	-0.048	**0.737**	**0.733**
Company is focused on serving the local economy	0.075	0.03	-0.105	-0.034	**0.821**	**0.836**
At least 30% of management from previously excluded populations	**0.6**	**0.594**	-0.179	-0.03	0.006	-0.009
Board or advisory committee with at least one independent member	-0.041	0.03	**0.699**	**0.739**	-0.157	-0.107
Advisory board that meets at least twice annually	0.086	0.055	**0.808**	**0.817**	-0.141	-0.096
Produce financial reports that are reviewed by board, governing body or independent third party	-0.036	-0.031	**0.777**	**0.787**	0.017	0.029

Table 3 (cont.): Factor Analysis of Process-Oriented Items

Share financial information with full time employees	**0.582**	**0.579**	0.103	0.208	-0.011	0.038
Evaluate managers in writing on social and environmental goals	**0.327**	**0.439**	**-0.58**	**-0.499**	-0.095	0.091
Eigenvalue	2.21	2.83	1.81	2.31	1.26	1.98
Observations	417	1413	417	1413	417	1413

Note: Principle components factor analysis (varimax rotation, orthogonal solution) was used to extract core factor scores. Certified firms: Likelihood ratio test $\chi 2 = 1416.5$, $p < .01$. All firms: Likelihood ratio test $\chi 2 = 4470.1$, $p < .01$.Three factors with eigenvalues greater than 1 are retained. Two factors with eigenvalues greater than 1 were removed from the All Firms model given consistency of the first three factors with the Certified Firms model. **Bold items with factor loadings greater than .30 indicate a strong loading on the given factor.**

Table 4: Factor Analysis of Outcome-Oriented Items

	Environmental Focus		Community Focus	
Survey Item	Certified Firms	**All Firms**	Certified Firms	**All Firms**
Incorporate social impact in mission statement	0.007	0.184	**0.341**	**0.372**
Donate at least 10% of profits (or 1% of revenues) to charitable organizations	-0.064	-0.06	**0.634**	**0.655**
Donate at least 5% of revenues to local charitable organizations	-0.092	-0.033	**0.557**	**0.629**
Provide employees with at least 20 hours per year paid time off for community service	0.091	0.118	**0.333**	0.283
Official partnership with a nonprofit/charitable organization	-0.04	0.11	**0.383**	**0.483**
Business model specifically designed to generate charitable giving	0.015	0.069	**0.619**	**0.66**
Written community service policy	0.16	0.237	**0.45**	**0.489**
Incorporate environment in mission statement	**0.691**	**0.671**	-0.037	-0.01
Business model specifically designed to benefit environment	**0.451**	**0.501**	-0.019	0.091
Reduced energy relative to revenues in last 24 months	0.262	0.18	0.178	0.056
Generate renewable energy on site	0.203	0.081	0.061	0.046
Specify that printed materials are environmentally friendly	**0.606**	**0.637**	0.007	0.002
At least 50% of materials used for office operations come from recycled/sustainable sources	**0.666**	**0.65**	-0.003	0.086
Purchase carbon offsets	**0.476**	**0.437**	0.053	0.077
At least 25% of vehicle fleet are clean or low-emission	0.153	0.16	-0.107	-0.127
Formally engage with suppliers, partners, or customers to reduce environmental impact	**0.614**	**0.639**	-0.02	0.093
Customers and suppliers are made aware of service/social mission	0.026	0.204	**0.468**	**0.502**

Table 4 (cont.): Factor Analysis of Outcome-Oriented Items

Eigenvalue	2.28	2.85	1.94	1.76
Observations	417	1397	417	1397

Note: Principle components factor analysis (varimax rotation, orthogonal solution) was used to extract core factor scores. Certified firms: Likelihood ratio test $\chi 2 = 672.8$ $p < .01$. All firms: Likelihood ratio test $\chi 2 = 2358.44$ $p < .01$.Three factors with eigenvalues greater than 1 are retained. While six factors with eigenvalues greater than 1 were extracted, only the two most closely aligned with theoretically identifiable latent variables were retained. **Bold items with factor loadings greater than .30 indicate a strong loading on the given factor.**

