

Signaling Authentic Corporate Social Responsibility and Financial Performance: The Legal Form Matters

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Abstract

In this study we examine the effect of B-Corp Certification on profitability of UK companies depending on their legal forms, contributing to the nascent literature which examines the financial impact of signaling authentic CSR involving the costly Benefit Corporation Certification process. We analyze a data set which encompasses UK Certified Benefit Corporations (CBCs) and their non-CBC counterparts within the period 2006-2019 through a difference-in-difference analysis. Using Return on Asset as the proxy for financial performance, we find that private CBCs' performance deteriorates compared to their non-CBC counterparts while charitable and public CBCs perform better than their peers.

Keywords: Corporate Social Responsibility; Certified B Corporations; Legal Form of Firms; Firm Performance; Signaling.

JEL Classification: C33, G32, L33, M14

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INTRODUCTION

Financial implications of Corporate Social Responsibility (CSR) have sparked interest of many academics, however the impact of CSR on firm performance is inconclusive (Margolis et al., 2009). Florin & Schmidt, (2011) argue that the mixed results could be due to the difficulty in identifying the authenticity of CSR activities in firms. It is hard to differentiate the companies which truly strive for social responsibility from the ones that engage in green washing (Crane et al., 2014; Wilburn & Wilburn, 2014a) or good marketing which portrays a bad social performance as a good performance (Delmas & Burbano, 2011), bringing noise to the results.

Many companies signal their authenticity through more than 450 CSR certifications across the world (Gehman, Grimes, & Cao, 2019). B-Corp Certification, being the only cross-industry and cross-geographical certification that covers all aspects of environmental and social impact of an organization (Chen & Kelly, 2015; Moroz et al., 2018) is one of the costliest CSR certifications (Gazzola et. al, 2019; Parker et al., 2019) and thus attracts attention by researchers.

Prior literature examines the impact of B-Corp certification on the efficiency of employees in terms of revenue generation (Chen & Kelly, 2015; Parker et al., 2019). We add to this literature by analyzing the effect of B-Corp Certification on the profitability of UK firms depending on their specific legal forms by drawing on resource dependence theory (Pfeffer & Salancik, 2003) and theory of constraints (Goldratt, 1990). Thereby, we respond to the calls by the previous literature (e.g. Ikeziri, Souza, Gupta, & de Camargo Fiorini, 2019) to use these theories in matters related to sustainability. This is an important research topic because the vast majority of CBCs' legal form makes raising resources, particularly equity, more difficult than other legal forms (Chen & Qi, 2016; Kim, Karlesky, Myers, & Schifeling, 2016), thereby constraining the firms from fulfilling their potentials (Down Kennedy & Haigh, 2019). The ability to acquire capital and the associated

costs can determine the chances of survival for a firm (Uzzi, 1999). If the B-Corp certification process has adverse impact on these firms, this would deteriorate their sustainability and may have a negative effect on their CSR efforts.

Previous research suggests that B-Corp Certification and CSR investments increase the need for external equity (Ferretti, 2020). CSR-intense firms prefer equity financing over debt financing (Pijourlet, 2013) as CSR investments lower the cost of equity (Chava, 2014; Sharfman & Fernando, 2008) but not necessarily the cost of debt (Benlemlih, 2017; Girerd-Potin, Jimenez-Garces, & Louvet, 2011; Goss & Roberts, 2011). However, legal forms prohibiting firms to raise equity from public are less likely to generate equity funding compared to their peers that are not constrained in raising equity (Chen & Qi, 2016).

Most of the UK CBCs are private limited corporations (Ltds) and limited liability partnerships (Llps) whose legal forms do not permit raising equity or donations from the public. Our conjecture is that CBCs which are not constrained from raising any form of equity/charity financing by their legal forms will enjoy better performance after their certification in comparison to their Non-CBC counterparts because those CBCs can enjoy the lower cost of equity and take advantage of increased sale (Chen & Kelly, 2015) and capital (Bruder, 2012) in a cost-effective manner. We predict this positive relation to be less evident or even reversed between CBCs and their Non-CBC peers with other legal forms which do not allow public equity/charity financing.

Using the UK data for 2006 – 2019, we analyze the link between signaling CSR activities in CBCs through B-Corp Certification and Return on Assets (ROA) and compare their performance to their Non-CBC peers through a difference-in-difference model for different legal forms. We find that both B-Corp certified charitable organizations and public limited companies improve their ROA after certification to a greater extent than their Non-CBC counterparts in the same

period. In contrast, private limited companies and limited liability partnerships, both of which preclude financing from the public with the exception of costly debt financing (Pijourlet, 2013), perform worse than their Non-CBC peers after certification. Both sets of results are in line with our conjecture and robust to different model specifications.

The literature on the legal forms of social enterprises such as CBCs focuses on the reasons behind the choice of the legal forms and differentiate legal forms as being either not-for-profit (charitable organizations) or for profit organizations (all the remaining legal types including plc, ltd, and llc) and employ a qualitative research methodology (Child, Witesman, & Braudt, 2015; Dowin Kennedy & Haigh, 2019; Haigh, Kennedy, & Walker, 2015; Mswaka & Aluko, 2014; Witesman, Child, & Wightman, 2019). Our paper complements this literature by focusing on the impact of *specific* legal forms by employing a quantitative methodology. It also adds to the limited amount of research (e.g. Joy, Poonamallee, & Scillitoe, 2021) which studies the legal forms of social enterprises from the lens of resource dependence theory and theory of constraints.

CBCs have to apply for certification every two years; hence, they can vary in their CSR efforts depending on renewal of their certification. Another indication of authentic CSR engagement is the total impact score received during the certification process, called B-Impact Assessment (BIA). BIA assesses five different impact areas (community, environment, government, customers, and workers), and higher scores reflect higher CSR engagement. Overall, we find that the number of certifications and higher BIA scores improve ROA for Plc and charitable CBCs in the post-certification period more than their Non-CBC peers in the same period, but are detrimental to Llps and Ltds.

Our results have important implications for CSR-focused organizations, particularly the ones that choose to signal their authenticity through a costly certification process such as B-Corp

Certification. Although the legal forms allowing public equity financing, i.e. the Plcs, are more complex and possibly costly than the other forms preventing public equity financing, i.e. the Lps and the Ltds, our findings indicate that facilitation of the access to public funds other than debt, pays off in the long-term for CSR-engaged companies.

The remainder of the paper is organized as follows. After giving the background of our study, we discuss the theories, literature and develop the hypothesis. Then, we describe the data and variables. After we explain the methodology, we report the main results and findings from supplemental analyses. Lastly, we conclude.

BACKGROUND

CSR and Authenticity

CSR has different definitions in the literature but the commonality in most definitions is “doing good beyond the interests of a company in a discretionary manner” (Banerjee, 2008). Many scholars investigate whether doing good through CSR improves firm performance or whether it is detrimental to performance. In a theoretical point of view, the Risk Mitigation Theory posits that CSR can reduce business risks by decreasing a company’s exposure to negative outcomes related to poor social performance (Goss & Roberts, 2011). The Overinvestment Theory on the other hand, argues that CSR investments are costly for a company (Pijourlet, 2013) and will therefore deteriorate financial performance (Benlemlih, 2017).

Studies on the impact of CSR on financial performance provide mixed findings. Margolis et al. (2009) examine over 200 published studies related to the subject and find that 59% of these studies reveal a non-significant impact, 28% a positive impact and 2% an adverse impact. This inconclusive finding on the relationship between CSR activities and firm performance leads to further detailed analyses (Benlemlih, 2017). Florin & Schmidt (2011) argue that CSR should be

examined in a more authentic context because it may not be easy to differentiate the firms that truly strive for social responsibility from the ones engaging in green washing (Crane et al., 2014; Wilburn & Wilburn, 2014a) or good marketing (Delmas & Burbano, 2011).

Authenticity plays a big role in distinguishing strategic processes and outcomes between profit- and mission-driven companies. Diers-Lawson et al. (2020) state that the disconnection between CSR activities and how stakeholders interpret them is based on the perception of the company's sincerity. Organizations with most successful CSR-related efforts demonstrate that social responsibility is an inherent part of their core business identity (Diers-Lawson et al., 2020). Authenticity improves the message and source credibility by reducing consumer skepticism which then leads to increased consumer purchase, loyalty and advocacy behaviors (Pérez, 2019). Therefore, CSR authenticity is an efficient way to ensure positive consumer attitude and intentions towards a company (Joo et al., 2019).

