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"***Sustainable business models and B Corps: exploring impact performance in an international setting***"

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ABSTRACT

2020 is going to an end, but the world will remember it as the year when the COVID-19 pandemic began. Still, despite the efforts to contain it, the health emergency persists, threatening people's safety, and calling for an immediate response to social issues. A parallel, more enduring emergency is related to the environmental destruction caused by global warming, exacerbated, in recent decades, also by the intensification of human activity. In this context, the interdependence between the economic, social and environmental systems is increasingly clear: ecological and social crises can have serious financial implications, and the economic activities can strongly affect the wellbeing of the planet and of human beings.

This thesis is centred on businesses which recognize their interdependency and strive to produce value in economic, social and environmental dimensions simultaneously, hence on the entities pursuing both sustainability and profitability. Benefit Corporations and B Corps, as hybrid organizations blending different logics of value creation in their business model, are for-profit entities characterized by enhanced standards of responsibility, sustainability and transparency.

Responsibility, the first of the main distinctive traits of Benefit Corporations, related to the additional commitments they take on, will be described in Chapter one, starting from the process through which the purpose of the corporation, traditionally corresponding to the exclusive creation of shareholder value, has been modified to account for the interests of multiple stakeholders. Indeed, with the increasing recognition of the interrelatedness between socioenvironmental dynamics and economic wellbeing, businesses are now expected to achieve profitability in a sustainable way. The Benefit Corporation model, by hybridizing value creation logics of different economic sectors, legitimizes the pursuit of a dual mission, but it is also affected by a rise in the complexity that has to be managed; nevertheless, its increasing diffusion around the world seems to indicate that the benefits may outweigh the costs.

Sustainability, as a second characteristic trait of the Benefit Corporation model, will be the focus of Chapter two. While implementing sustainability initiatives has become a trend for businesses in the recent years, a more authentic and holistic approach to sustainability is necessary for an entity to be considered sustainable. Ultimately, the transformation of a company's business model represents the most radical and promising path to creating multiple forms of value synergistically. In order to meet the responsibilities assumed on behalf of a wide range of stakeholders, traditional business models should be innovated so as to take into account social and environmental considerations. The sustainable business models resulting from such transformations are of different types, but they can be classified according to the orientation

they adopt to the dimensions of the triple bottom line. Benefit Corporations and B Corps, in that they embrace sustainability as a mission and they commit to the creation of multiple forms of value, are backed by sustainable business models.

Transparency, in the context of performance measurement and disclosure, will be the focus of Chapter three, since it is the third main feature characterizing the Benefit Corporation model. Understandably, a holistic perspective on value creation should be complemented by an integrated approach to the quantification and the communication of both impact and financial performance, allowing a range of users to appreciate the business' specificities, strengths and prospects. Indeed, sustainable businesses, like ordinary businesses, are founded on a revenue-generating model and they need to ensure financial viability; however, as they also need to pursue sustainability, they prioritise a long-term perspective on value creation. In this context, it is important that investors in sustainable ventures, such as Benefit Corporation and B Corps, are aware of the peculiarities of the businesses they are funding. Among the various measurement and reporting guidelines available to sustainable businesses, the B Impact Assessment is proving to be an important tool, as it furnishes rigorous, comprehensive and comparable information regarding the performance of the entities evaluated.

The last Chapter of the thesis will build on data resulting from the B Impact Assessment undergone by B Corps, with the aim of exploring their performance and business models in an international setting. More specifically, the diffusion and the impact performance of B Corps over time and across countries will be described, followed by an original empirical analysis on the types of sustainable business models adopted by certified entities; to conclude, at the level of Italy, the Chapter will explore the existence of relationships linking B Corps' business models and performance.

1. CHAPTER 1 - Benefit Corporations and Società Benefit as hybrid organizations

1.1. Introduction

In the recent decades, there has been a growing attention towards the environmental issues affecting our planet. The enhanced visibility of the consequences of climate change is increasingly raising people's awareness of the gravity of the problem. Indeed, if a certain extent of change in long timeframes can be regarded as normal, the rising intensity of human activity, which began in the mid of the last century, contributed to an abnormal global warming, mainly caused by the greenhouse gas released from fossil fuels burning. Undoubtfully, the growing human activity and economic growth drove a clear progress in the standards of living, especially in the developed countries; on the other side, however, it caused an unprecedented worsening of multiple types of pollution and of the related negative consequences on human health and on the natural ecosystem (European Environment Agency, 2020; Sabeti, 2011).