Table 5: Giving Related Logistic Regression Results

Dependent Variable	(1) Give 5% of sales to local charities		(2) Give 10% of profits to charities		(3) Business model designed for charitable giving	
Independent Variables	Certified Firms	All Firms	Certified Firms	All Firms	Certified Firms	All Firms
Stakeholders aware of service mission	0.843**	0.649***	0.526*	0.778***	0.661**	0.839***
	(0.397)	(0.192)	(0.312)	(0.180)	(0.267)	(0.141)
Employment focus factor	-0.294	-0.0217	0.432	0.0892	0.591	0.707***
	(0.78)	(0.36)	(0.54)	(0.31)	(0.49)	(0.27)
Local focus factor	1.940***	2.054***	-0.173	0.0495	0.277	0.311**
	(0.34)	(0.20)	(0.26)	(0.16)	(0.23)	(0.14)
Board/Governance focus factor	-0.282	-0.274	-0.195	0.0426	0.409	0.183
	(0.43)	(0.23)	(0.37)	(0.21)	(0.34)	(0.19)
At least 50% small investor owned	0.0673	-0.0349	0.174	-0.00713	-0.103	0.0868
	(0.45)	(0.27)	(0.37)	(0.25)	(0.33)	(0.21)
At least 50% nonprofit owned	0.512	-0.426	1.466*	0.445	0.533	0.0701
	(0.91)	(0.52)	(0.86)	(0.45)	(0.94)	(0.41)
At least 50% employee owned	0.409	-0.164	-0.224	-0.0589	0.331	-0.0359
	(0.45)	(0.28)	(0.39)	(0.25)	(0.32)	(0.21)
LLC	0.684**	0.252	0.105	0.0543	-0.0455	0.126
	(0.35)	(0.20)	(0.29)	(0.18)	(0.26)	(0.16)
S-Corp	1.552	0.272	1.15	-0.102	1.151	0.0765
	(1.09)	(0.45)	(0.94)	(0.41)	(0.75)	(0.41)
Other structure	-1.648	-0.362	-0.881	0.194	-1.19	0.0506
	(1.06)	(0.38)	(0.92)	(0.36)	(0.73)	(0.37)
Manufacturing^	0.103	0.265	-0.0907	-0.242	0.447	0.153
	(0.49)	(0.24)	(0.41)	(0.23)	(0.38)	(0.18)
Wholesale^	-0.425	-0.28	-0.151	-0.158	0.0492	0.271
	(0.57)	(0.36)	(0.39)	(0.26)	(0.36)	(0.23)
Employees: 0^^	0.696	0.161	-0.849**	-0.329	-0.232	-0.663***
	(0.53)	(0.24)	(0.42)	(0.22)	(0.36)	(0.19)

Table 5 (cont): Giving Related Logistic Regression Results

Employees: between 1 and 4^^	0.763	0.264	-0.74	-0.212	-0.905*	-0.816***
	(0.86)	(0.39)	(0.58)	(0.32)	(0.54)	(0.29)
Employees: between 5 and 29^^	1.291	0.695	-0.975	-0.554	-0.748	-0.836**
	(1.06)	(0.52)	(0.76)	(0.45)	(0.71)	(0.38)
Revenues: Less than $1 million^^^	0.725	0.117	0.315	0.263	-0.0991	-0.0346
	(0.63)	(0.32)	(0.53)	(0.29)	(0.47)	(0.25)
Revenues: More than $1 million and less than $10 million^^^	0.443	-0.0254	0.661	0.27	-0.121	-0.12
	(0.66)	(0.34)	(0.53)	(0.30)	(0.47)	(0.26)
Average supplier relationships greater than 5 years	0.284	0.238	-0.0543	0.0825	0.0575	0.163
	(0.37)	(0.20)	(0.30)	(0.18)	(0.27)	(0.16)
Social purpose: Individual equality	-0.382	-0.387	0.225	0.0578	0.0957	-0.441**
	(0.53)	(0.24)	(0.55)	(0.23)	(0.46)	(0.22)
Social purpose: Community impact	-1.138	0.0622	-0.0802	0.0804	-0.185	0.375*
	(0.80)	(0.27)	(0.62)	(0.23)	(0.55)	(0.23)
Social purpose: Environment	-0.464	-0.453**	-0.379	-0.351**	0.0549	-0.0889
	(0.41)	(0.20)	(0.36)	(0.18)	(0.30)	(0.15)
Social purpose: Health	-0.0805	-0.171	-0.506	-0.104	-0.0477	-0.0986
	(0.68)	(0.24)	(0.66)	(0.22)	(0.49)	(0.19)
Social purpose: Arts, sciences	0.241	0.362*	-0.101	-0.241	0.104	0.0606
	(0.54)	(0.20)	(0.46)	(0.19)	(0.41)	(0.17)
Social purpose: Capital development	-0.364	0.517**	-0.292	0.393**	-0.232	0.399**
	(0.47)	(0.20)	(0.39)	(0.18)	(0.34)	(0.17)
Service population: Low income (US)	-0.354	0.144	0.800*	0.232	-0.519	-0.0945
	(0.51)	(0.22)	(0.46)	(0.21)	(0.41)	(0.19)
Service population: Low income (International)	-0.307	0.0252	-0.755	-0.311	0.341	0.258
	(0.69)	(0.27)	(0.50)	(0.23)	(0.48)	(0.22)
Service population: Minority groups	-0.103	0.0756	-0.27	0.0325	-0.214	0.15
	(0.36)	(0.19)	(0.30)	(0.17)	(0.28)	(0.14)