Many companies signal their authenticity through various CSR certifications, including certifications for specific products, such as Fairtrade certifications for chocolate, coffee, and tea; specifications within particular regions, such as California Certified Organic Farmers; specifications for niche markets, such as solar power or green energy across the world (Gehman et al., 2019; Moroz et al., 2018; Wilburn & Wilburn, 2014a). One important certification is granted by the B lab that, unlike others, covers the entire environmental and social impact of a company through five areas: environment, customer, community, governance, and worker (B Lab, 2019) across different industries and regions (Chen & Kelly, 2015; Moroz et al., 2018).

B Lab Certification

The B lab is an independent, non-profit institution that certifies companies as “B-Corps” after a rigorous assessment called B Impact Assessments (BIA). One of the objectives of the B Lab is to

help consumers, investors and policymakers separate a sustainable company from greenwashers (Wilburn & Wilburn, 2014b). To be certified as a B-Corp (CBC), a company must score at least 80 out of 200 possible points (Cao et al., 2017; Gamble et al., 2019). Environment scores evaluate environmental performance; customer scores hinge on whether company's products and services promote public benefits; community scores measure the extent to which the company is engaged with the local community, societal issues, and charitable giving; governance scores assess transparency and accountability; and worker scores include assessments of training, health, safety, and compensation practices (B Lab, 2022a). Certifications can be granted by the B Lab located in the USA or by its global branches, such as the B Lab UK (Wilburn & Wilburn, 2015).

Prior research on the effect of B Corp certification highlights how such certifications signal an authentic commitment to CSR in a credible way (Parker et al., 2019). Obtaining a B-Corp certification can be seen as a branding strategy for being socially and environmentally responsible (Chen & Kelly, 2015) because CBCs publicly announce the equal weight they put in people, planet and profits (Moroz et al., 2018). These certifications allow such firms to signal their commitment to CSR in their businesses (Bridges Ventures, 2015), which attracts new customers, talented employees and expands their network (Chen & Kelly, 2015).

A very important aspect of B Lab certification is that it requires companies to *legally* drop shareholder primacy and instead adopt stakeholder primacy, which means a legal obligation to consider in their decisions the impact on all stakeholders. The details of the requirement varies according to the jurisdiction the certification is based on (B Lab, 2022b). For example, in the UK, to be certified, companies must change their Articles of Association to include this legal language (B Lab UK, 2022).

Although B-Corp Certification is highly preferred given more than 4,300 CBCs in over

70 countries (B Lab, 2022c), the certification process is costly, and it needs dedication (Gazzola et al., 2019; Parker et al., 2019). Cao et al. (2017) show that 34% of CBC applicants stop the process in later stages. The process requires reorganization of operations, as well as, various documentations and follow-up communications with the B-lab (Wilburn & Wilburn, 2015). Aside of time and resource commitment, this process may also divert managerial attention away from activities essential for firms to generate profits (Parker et al., 2019).

Why do Companies Opt for B Lab Certification

CBCs are largely comprised of small and medium sized companies (B Lab, 2022d). Although, to our knowledge, the literature has not yet examined why larger companies are less enthusiastic about getting the certification, one possible reason is the heavy requirements on abiding by B Lab's requirements on at least 95% of a firm's operations (B Lab, 2022e). This can deter large firms from such certification considering their complex supply chain relationships or geographically diverse operations. Indeed, B Lab encourages large companies to follow the subsidiary route to ease the process, where subsidiaries of these companies apply for certification separately (B Lab, 2022e). Beyond the difficulties of adopting the necessary legal requirements and transforming into a stakeholder-oriented business, the process may be also challenged by powerful shareholders of those large firms due to the shift of wealth to other stakeholders. Furthermore, as larger companies have more resources, they can signal CSR by other means such as public relations and communications (Harjoto et al., 2018).

Given the most CBC firms are small and private, Kim & Schifeling (2022) examine these firms' reasons for becoming certified. In a context where maximizing the wealth of shareholders is still the predominant business objective and efforts to use businesses to solve environmental and social issues are treated with skepticism (Karnani, 2011), companies that are really committed to

CSR would experience a discrepancy between their own values and how they are seen by others (Kim & Schifeling, 2022). This is due to fact that the perceptions for individual organizations with the shareholder wealth maximization perspective spills over to other organizations with the CSR perspective. Subsequently, Kim & Schifeling (2022) argue that companies really committed to CSR strive to get the B-Corp certification to highlight how they are distinct from shareholder-only oriented corporations. They show that industries which predominantly operate based on shareholder wealth maximization have a higher number of newly certified CBCs, compared to sectors where this practice is less prevalent.

Kim & Schifeling (2022) further argue that when companies targeting shareholder wealth maximization publicly display actions as if they are CSR-focused, the distinction between the firms with and without genuine CSR objectives becomes blurred. This triggers genuinely CSR-focused firms to signal their authenticity in their CSR efforts. Moreover, the pretentious companies become a threat to the market niche of the authentic companies when the distinction between the two is blurred. Therefore, authentic firms raise the bar for belonging in the market niche by adopting more rigorous standards such as the B-Lab standards. Subsequently, Kim & Schifeling (2022) show that in industries with greater corporate attempts at endorsing CSR, the number of newly certified CBCs is higher, compared to other sectors with less of such attempts.

Signaling CSR authenticity through B-Corp Certification may increase firms' credibility and prestige, as well as, attract customers (Chen & Kelly, 2015) and investors (Bruder, 2012). Only few studies examine the relation between signaling genuine CSR and financial performance. One such exception is Chen & Kelly (2015) who compare CBCs to Non-CBCs in North America between 2006 and 2011 regarding the growth rate of revenues and employee productivity. They find that private and small CBCs have a bigger revenue growth than their public counterparts, but

their employee productivity is not significantly different from their counterparts'. The reason for this disparity is that although non-CBCs were able to decrease their employee numbers, especially surrounding the financial crisis of 2008, CBCs had to constantly increase the number of their employees, suggesting to the costliness of their CSR engagement. Parker et al. (2019) compare revenue growth of North American CBCs before and after certification. They find that the certification decreases revenue growth in certified firms compared to the revenue growth of companies in the same time period who are not yet certified. Contrary to this finding, (Paelman et al. (2020) conduct a similar analysis with European CBCs and show that the certification has a positive impact on revenue and employee growth, but it does not affect asset growth.

External Financing of CBCs

As discussed in previous sections, although signaling authenticity in CSR engagement via B lab certification can bring benefits to firms, such as attracting customers (Chen & Kelly, 2015) and investors (Bruder, 2012), it is particularly a costly process (Parker et al., 2019; Wilburn & Wilburn, 2015). Thus, companies which are authentically involved in CSR activities need additional external financing (Ferretti, 2020; Paelman et al., 2020); yet, CSR engagement reduces the cost of equity (Chava, 2014; Girerd-Potin et al., 2014; Sharfman & Fernando, 2008), but not the cost of debt (Benlemlih, 2017; Girerd-Potin et al., 2011; Goss & Roberts, 2011; Ye & Zhang, 2011). Therefore, CSR-intense firms aiming to signal their authenticity prefer equity-based financing to debt-based financing (Pijourlet, 2013).

The literature on CBCs agrees on the importance of external financing because B-Corps are mainly small companies and hence are constrained regarding internal financing (Paelman et al., 2020). Ferretti (2020) shows that the B-Corp Certification process increases the need for external financing. Pijourlet (2013) provides evidence that CSR investments increase external financing in

the form of equity. Studies also suggest that focusing on CSR decreases the cost of equity (Chava, 2014; El Ghouli et al., 2011) while its effect on the cost of debt is not significant (Benlemlih, 2017). Ye & Zhang (2011) show that the cost of debt goes up in high levels of CSR investments. Further, Pijourlet (2013) presents that CSR-intense firms prefer equity-based over debt-based external financing due to the lower cost of equity for those CSR-focused companies. In addition to that, debt financing has higher cash expenses, such as interest and repayment of debt.

Literature suggests that firms' legal form has an impact on their external financing (Chen & Qi, 2016; Quintin, 2008). Using the US data, Chen & Qi (2016) compare S and C Corporations on their external finance structures. S corporations have tax advantages compared to C corporations, but they are constrained in raising equity capital, such as restrictions on the type and number of shareholders. In particular, S corporations cannot have public offerings or obtain crowd-funding. Chen & Qi (2016) examine the impact of being S versus C Corporation on firms' external financing and find that a C corporation is eight times more likely to obtain external financing than an S corporation but the legal form does not have an impact on loan financing. This limitation makes S corporations' external funding more costly (Chen & Qi, 2016).

A similar distinction that affects access to external financing can be found in UK firms' and organizations' legal forms. In the UK, a company limited by the shares is either a public limited company (Plc) or a private limited company (Ltd). Plcs can offer shares to the public while Ltds cannot, limiting the latter's external financing. A limited liability partnership (Llp), that is a hybrid legal form having both the properties of partnerships and corporations, cannot offer its shares to the public (McFarlanes LLP, 2014), similar to Ltd companies (BIS, 2011). The majority of B-Corps are privately-held businesses, i.e. Ltds and Llp (Kim et al., 2016).

Another form of organization that heavily engages in CSR activities are charities. Although

these non-profit legal forms are not allowed to sell equity, they can receive tax-free charitable contributions from the public (Battilana & Lee, 2014), and thus, they do not face constraints on external equity financing similar to Ltps and Ltds. Even though nonprofit organizations, such as charities, do not focus on profitability, the extent of their financial stewardship is important for their donors and their regulators (Eckerd, 2015). Hence, the efficiency in the manner they use their assets is important to document for charities (Lecy & Searing, 2015). Furthermore, profits or operating surpluses are essential for charities to continue to provide social benefits in the future (Vansant, 2016).

THEORY AND HYPOTHESIS

The theory of constraints (TOC) has been recognized as a tool to identify constraints of an organization (Birkin, Polesie, & Lewis, 2009; Goldratt, 1990). TOC is built on the premise that if a constraint is removed, higher levels of performance can be achieved (McCleskey, 2020). Relying on TOC, we argue that if the legal form of an organization prohibits a firm to raise less costly funding to signal its CSR authenticity through B-Corp Certification, then such organizational form is likely to negatively impact on the firm's performance. Indeed, research indicates that one of the key considerations of legal form choice in social enterprises is financial resources (Child et al., 2015; Witesman et al., 2019).

TOC, therefore is closely related to the Resource Dependence Theory (Parker, Parsons, & Isharyanto, 2015) developed by Pfeffer & Salancik (2003), which suggests that some resources are vital to the success of the organizations (Tremblay, Côté, & Balkin, 2003). Resource dependence theory (RDT) is based on the premise that firms rely on other organizations that control their critical resources (Jiang, Luo, Xia, Hitt, & Shen, 2022). RDT further posits that firms try to

increase the resources they need for survival and prosperity (Peng, Sun, & Markóczy, 2015). Thus according to RDT, interorganizational arrangements are vital for the success of organizations, these arrangements enable organizations to find the resources they need to fulfill their functions and help them prosper (Drees & Heugens, 2013). In the context of social enterprises going through the costly certification process of B-Lab certification, entering into interorganizational arrangements to attract equity capital is likely to increase the chances of success of these organizations as CSR involvement is known to decrease cost of equity, but not cost of debt (Benlemlih, 2017; Chava, 2014). Charitable organizations can raise equity through interorganizational alliances through donations, and public limited companies can do it through public stock offerings, but a private limited company or a limited liability partnership is largely constrained in forming interorganizational alliances to raise their needed equity. (Chen & Qi, 2016). The private legal forms make the majority of CBCs and research suggests that lack of access to equity finance is an important constraint in hampering the development and growth of social enterprises (Bank of England, 2003; Brown, 2006). Indeed, our T-test in Appendix Table A.2 shows that after certification only 49% of Ltd and Llp CBCs' financing is equity on average while equity financing is 72% for charity and Plc CBCs.

The easier access to equity by charitable organizations and public limited companies, which is advantageous for CSR-intense organizations such as CBCs, also brings charitable organizations and public limited companies indirect benefits by increasing their discretion about where to obtain their finances and thereby increases their bargaining power against lending institutions, potentially also making the terms of their debt financing more favorable (Zheng & Xia, 2018).

To summarize, when organizations are constrained in their use of relatively cheap form of resource that they are dependent on to make necessary investments during the certification process

and after, their firm performance is expected to be lower than their counterparts whose legal classification does not restrict any form of equity financing, as TOC and RDT imply. Hence, we hypothesize:

H1: As opposed to their Non-CBC peers, CBCs that are not restricted from raising any form of equity financing by their legal form will enjoy better firm performance after their certification in comparison to CBCs that are inhibited from raising public equity.

DATA AND VARIABLE CONSTRUCTION

We collect data to identify CBCs from the B-Corp Company Directory database since 2006 due to availability. Remaining data on firms' characteristics including their legal classification are obtained from the FAME database until 2019. Only active companies operating in the UK with known ROA values for all years are included. Financial firms and utilities are excluded. We winsorize the variables with extreme values at 1% and 99%. The final sample comprises 6,470 firm-year observations with 586 firms, out of which 76% are private limited liability partnerships (Llp & Ltd), 14% are charities, and 10% are public firms.

To examine the link between signaling authentic CSR by CBCs and ROA, we need to identify the Non-CBC peers of the CBCs. Particularly, each CBC firm is propensity-score-matched to the closest Non-CBC firm (maximum two Non-CBCs) regarding the natural logarithm of total assets, growth, leverage¹, and 2-digit UK SIC Code of 2007. These characteristics, known to affect ROA, are described below. Some CBCs are matched to the same Non-CBCs. Unmatched CBC

¹ Considering that the cost of capital (i.e. cost of equity and cost of debt) has a fundamental importance in external financing, we include this variable as one of our matching criterion (e.g. Nelling & Webb, 2008; Walker, Zhang, & Ni, 2019).

and Non-CBC firms are dropped from the sample. This exercise reduces the initial sample of 742 firms to 586 companies of which 237 are CBCs and 349 are Non-CBCs.

We define *CBC* as a dummy that is equal to one for a firm if it is ever granted with B-Corp Certification, and zero otherwise. In our sample, *CBC* has the value one for all years including the period before such firm holds the certification. Further, we define *Post* as a dummy equal to one for years with B-Corp Certification, and zero otherwise. In this paper, we examine the effect of signaling authenticity of CSR activities by CBCs on firm performance after they are certified and compare this relation to their Non-CBC peers over the same time period. Thus, we construct $CBC \times Post$ as the main explanatory variable in our analyses through the interaction of *CBC* and *Post*. We use return on assets (ROA) to proxy for firm performance, suggested by Berman et al. (1999), Chen et al. (2018), and Hoang et al. (2020). ROA, i.e. the main dependent variable, is calculated as operating profit before tax over total assets. ROA is a measure of asset efficiency, measured by the profit from core activities generated by each unit of asset, and is important both for for-profit and charitable organizations.

Following the literature on firm performance (Borisova et al., 2012; Jain & Zaman, 2020; Khan et al., 2020; Nelling & Webb, 2008; Walker et al., 2019), we control for the following variables: $\ln(Assets)$, as firm size, is the natural logarithm of total assets; *Leverage* is the sum of short-term and long-term debt over total assets; *Cash Ratio* is cash over total assets; *Growth* is capital expenditures over total assets; *Cashflow Ratio* is the sum of net income and depreciation over total assets; *Tangibility* is property, plant, and equipment over total assets; and $\ln(Board Size)$ is the natural logarithm of the total number of directors on the Board.

Table 1 provides the summary statistics for all variables. The average ROA for charitable CBCs (7.2%) and public CBCs (7.6%) are higher than their Non-CBC peers, 2.1% and 7.2%,

respectively. Crucially, this is reversed for Ltds and Llps. Private CBCs have a lower ROA (2.9%) compared to private Non-CBCs (8.2%). Firm size is comparable between CBCs and Non-CBCs across all legal types. While leverage for charities and public firms is lower than 50%, Ltds and Llps are highly levered. Across all legal types, both CBCs and their Non-CBC peers have a negative growth of about -0.05% on average. The remaining firm characteristics show similarities on average terms between CBC firms and Non-CBCs.

[Insert Table 1 here]

Service, manufacturing, and wholesale & retail are the top three largest sectors for both CBC and Non-CBC firm groups, 63% and 73%, respectively. Telecommunication is the next common industry for CBCs and their Non-CBC peers with 12% and 15%, respectively. These sectors are followed by healthcare, agriculture and others in our sample.