Table 5 (cont): Giving Related Logistic Regression Results

Service population: Disabled	0.795	0.452	-0.145	0.178	0.453	0.733***
	(0.72)	(0.28)	(0.59)	(0.24)	(0.54)	(0.23)
Service population: Nonprofits	0.362	0.597***	0.195	0.425**	0.221	0.530***
	(0.38)	(0.20)	(0.32)	(0.18)	(0.31)	(0.16)
Constant	-4.689***	-4.009***	-0.981	-2.051***	-0.537	-1.191***
	(0.90)	(0.49)	(0.70)	(0.40)	(0.64)	(0.33)
Observations	388	1154	388	1154	388	1154

Notes: Robust standard errors in parentheses. *** p<0.01, ** p<0.05, * p<0.1; ^Reference category: Service; ^^Reference category: Employees 30 or more; ^^^Reference category: Revenues greater than $10 million.

Table 6: Environment Related Logistic Regression Results

Dependent Variable	(4) Engagement with stakeholders to reduce environmental impact		(5) Business model designed for reducing environmental impact		(6) Use recycled and sustainable materials for operations		(7) Purchase carbon offsets	
Independent Variables	Certified Firms	All Firms	Certified Firms	All Firms	Certified Firms	All Firms	Certified Firms	All Firms
Stakeholders aware of service mission	0.515*	0.809***	-0.26	0.402**	0.12	0.570***	-0.0799	0.422***
	(0.288)	(0.142)	(0.329)	(0.158)	(0.285)	(0.138)	(0.285)	(0.162)
Employment focus factor	0.0333	0.541**	-0.448	0.369	0.903*	0.650**	0.477	0.399
	(0.50)	(0.28)	(0.61)	(0.30)	(0.49)	(0.27)	(0.54)	(0.30)
Local focus factor	0.228	0.395***	0.473*	0.832***	0.637**	0.470***	-0.408	-0.380**
	(0.26)	(0.15)	(0.29)	(0.16)	(0.25)	(0.14)	(0.25)	(0.16)
Board/Governance focus factor	0.332	-0.157	0.0209	-0.0138	-0.511	-0.332*	-0.329	-0.154
	(0.38)	(0.19)	(0.41)	(0.22)	(0.36)	(0.18)	(0.37)	(0.21)
At least 50% small investor owned	0.377	0.355	0.399	0.0508	-0.580*	-0.251	-0.411	-0.459**
	(0.35)	(0.22)	(0.43)	(0.26)	(0.34)	(0.21)	(0.35)	(0.23)
At least 50% nonprofit owned	-0.149	0.0586	-1.61	-0.599	-1.334	-0.682	-0.507	-1.088*
	(1.28)	(0.48)	(1.29)	(0.48)	(1.28)	(0.47)	(1.09)	(0.65)
At least 50% employee owned	-0.238	-0.0061	-0.147	-0.105	0.18	0.0707	-0.349	-0.181
	(0.34)	(0.22)	(0.41)	(0.26)	(0.33)	(0.21)	(0.35)	(0.22)
LLC	0.335	0.274*	-0.495	-0.0558	-0.0127	-0.0624	-0.556*	-0.303*
	(0.28)	(0.16)	(0.31)	(0.17)	(0.27)	(0.15)	(0.29)	(0.18)
S-Corp	0.225	0.266	0.809	1.188***	0.924	0.511	-0.0962	0.306
	(0.72)	(0.41)	(0.72)	(0.42)	(0.76)	(0.40)	(0.72)	(0.48)
Other structure	0.0902	-0.0885	-0.786	-1.003***	-0.411	-0.261	-0.155	-0.428
	(0.68)	(0.38)	(0.68)	(0.38)	(0.70)	(0.36)	(0.69)	(0.43)
Manufacturing^	-0.00093	0.255	-5.722***	-4.770***	0.246	0.0356	-0.0855	0.106
	(0.39)	(0.19)	(1.39)	(0.62)	(0.38)	(0.18)	(0.36)	(0.20)
Wholesale^	0.898**	0.850***	0.319	0.489**	0.296	0.301	0.0528	0.162
	(0.45)	(0.25)	(0.41)	(0.24)	(0.38)	(0.21)	(0.39)	(0.24)