METHODOLOGY

The period for the main analysis is 2006 – 2019. To examine the relation between signaling CSR activities and firm performance, we use the following difference-in-difference model:

$$Y_{i,t} = \alpha + \beta (CBC \times Post)_{i,t-1} + \sum_{k=1}^7 \delta_k Control_{i,t-1,k} + \theta_t + \varepsilon_i + \mu_{i,t} \quad (1)$$

where $Y_{i,t}$ is ROA of firm i in year t ; $(CBC \times Post)_{i,t-1}$ denotes the interaction between CBC and $Post$ for firm i in year $t - 1$; $Controls_{i,t-1,k}$ represents the control variables in the model, i.e. $Ln(Assets)$, $Leverage$, $Cash Ratio$, $Growth$, $Cashflow Ratio$, $Tangibility$, and $Ln(Board Size)$. The term θ_t denotes year fixed effects, to control for any systematic variation in ROA in any given year across all firms that are related to the macro economy. To control for any unobserved time-invariant firm-specific factors that could influence firm i 's return on assets, we include firm fixed effects in the model, indicated by ε_i . The model does not have indicators for CBCs or the post-

certification period separately because they are subsumed by the firm and year fixed effects². We investigate whether, in the post-certification period, those CBCs perform better than their Non-CBC peers through signaling their CSR activities for which they are granted the certification. This argument is denoted by the interaction of *CBC* and *Post*, i.e. the main explanatory variable in the model. To address the potential issue of causality and determine its direction, all explanatory variables are lagged by one year. Standard errors are clustered at the firm level. These econometric specifications are common among empirical corporate finance studies (Chen et al., 2018; Guo & Masulis, 2015; Parker et al., 2019).

The analysis is conducted for all firms in the sample, as well as, for charities, Plc, and Llp & Ltd, separately. This allows us to examine whether the implications of signaling the authenticity of CSR through becoming a CBC are different depending on a company's legal classification.

MAIN RESULTS

Analysis with All Firms

Initially, we examine whether holding the B-Corp Certification is linked to firm performance at all. Subsequently, we consider all firms in our sample together. Table 2 presents the results. Significant and negative coefficient for *CBC*×*Post* indicates that with the certification, firms that signal genuine CSR activities via B-Lab certification experience a decrease in ROA by 2.6%. This finding is not necessarily at odds with our hypothesis as it states that Ltds and Llps, which form the majority of our sample (76%) and hence are likely to drive this result, are expected to perform worse than charities and Plcs due to the limitations of these legal forms in obtaining equity financing.

² In untabulated analyses, we replace firm FE with industry FE and time FE with macro-economic factors (i.e. unemployment, inflation) obtain similar robust results.

[Insert Table 2 here]

Analyses with Firms of Different Legal Structure

We hypothesize that when firms are not allowed to access relatively cheap form of financing to fund the B-Corp Certification process and associated CSR activities, their financial performance is expected to be lower than their peers whose legal structure does not restrict any form of equity financing. Our sample includes firms with different legal structures. 76% are private limited companies and limited liability partnerships (Llp & Ltd), 14% are charities, and 10% are public limited companies (Plc). Figure 1 shows average ROA values around the year when the B-Corp Certification is granted for CBCs. It also gives the ROA values for their matched Non-CBC peers around the same time period.

[Insert Figure 1 here]

Considering the charitable organizations overall, ROA jumps from 2% to 22% for CBCs within three years after certification while their Non-CBC peers do not experience any significant increase in ROA. The difference in ROA around the year of certification is even more profound for public firms regarding these two groups. Specifically, Plc CBCs see an increase in ROA from about -15% to 2% after they are granted with the B-Corp Certification while Plc Non-CBCs' performance fluctuates around 7.5% throughout. In line with our hypothesis, we observe a different pattern for Llp & Ltd firms. While CBCs experience a sharp drop in ROA after certification from about 1.5% to -1%, their Non-CBC peers maintain the same performance across years, i.e. 8%. Overall, Figure 1 suggests that not all firms have the same relation between communication of genuine CSR activities and firm performance when their legal structures are considered.

Although indicative, this is a significant finding in line with our conjecture, and it suggests that the relation between engagement in CSR authenticity through the B-Lab Certification and firm performance depends on the firms' legal structure. To further investigate this finding, we conduct a T-test separately for the different legal forms of CBCs, comparing average ROA before and after certification. Table 3 provides statistically significant results consistent with the ones from Figure 1. Charities and public firms have higher ROA by 3.8% and 7.3%, respectively, after they are certified. However, CBCs that are Llp & Ltds have a drop in average firm performance by 2.7% once granted with the B-Corp Certification.

[Insert Table 3 here]

Further evidence in Figure 1 and Table 3 shows that the B-Corp Certification is positively associated with higher firm performance, except for Llp & Ltd companies. To explore this further and establish possible causality, we run a difference-in-difference analysis following Equation (1). Table 4 presents the results. For comparison, Column I gives the estimates using all firms together. In Columns II and III, statistically significant and positive results for $CBC \times Post$ indicate that engaging in CSR activities and becoming a CBC accordingly increase Return on Assets (ROA) for charitable organizations and public firms. In particular, ROA improves by 14.9% and 6.1% for charity and public CBCs, respectively, as they continue with their CSR engagement after their certification, compared to their Non-CBC counterparts. This result is consistent with the view that in contrast to their Non-CBC peers, CBCs experience better performance after the certification when they are not limited by their legal forms to raise external equity as CSR engagement reduces the cost of equity (Chava, 2014; El Ghouli et al., 2011; Girerd-Potin et al., 2014). H1 is supported.

[Insert Table 4 here]

Significant and negative estimate for $CBC \times Post$ in Column III of Table 4 suggests that when

an Llp or an Ltd company engages in CSR and becomes certified to signal their CSR authenticity, ROA drops by 3% compared to its Llp or Ltd peer without a certification. As predicted, when organizations are constrained in their use of relatively cheap form of financing for necessary investments by their legal classification, their performance deteriorates. The costs of signaling authentic CSR for such firms outweigh its benefits. This finding supports H1.

Overall, engaging in CSR and being certified is not something that all firms benefit from. Particularly, their legal form matters! Thus, a “one size fits all” approach regarding CSR certification should not be taken for granted by firms across all legal forms which may explain contradicting findings in the literature on CSR and firm performance relation.

FURTHER ANALYSES

Excess Performance

We show that firm performance is affected differently across charities, public firms, and Llp & Ltds when they become CBCs. A further method to examine this impact is to study excess firm performance. If the original findings are true, then engaging in CSR and obtaining the B-Corp Certification should also increase excess performance for charitable organizations and public companies while Llp & Ltds should experience a reduction in excess performance with the certification. Following (Faleye, et al. 2011) and (Tosun, 2021), we regress firm performance on determinants in the baseline mode. The residuals from these regressions proxy for excess firm performance, used in the second stage as the dependent variable, similar to Equation (1).

Table 5 presents both first and second stage results. Statistically significant estimates in Panel B support our original findings. Specifically, charity and public CBCs have higher excess ROA by 11.5% and 4.4%, respectively, while excess ROA decreases by 2.7% for Llp & Ltds CBCs

compared to their Non-CBC peers. These robust results indicate that signaling genuine CSR activities has diverse effects on excess firm performance, depending on their legal type.

[Insert Table 5 Here]

Number of Certifications

In the main analyses, we consider CBCs without focusing on how many certifications they have throughout the years. The B-Corp Certification is up for renewal after two years, and except very rare occasions³, existing CBCs qualify for another certification. Renewal of certification indicates that CBCs continue to participate in CSR practices and meet the CSR standards. Hence, we replace the dummy variable *CBC* with *Certifications(#)* representing the number of certifications that a CBC has obtained until a given year, to test the robustness of our original findings.

Table 6 presents statistically significant results for *Certifications(#)* × *Post*. They suggest that ROA increases by 7.9% and 6.1% for charity and public CBCs, respectively, with each additional B-Corp Certification. However, certification renewal is detrimental to firm performance by 1.5% for Llp & Ltds. These findings support our main results for H1.

[Insert Table 6 Here]

B Impact Assessment (BIA) Scores

To become a CBC, firms have to undertake a rigorous certification process, i.e. BIA, and must score over 80 out of 200 possible points from five different impact areas, i.e. community, customers, environment, governance and workers (Cao et al., 2017; Wilburn & Wilburn, 2015). The higher score indicates a higher engagement with CSR. To analyze the impact of this higher engagement with company performance, we define *Total*, *Community*, *Customer*, *Environment*, *Governance*, and *Workers* as natural logarithm of the B Impact Assessment Scores for overall,

³ In untabulated tests, we exclude these few cases and repeat the main analyses. We obtain similar and robust results.

community, customer, environment, governance, and workers criteria, respectively. We then repeat the main analyses replacing the dummy variable *CBC*.

Table 7 provides the outcomes. In Panel A, *Total*×*Post* has a statistically significant and positive coefficient indicating that higher CSR engagement in general improves ROA for charity CBCs compared to their Non-CBC peers. This confirms our previous findings. More interestingly, this positive relation is confirmed for all sub criteria of CSR. Better engagement in customer, community, worker, governance, and environment related CSR, and hence higher BIA scores in those areas, is associated with higher ROA for charitable organizations. In Panel B for public CBCs, the results are similar. Particularly, higher BIA scores are linked to higher ROA in all CSR areas. Consistent with the original findings, Ltd & Ltps experience a reduction in ROA when they engage more in various CSR areas and obtain higher BIA scores. Overall, these results suggest that signaling authenticity of CSR is not beneficial for all firms regarding firm performance, and the costs can outweigh the benefits for Ltds and Ltps.

[Insert Table 7 Here]

Other Performance Measures

In the model we use ROA as the proxy for firm performance, which is used predominantly in firm performance literature. However different measures of firm performance exist in the literature. About a third of our sample includes capital intensive industries, such as manufacturing and telecommunication. Hence, we follow Premuroso & Bhattacharya (2007) and construct return of capital employed (ROCE) as profit before tax over the difference between total assets and total liabilities. This measure can provide a better indication of financial performance for companies with large capital because ROCE considers debt and other liabilities, too. For some sectors, e.g. services, sales are the main measure for firm performance. Following Bauwhede (2009) we test

our results with profit margin (PM), calculated as profit before tax over sales, which is suggested as a good performance indicator of service companies which are broadly represented in our sample. The last measure we consider is operating profit (OP) as operating profits over total assets (Harjoto & Jo, 2008) because it incorporates amortization, depreciation and cost of goods sold.

We repeat our main analyses with ROCE, PM, and OP as the measure for firm performance. Table 8 presents statistically significant and robust results supporting our original findings. Charitable organizations' and Plcs' performance improves when they become a CBC while Llp & Ltds experience a decline in ROCE, PM, and OP under the same conditions.

[Insert Table 8 Here]

Additional Controls

Although we control for main determinants of ROA in the analyses, there might be other factors indirectly affecting firm performance. Older firms may have higher ROA due to accumulated experience in business. Moreover, innovative companies and firms with high liquidity can run their operations smoothly and perform better. Further, composition of the board of directors can influence firm performance. Boards with more non-British directors, more female directors, and more tenured directors may provide better guidance through diverse advice and experience which can help firms perform better. To control for these factors in our analyses, we construct $Ln(Age)$ as natural logarithm of a firm's age, $Liquidity$ as current assets over current liabilities, $Ln(R\&D)$, as natural logarithm of one plus research and development expenditures, $Ln(Board\ Tenure)$ as natural logarithm of average tenure of the directors in the board, $Non-British\ Ratio$ as fraction of non-British directors in the board, and $Female\ Ratio$ as fraction of female directors in the board.

Statistically significant results in Table 9 are consistent with the original findings even after controlling for additional firm characteristics. Charity and Plc (Llp & Ltds) CBCs perform better (worse) than their Non-CBC peers after being granted with the certification.

[Insert Table 9 Here]

Other Potential Channels

In Table 4 we show that CSR engagement and subsequent B-Corp can influence ROA differently for firms with different legal types. The natural question is whether there are other potential channels that can explain this phenomenon. Large firms can have relatively easier access to resources compared to small- and medium-sized companies. Similarly, growth firms with higher cash ratio or leverage can afford more resources to ensure smoother operations. All these factors can contribute to high firm performance. Further, firms with better credit scores can access cheaper financing options potentially leading to better performance. Guest (2009) argues that poor communication and long decision-making process undermine the effectiveness of large boards. Hence, firms with the smaller board may perform better. Moreover, high performance can be linked to their industries. Certain sectors and businesses are more lucrative than others. Overall, any of these conditions might justify the link between firms' performance and their signaling of genuine CSR engagement. We expect to find a different relation between ROA and CBCs in general for each of these subgroups if any of those factors are the channel explaining this relation, instead of firms' legal types.

To analyze this explicitly, we construct sub samples according to firm size (whether a firm is SME or not); firm's credit score (whether a firm is secure or not); above and below sample median for cash ratio, growth, leverage, and board size. We also analyze the companies in the top three industries separately. Table 10 provides the results that are consistently negative across all

subgroups. These findings imply that firm performance is associated negatively with CBCs signaling their CSR activities regardless of the industry, firm size, board size, credit score or any other firm characteristics when the influence of legal forms is removed. Consequently, none of these factors can explain why some firms' certification of CSR improve their performance. Our findings, therefore, indicate that companies' legal structure and associated attributes are the main channel as to explain why signaling CSR authenticity can be detrimental to some firms' performance while boosting the performance for others.

[Insert Table 10 Here]

CONCLUSION

We research the effect of B-Corp Certification on profitability of UK firms depending on their legal forms, through the lenses of resource dependence theory (Pfeffer & Salancik, 2003) and theory of constraints (Goldratt, 1990), contributing to the literature on the financial impact of signaling authentic CSR via certification. We fill the gap in this literature by (1) examining the role of legal form in how authentic CSR signaling impacts on financial performance, and (2) expanding the findings on revenue generation through investigation of such signaling and its financial impact on firms, i.e. profitability.

Legal forms matter regarding the relationship between financial performance and CSR engagement following certification because some legal forms do not allow public equity financing that limits the benefits of engaging in CSR, such as reduced cost of equity and increased investor attention. Subsequently, the benefits of signaling authentic CSR-engagement may outweigh the costs for those legal forms. In line with our conjecture, we use Return on Asset as a proxy for financial performance and show that while private CBCs that are limited in public equity financing perform worse than their non-CBC counterparts, charitable and public CBCs that can access to

public equity financing perform better than their non-CBC peers. Our findings are robust to different specifications such as excess performance, ROCE, PM, and OP. We obtain similar results in analyses using the number of certifications and BIA scores as proxies for communication of CSR authenticity.

Our results have principal implications for CSR-focused organizations of different legal incorporation forms. They can shape their decisions on which legal forms to adopt before going into the costly process of signaling authentic CSR-engagement, namely B-Corp Certification. Our results may also offer guidance for policy makers on formulating regulations on CSR while they consider firm's legal forms and potential consequences of such regulations on firm performance.

There are important future research opportunities for scholars who wish to further examine the impact of authentic CSR engagement on financial performance. Studies can incorporate potential influence of organizations' life cycle on the relationship between CSR authenticity and firm performance beyond legal forms. Previous research suggests that CSR engagement improves sales and attract capital albeit it is costly (Chen & Kelly, 2015). While mature firms can enjoy such benefits more than their peers as they already have an established customer and investor base, their maturity makes the reorganization required by the CSR certification less flexible and hence costlier for them. Moreover, future research can test the validity of our findings through a cross-country setting that incorporates cultural and organizational differences. Furthermore, the increased popularity of social enterprises has led to the creation of hybrid legal forms (Battilana & Lee, 2014) that are represented in the UK by the Community Interest Companies (CICs) (Cho, 2017). CICs can also signal authenticity and commitment to social responsibility (Cho, 2017); hence, it would be interesting to further examine the relation between hybrid legal forms and firm performance.

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Tables and Figures

Table 1: Descriptive Statistics

This table gives descriptive statistics for groups of different legal types, as well as, for CBCs and Non-CBCs. The mean, median, and standard deviation of the variables in the main analyses are provided. Overall, there are 586 firms with 6,470 firm–year observations. Out of 586 companies, 237 firms are CBCs while 349 firms are Non-CBCs. *ROA* is the profit before tax over total assets. *CBC* is a dummy that is equal to one for a firm if it is ever granted with B-Corp Certification, and zero otherwise. *Ln(Assets)* represents firm size, and it is the natural logarithm of total assets. *Leverage* is the sum of short-term and long-term debt over total assets. *Cash Ratio* is cash over total assets. *Growth* is capital expenditures over total assets. *Cashflow Ratio* is the sum of net income and depreciation over total assets. *Tangibility* is property, plant, and equipment over total assets. *Ln(Board Size)* is the natural logarithm of the total number of directors on the Board.