Table 6 (cont.): Environment Related Logistic Regression Results

Employees: 0^^	0.197	-0.154	-0.177	-0.189	-0.289	-0.184	-0.581	0.321
	(0.41)	(0.19)	(0.44)	(0.21)	(0.38)	(0.18)	(0.42)	(0.21)
Employees: between 1 and 4^^	-0.365	-0.574*	-0.436	-0.595*	-1.140**	-0.658**	0.281	0.451
	(0.59)	(0.30)	(0.68)	(0.32)	(0.56)	(0.29)	(0.59)	(0.31)
Employees: between 5 and 29^^	-0.242	-0.873**	-0.392	-0.552	-1.794**	-1.318***	-1.139	-0.082
	(0.82)	(0.40)	(0.91)	(0.44)	(0.72)	(0.37)	(0.81)	(0.42)
Revenues: Less than $1 million^^^	-0.586	-0.352	0.133	0.282	0.0232	0.0238	-1.109**	-0.431*
	(0.69)	(0.27)	(0.62)	(0.27)	(0.48)	(0.24)	(0.52)	(0.25)
Revenues: More than $1 million and less than $10 million^^^	-0.741	-0.599**	0.162	0.449	0.453	0.148	-0.857	-0.22
	(0.64)	(0.27)	(0.62)	(0.29)	(0.48)	(0.25)	(0.52)	(0.26)
Average supplier relationships greater than 5 years	0.608**	0.252	-0.0257	-0.0899	0.463	0.466***	0.649**	0.188
	(0.30)	(0.16)	(0.33)	(0.18)	(0.29)	(0.15)	(0.30)	(0.17)
Social purpose: Individual equality	-0.871	-0.637***	0.0245	-0.332	0.341	-0.243	-0.652	-0.488**
	(0.55)	(0.21)	(0.62)	(0.24)	(0.53)	(0.20)	(0.65)	(0.23)
Social purpose: Community impact	0.579	0.397*	-1.241	0.113	-0.842	-0.0398	0.142	0.199
	(0.68)	(0.23)	(0.77)	(0.25)	(0.56)	(0.21)	(0.65)	(0.24)
Social purpose: Environment	0.921**	0.800***	2.896***	1.254***	0.366	0.284*	0.599*	0.458***
	(0.38)	(0.16)	(0.60)	(0.19)	(0.35)	(0.15)	(0.32)	(0.16)
Social purpose: Health	-0.576	-0.343*	-0.683	-0.517**	-0.941*	-0.126	0.0021	-0.247
	(0.51)	(0.20)	(0.59)	(0.22)	(0.50)	(0.19)	(0.55)	(0.21)
Social purpose: Arts, sciences	0.14	0.0401	0.307	0.0536	0.244	0.181	0.117	-0.0265
	(0.42)	(0.17)	(0.47)	(0.19)	(0.45)	(0.17)	(0.41)	(0.19)
Social purpose: Capital development	0.235	0.229	-0.371	-0.224	-0.208	-0.0553	-0.0547	0.274
	(0.36)	(0.18)	(0.38)	(0.18)	(0.36)	(0.17)	(0.40)	(0.18)
Service population: Low income (US)	0.16	0.0862	-0.341	-0.0155	-0.216	0.0209	-0.227	-0.324
	(0.45)	(0.19)	(0.46)	(0.21)	(0.45)	(0.18)	(0.52)	(0.22)
Service population: Low income (International)	0.767	0.2	0.248	-0.14	-0.405	-0.244	-0.925	-0.113
	(0.54)	(0.22)	(0.51)	(0.23)	(0.46)	(0.21)	(0.59)	(0.24)

Table 6 (cont.): Environment Related Logistic Regression Results

Service population: Minority groups	-0.259	-0.0248	-0.13	0.0875	-0.361	-0.0137	0.970***	0.171
	(0.31)	(0.14)	(0.36)	(0.16)	(0.31)	(0.14)	(0.34)	(0.16)
Service population: Disabled	-0.668	-0.0508	-0.223	0.192	0.502	0.0931	-0.527	0.0746
	(0.60)	(0.24)	(0.73)	(0.27)	(0.59)	(0.22)	(0.65)	(0.25)
Service population: Nonprofits	-0.745**	-0.055	-0.00165	0.233	-0.715**	-0.0651	0.684*	0.254
	(0.34)	(0.16)	(0.39)	(0.17)	(0.33)	(0.15)	(0.37)	(0.18)
Constant	0.453	-0.344	1.023	-0.788**	0.632	-0.621*	-0.0363	-1.230***
	(0.83)	(0.35)	(0.82)	(0.36)	(0.67)	(0.32)	(0.70)	(0.35)
Observations	388	1142	388	1154	388	1154	388	1154

Notes: Robust standard errors in parentheses. *** p<0.01, ** p<0.05, * p<0.1; ^Reference category: Service; ^^Reference category: Employees 30 or more; ^^^Reference category: Revenues greater than $10 million.