	Charitable Organizations						Public Firms						Llp & Ltd					
	CBCs			Non-CBCs			CBCs			Non-CBCs			CBCs			Non-CBCs		
	Mean	Med	StDev	Mean	Med	StDev	Mean	Med	StDev	Mean	Med	StDev	Mean	Med	StDev	Mean	Med	StDev
ROA	0.072	0.090	0.314	0.021	0.010	0.116	0.076	0.080	0.104	0.072	0.070	0.098	0.029	0.000	0.139	0.082	0.070	0.128
Ln(Assets)	7.289	7.405	1.920	7.562	7.466	1.345	9.699	9.646	0.943	9.094	9.136	1.197	8.308	8.100	2.352	8.719	8.845	1.084
Leverage	0.362	0.170	0.357	0.305	0.270	0.221	0.379	0.375	0.161	0.452	0.450	0.188	0.659	0.580	0.511	0.543	0.520	0.256
Cash Ratio	-0.004	0.000	0.068	0.010	0.000	0.078	0.101	0.100	0.111	0.087	0.090	0.114	0.026	0.000	0.071	0.034	0.000	0.089
Growth	-0.004	0.000	0.016	-0.005	0.000	0.020	-0.004	0.000	0.012	-0.008	0.000	0.020	-0.005	0.000	0.020	-0.006	0.000	0.017
Cashflow Ratio	0.048	0.045	0.305	0.045	0.040	0.114	0.086	0.090	0.096	0.081	0.080	0.088	0.085	0.080	0.127	0.086	0.080	0.111
Tangibility	0.001	0.001	0.001	0.005	0.000	0.016	0.018	0.010	0.028	0.012	0.000	0.024	0.002	0.000	0.011	0.007	0.000	0.019
Ln(Board Size)	1.797	1.693	0.678	2.251	2.303	0.352	1.965	1.946	0.277	1.835	1.946	0.346	0.940	1.099	0.736	1.540	1.609	0.450

Table 2: Dif-in-Dif Analyses Considering All Firms

This table presents the difference-in-difference analysis estimates for the interaction between *CBC* and *Post* along with *Ln(Assets)*, *Leverage*, *Cash Ratio*, *Growth*, *Cashflow Ratio*, *Tangibility*, and *Ln(Board Size)* as control variables. The analysis is conducted using all firms in the sample. The dependent variable is *ROA*, the profit before tax over total assets. *CBC*×*Post* is the main explanatory variable. *CBC* is a dummy that is equal to one for a firm if it is ever granted with B-Corp Certification, and zero otherwise. *Post* is a dummy that is equal to one for years with B-Corp Certification for a particular firm, and zero otherwise. Variable definitions are available in Table A.1, Appendix. All explanatory variables are lagged by one year. Year and firm fixed effects are included. *CBC* and *Post* are not included in the model separately as they are subsumed by time dummy and firm fixed effects. Standard errors are clustered by firms and given in parentheses. The *** indicates statistical significance at the 1% level.

Variables	ROA
CBC × Post	-0.026** (0.013)
Ln(Assets)	-0.005 (0.003)
Leverage	0.027*** (0.008)
Cash Ratio	0.092*** (0.024)
Growth	-0.123 (0.084)
Cashflow Ratio	0.220*** (0.038)
Tangibility	0.129 (0.160)
Ln(Board Size)	0.005 (0.007)
Constant	0.055* (0.029)
Firm & Year FE	YES
Adj R ²	0.061
Observations	6,470

Table 3: T-Test Analyses for Firms with Different Legal Structures

This table presents the T-test analysis comparing mean ROA before and after certification. The analysis is conducted separately for Charitable Organizations, Public Firms, and Llp & Ltd. The difference in ROA and p-values from the T-tests are provided. The *** indicates statistical significance at the 1% level.

	ROA			
	Before Certification	After Certification	Difference	p-value
Charitable Organizations	0.053	0.091	0.038*	0.078
Public Firms	-0.048	0.025	0.073***	0.009
Llp & Ltd	0.034	0.007	-0.027***	0.000

Table 4: Dif-in-Dif Analyses for Firms with Different Legal Structures

This table presents the difference-in-difference analysis estimates for the interaction between *CBC* and *Post* along with *Ln(Assets)*, *Leverage*, *Cash Ratio*, *Growth*, *Cashflow Ratio*, *Tangibility*, and *Ln(Board Size)* as control variables. The analysis is conducted for all firms in the sample, as well as, for Charitable Organizations, Public Firms, and Llp & Ltd separately. The dependent variable is *ROA*, i.e. the profit before tax over total assets. *CBC*×*Post* is the main explanatory variable. *CBC* is a dummy that is equal to one for a firm if it is ever granted with B-Corp Certification, and zero otherwise. *Post* is a dummy that is equal to one for years with B-Corp Certification for a particular firm, and zero otherwise. Variable definitions are available in Table A.1, Appendix. All explanatory variables are lagged by one year. Year and firm fixed effects are included. *CBC* and *Post* are not included in the model separately as they are subsumed by time dummy and firm fixed effects. Standard errors are clustered by firms and given in parentheses. The *** indicates statistical significance at the 1% level.

Variables	ROA			
	All firms	Charitable Organizations	Public Firms	Llp & Ltd
	I	II	III	IV
CBC × Post	-0.026** (0.013)	0.149*** (0.033)	0.061** (0.028)	-0.030*** (0.012)
Ln(Assets)	-0.005 (0.003)	-0.052* (0.028)	-0.006 (0.021)	-0.001 (0.003)
Leverage	0.027*** (0.008)	0.141*** (0.029)	0.027 (0.060)	0.021*** (0.007)
Cash Ratio	0.092*** (0.024)	0.020 (0.054)	0.162* (0.092)	0.101*** (0.024)
Growth	-0.123 (0.084)	-0.101 (0.238)	0.079 (0.228)	-0.190* (0.103)
Cashflow Ratio	0.220*** (0.038)	0.028 (0.052)	0.218** (0.092)	0.312*** (0.046)
Tangibility	0.129 (0.160)	-0.311 (0.291)	0.163 (0.466)	0.087 (0.181)
Ln(Board Size)	0.005 (0.007)	0.049** (0.022)	0.007 (0.020)	-0.004 (0.006)
Constant	0.055* (0.029)	0.267 (0.230)	0.088 (0.162)	0.034 (0.028)
Firm & Year FE	YES	YES	YES	YES
Adj R ²	0.061	0.095	0.142	0.323
Observations	6,470	1,079	463	4,928

Table 5: Excess Performance Analyses

This table reports analysis of excess firm performance on the interaction between *CBC* and *Post*. The analysis is conducted separately for Charitable Organizations, Public Firms and Llp & Ltd. Panel A presents first stage baseline regressions predicting *ROA* as a function of *Ln(Assets)*, *Leverage*, *Cash Ratio*, *Growth*, *Cashflow Ratio*, *Tangibility*, and *Ln(Board Size)*. Panel B presents second stage estimates for *CBC*×*Post* from regressions of *Excess ROA*, defined as residuals from the respective Panel A regressions. *ROA* is the profit before tax over total assets. *CBC* is a dummy that equals to one for a firm if it is ever granted with B-Corp Certification, and zero otherwise. *Post* is a dummy that equals to one for years when a particular firm is certified. Variable definitions are in Table A.1, Appendix. All explanatory variables are lagged by one year. Year and firm fixed effects are included. Standard errors are clustered by firms and given in parentheses. The *** indicates statistical significance at the 1% level.

Panel A: First Stage Results			
	ROA		
	Charitable Organizations	Public Firms	Llp & Ltd
Variables	I	II	III
Ln(Assets)	-0.004 (0.003)	0.002 (0.005)	0.005*** (0.001)
Leverage	0.067*** (0.018)	0.052 (0.033)	0.001 (0.005)
Cash Ratio	0.028 (0.054)	0.263** (0.102)	0.107*** (0.028)
Growth	-0.054 (0.239)	0.313 (0.255)	0.073 (0.103)
Cashflow Ratio	0.050 (0.056)	0.360** (0.145)	0.625*** (0.044)
Tangibility	-0.243 (0.232)	0.069 (0.143)	-0.181 (0.160)
Ln(Board Size)	0.006 (0.010)	-0.004 (0.016)	-0.001 (0.005)
Firm & Year FE	YES	YES	YES
Adj R ²	0.036	0.303	0.352
Observations	1,079	463	4,928
Panel B: Second Stage Results			
	Excess ROA		
	Charitable Organizations	Public Firms	Llp & Ltd
Variables	I	II	III
CBC × Post	0.115* (0.063)	0.044*** (0.015)	-0.027*** (0.009)
Controls	YES	YES	YES
Firm & Year FE	YES	YES	YES
Adj R ²	0.004	0.001	0.003
Observations	1,079	463	4,928

Table 6: Analyses with Number of Certifications

This table presents the difference-in-difference analysis estimates for the interaction between the number of certifications and *Post* along with *Ln(Assets)*, *Leverage*, *Cash Ratio*, *Growth*, *Cashflow Ratio*, *Tangibility*, and *Ln(Board Size)* as control variables. The analysis is conducted separately for Charitable Organizations, Public Firms and Llp & Ltd. The dependent variable is *ROA*, the profit before tax over total assets. *Certifications(#)*×*Post* is the main explanatory variable. *Certifications(#)* represents the number of certifications that a given company has obtained until a given year. *Post* is a dummy that is equal to one for years with B-Corp Certification for a particular firm, and zero otherwise. Variable definitions are available in Table A.1, Appendix. All explanatory variables are lagged by one year. Year and firm fixed effects are included. Standard errors are clustered by firms and given in parentheses. The *** indicates statistical significance at the 1% level.

Variables	ROA		
	Charitable Organizations	Public Firms	Llp & Ltd
	I	II	III
Certifications(#) <i>Post</i>	0.079*** (0.026)	0.061** (0.028)	-0.015** (0.007)
Ln(Assets)	-0.052* (0.028)	-0.006 (0.021)	-0.001 (0.003)
Leverage	0.143*** (0.029)	0.027 (0.060)	0.020*** (0.007)
Cash Ratio	0.020 (0.054)	0.162* (0.092)	0.101*** (0.024)
Growth	-0.098 (0.238)	0.079 (0.228)	-0.194* (0.103)
Cashflow Ratio	0.029 (0.052)	0.218** (0.092)	0.312*** (0.046)
Tangibility	-0.314 (0.292)	0.163 (0.466)	0.087 (0.181)
Ln(Board Size)	0.050** (0.022)	0.007 (0.020)	-0.004 (0.007)
Constant	0.267 (0.231)	0.088 (0.162)	0.036 (0.028)
Firm & Year FE	YES	YES	YES
Adj R ²	0.094	0.142	0.322
Observations	1,079	463	4,928

Table 8: Analyses with Different Performance Measures

This table presents the difference-in-difference analysis estimates for the interaction between *CBC* and *Post*. Panels A, B, and C give the estimates for Charitable Organizations, Public Firms, and Llp & Ltd, respectively. Three different variables are used as dependent variables. *ROCE* is the return on capital employed, which is profit before tax over the difference between total assets and total liabilities. *Profit Margin* is profit before tax over sales. *OP* is operating profits over total assets. *CBC*×*Post* is the main explanatory variable. *CBC* is a dummy that is equal to one for a firm if it is ever granted with B-Corp Certification, and zero otherwise. *Post* is a dummy that is equal to one for years with B-Corp Certification for a particular firm, and zero otherwise. Variable definitions are available in Table A.1, Appendix. Control variables are included and lagged by one year. Year and firm fixed effects are included. Standard errors are clustered by firms and given in parentheses. The *** indicates statistical significance at the 1% level.

Panel A: Charitable Organizations			
Variables	ROCE	Profit Margin	OP
	I	II	III
CBC × Post	0.240*** (0.054)	0.067* (0.035)	0.288* (0.152)
Controls	YES	YES	YES
Firm & Year FE	YES	YES	YES
Adj R ²	0.177	0.018	0.099
Observations	1,079	1,078	1,080
Panel B: Public Firms			
	I	II	III
CBC × Post	0.093* (0.053)	0.039** (0.017)	0.063* (0.032)
Controls	YES	YES	YES
Firm & Year FE	YES	YES	YES
Adj R ²	0.158	0.066	0.179
Observations	463	459	463
Panel C: Llp & Ltd			
	I	II	III
CBC × Post	-0.085*** (0.027)	-0.017*** (0.006)	-0.053** (0.023)
Controls	YES	YES	YES
Firm & Year FE	YES	YES	YES
Adj R ²	0.181	0.238	0.223
Observations	4,915	4,899	4,928

Table 9: Analyses with Additional Controls

This table presents the difference-in-difference analysis estimates for the interaction between *CBC* and *Post* along with *Ln(Assets)*, *Leverage*, *Cash Ratio*, *Growth*, *Cashflow Ratio*, *Tangibility*, and *Ln(Board Size)*, *Ln(Age)*, *Liquidity*, *Ln(R&D)*, *Ln(Board Tenure)*, *Non-British Ratio*, and *Female Ratio* as control variables. The analysis is conducted separately for Charitable Organizations, Public Firms and Llp & Ltd. The dependent variable is *ROA*, the profit before tax over total assets. *CBC*×*Post* is the main explanatory variable. *CBC* is a dummy that is equal to one for a firm if it is ever granted with B-Corp Certification, and zero otherwise. *Post* is a dummy that is equal to one for years with B-Corp Certification for a particular firm, and zero otherwise. Variable definitions are available in Table A.1, Appendix. All explanatory variables are lagged by one year. Year and firm fixed effects are included. Standard errors are clustered by firms and given in parentheses. The *** indicates statistical significance at the 1% level.

Variables	ROA		
	Charitable Organizations	Public Firms	Llp & Ltd
	I	II	III
CBC × Post	0.095** (0.039)	0.066** (0.030)	-0.033*** (0.012)
Ln(Assets)	-0.003 (0.004)	-0.004 (0.020)	-0.003 (0.003)
Leverage	0.071*** (0.023)	0.061 (0.045)	0.021*** (0.007)
Cash Ratio	0.033 (0.054)	0.167* (0.089)	0.103*** (0.024)
Growth	-0.088 (0.236)	0.070 (0.223)	-0.183* (0.099)
Cashflow Ratio	0.045 (0.055)	0.189* (0.097)	0.314*** (0.046)
Tangibility	-0.207 (0.225)	0.150 (0.404)	0.098 (0.169)
Ln(Board Size)	0.008 (0.011)	0.043 (0.028)	-0.006 (0.009)
Ln(Age)	-0.005 (0.008)	-0.095** (0.044)	0.006 (0.009)
Liquidity	0.001 (0.003)	0.001 (0.012)	0.001 (0.002)
Ln(R&D)	0.001 (0.001)	0.004 (0.004)	-0.004 (0.003)
Ln(Board Tenure)	0.004 (0.010)	0.055* (0.031)	-0.004 (0.006)
Non-British Ratio	0.004 (0.036)	0.010 (0.055)	-0.015 (0.018)
Female Ratio	-0.013 (0.019)	0.013 (0.034)	-0.002 (0.012)
Constant	0.039 (0.061)	0.129 (0.197)	0.052* (0.027)
Firm & Year FE	YES	YES	YES
Adj R ²	0.047	0.193	0.312
Observations	1,076	461	4,854

Table 10: Analysis on Other Potential Channels

This table presents the difference-in-difference analysis estimates for the interaction between *CBC* and *Post*, for various sub-samples. In Panel A, sub-samples are created according to firm size (whether a firm is SME or not), as well as, above and below sample median for cash ratio and growth. In Panel B, sub-samples are constructed using firm's credit score (whether a firm is secure or not), as well as, above and below sample median for leverage and board size. In Panel C, the companies in the top three industries are analyzed separately. The dependent variable is *ROA*, the profit before tax over total assets. *CBC*×*Post* is the main explanatory variable. *CBC* is a dummy that is equal to one for a firm if it is ever granted with B-Corp Certification, and zero otherwise. *Post* is a dummy that is equal to one for years with B-Corp Certification for a particular firm, and zero otherwise. Variable definitions are available in Table A.1, Appendix. Control variables are included and lagged by one year. Year and firm fixed effects are included. Standard errors are clustered by firms and given in parentheses. The *** indicates statistical significance at the 1% level.

Panel A: Analyses with Sub-samples of Size, Cash Ratio, and Growth

Sub-Samples:	ROA					
	Size		Cash Ratio		Growth	
	SME	Non-SME	Above Median	Below Median	Above Median	Below Median
Variables	I	II	III	IV	V	VI
CBC × Post	-0.015 (0.010)	-0.088* (0.049)	-0.024** (0.011)	-0.016* (0.009)	-0.019* (0.010)	-0.025** (0.011)
Controls	YES	YES	YES	YES	YES	YES
Firm & Year FE	YES	YES	YES	YES	YES	YES
Adj R ²	0.051	0.127	0.061	0.044	0.048	0.060
Observations	5,843	1,697	6,983	5,496	6,034	7,419

Panel B: Analyses with Sub-samples of Leverage, Credit Score, and Board Size

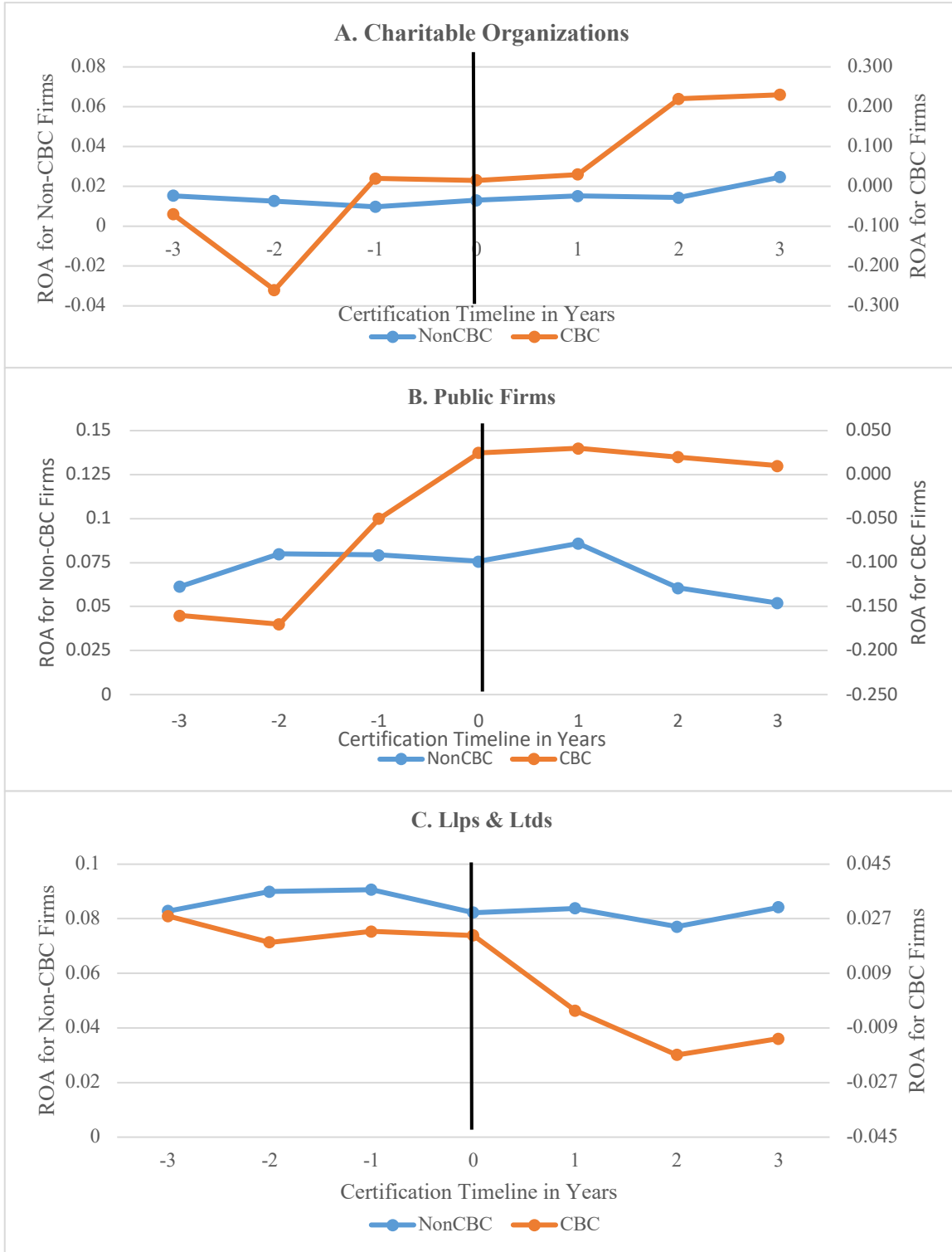
Sub-Samples:	Leverage		Credit Score		Board Size	
	Above Median	Below Median	Secure	Not Secure	Above Median	Below Median
	CBC × Post	-0.040** (0.017)	-0.019** (0.009)	-0.050* (0.028)	-0.018* (0.010)	-0.013* (0.008)
Controls	YES	YES	YES	YES	YES	YES
Firm & Year FE	YES	YES	YES	YES	YES	YES
Adj R ²	0.060	0.036	0.069	0.052	0.052	0.056
Observations	3,729	3,830	4,111	2,868	2,834	4,725

Panel C: Analyses with Top Three Industries

Sub-Samples:	Wholesale		
	Services	Manufacturing	& Retail
CBC × Post	-0.033** (0.016)	-0.024* (0.014)	-0.036** (0.018)
Controls	YES	YES	YES
Firm & Year FE	YES	YES	YES
Adj R ²	0.060	0.151	0.170
Observations	2,246	1,161	1,726

Figure 1: ROA around Certification Year for Firms with Different Legal Structures

This figure represents the distribution of ROA around the year when B-Corp Certification is granted for CBCs and their Non-CBC peers. A period of plus and minus three years are considered. Panels A, B, and C give the ROA distribution for Charitable Organizations, Public Firms, and Llp & Ltd, respectively.



Appendix

Table A.1: Definition of Variables

This table presents the description of all the variables used in this paper.

Variables	Description
<i>ROA</i>	Profit before tax over total assets.
<i>CBC</i>	Dummy variable that is equal to one for a firm if it is ever granted with B-Corp Certification and zero otherwise.
<i>Post</i>	Dummy that is equal to one for years with B-Corp Certification for a particular firm, and zero otherwise.
<i>Ln(Assets)</i>	Natural logarithm of total assets.
<i>Leverage</i>	Sum of short-term and long-term debt over total assets.
<i>Cash Ratio</i>	Cash over total assets.
<i>Growth</i>	Capital expenditures over total assets.
<i>Cashflow Ratio</i>	Sum of net income and depreciation over total assets.
<i>Tangibility</i>	Property, plant, and equipment over total assets.
<i>Ln(Board Size)</i>	Natural logarithm of the total number of directors in the Board.
<i>Certifications(#)</i>	Number of times a company obtained the certification. This includes the first certification and the re-certifications.
<i>Total</i>	Natural logarithm of the overall B Impact Assessment score.
<i>Community</i>	Natural logarithm of the community score in the B Impact Assessment.
<i>Customer</i>	Natural logarithm of the customer score in the B Impact Assessment.
<i>Environment</i>	Natural logarithm of the environment score in the B Impact Assessment.
<i>Governance</i>	Natural logarithm of the governance score in the B Impact Assessment.
<i>Workers</i>	Natural logarithm of the workers score in the B Impact Assessment.
<i>ROCE</i>	Return on capital employed, which is profit before tax over the difference between total assets and total liabilities.
<i>Profit Margin</i>	Profit before tax over sales.
<i>OP</i>	Operating profits over total assets.
<i>Ln(Age)</i>	Natural logarithm of a company's age.
<i>Liquidity</i>	Current assets over current liabilities.
<i>Ln(R&D)</i>	Natural logarithm of one plus research and development expenditures.
<i>Ln(Board Tenure)</i>	Natural logarithm of average tenure of the directors in the company board.
<i>Non-British Ratio</i>	Fraction of non-British directors in the board.
<i>Female Ratio</i>	Fraction of female directors in the board.
<i>SME</i>	Dummy variable that is equal to one for a firm if the company is a small or medium enterprise, and zero otherwise.
<i>Credit Score</i>	Company credit score according to the FAME database.
<i>Industry</i>	Categorical variable that defines the industry of a company according to the UK SIC (2007) code. This variable includes the following values: "Services", "Manufacturing", "Wholesale and Retail", "Telecommunication" and "Others".

Table A.2: T-Test Analysis on Equity Financing for Firms with Different Legal Structures

This table presents the T-test analysis comparing mean equity financing between Ltd & Llp CBCs and Plc and charity CBCs after certification. The equity financing is normalized by total assets for each firm. The difference in proportion of equity financing and p-values from the T-tests are provided. The *** indicates statistical significance at the 1% level.

After Certification:	Ltd & Llp CBCs	Plc & Charity CBCs	<i>Difference</i>	p-value
Proportion of Equity Financing	0.485	0.721	<i>0.236***</i>	0.007