The interdependence between the economic, social and environmental systems is increasingly clear; ultimately, the effects of the COVID-19 emergency the world is experiencing make even more evident that not only ecological but also social issues can have serious financial implications. Indeed, the sudden need to protect people's health and safety, threatened by the pandemic, is redefining the world's priorities, at least in the short term, by calling for an immediate response to social issues, at the expense of the economic prosperity; on the environmental side, instead, the limitation to movements and economic activities, imposed by the emergency situation, seems to have brought a positive indirect effect: indeed, observations made at the global level reveal that the lockdown is causing a sharp decline in greenhouse gas emissions and air pollution, in particular referring to the concentration of nitrogen dioxide in the atmosphere (National Geographic, 2020; Zambrano-Monserrate, *et al*., 2020). Nevertheless, this decreasing trend is likely to be limited to the short term: without long term commitments, this side effect could be neutralized by the restart of the economy and human activities after the pandemic will be defeated. Also, interventions must consider the risk that, for an immediate recovery, short term detrimental strategies could be privileged, at the expenses of more sustainable growth paths, usually delivering better outcomes over a longer timescale (Hepburn, *et al.*, 2020).

Instead, what is necessary to make sure that the downward trend in emissions becomes constant is a series of systemic forward-looking interventions in favour of the environment and the

society. During the last decades, various commitments in such direction have been assumed by many countries worldwide: below, some emblematic initiatives are listed.

At the global level, the United Nations Framework Convention on Climate Change (UNFCCC) aims at stabilizing the emissions of greenhouse gas for achieving sustainable growth through the voluntary cooperation of almost 200 nations. This international agreement, established in 1992, has been operationalized by two subsidiary deals: the Kyoto Protocol in 1997 and the Paris Agreement in 2015, further specifying objectives and provisions in terms of temperature increase, greenhouse gas reduction, accountability, adaptation to changes and financial obligations of the parties (Congressional Research Service, 2020). Notably, the Paris Agreement is the first global treaty that legally binds the nations involved in contrasting the escalation of climate change. The other important global initiative concerning environment, but also society, that has been adopted in 2015 is the 2030 Agenda by the United Nations. With the purpose of prompting interventions over a wide range of social, economic and environmental issues, the 2030 Agenda sets forth a list of 17 Sustainable Development Goals, further detailed in several targets to reach. The SDGs constitute a systematic action plan for sustainable development, putting on an equal foot the contrast to social problems like poverty and inequality, the pursuit of economic goals like responsible consumption and production, and the support to the environment in its multiple forms. Figure 1.1 details the 17 Goals:

Figure 1.1 - Sustainable Development Goals poster. Source: United Nations (2020a).

At the European level, several significant measures have also been undertaken. Adopted in 2013, the Seventh Environment Action Programme establishes a long-term commitment for

sustainable growth and constitutes a reference for policy development within the European Union. The initiative sets a 2050 vision, centred on the idea that people's health is strictly related to the planet's health, as testified by the slogan "living well, within the limits of our planet"; to implement this vision, a series of shorter-term goals and targets is set, in line with the above-mentioned global policies (European Environment Agency, 2019). Another key initiative, presented in 2019, is the European Green Deal, aimed at providing a roadmap for the shift to a circular economy and the reduction of pollution. The idea is to make Europe the first continent to reach the challenging objective of climate neutrality by 2050, meaning that the countries of the Union should strive to ensure zero net emissions of greenhouse gas by that date; the recent proposal of a European Climate Law aims to make the commitment of climate neutrality legally binding for the parties involved (European Environment Agency, 2020).

Last, at the national level, governments should follow the guidelines set by the European and global initiatives. Accordingly, an Environmental Implementation Review is prepared every two years by the European Commission, containing a country report on sustainability efforts and results for each nation of the Union (European Commission, n.d.). Italy, particularly affected by climate change, is also particularly sensitive to the theme, and it is involved in several initiatives: not only the Italian government subscribed all the agreements mentioned above during the years, but it promoted independent policies as well.

Overall, the focus on responsible production and consumption, sustainable growth and the transaction towards a circular economy are central themes in the initiatives promoted by institutions at all the geographic levels. The contrast to climate change and to inequalities, however, is not an exclusive responsibility of the public sector, but it requires the active participation of multiple constituencies, including businesses and single individuals. As expressed by the 17th Sustainable Development Goal, public and private actors should collaborate for reaching the Goals (United Nations, 2020a; Young, *et al*., 2019). The United Nations Global Compact initiative, for example, aims at promoting sustainable ways of doing business, supporting companies in the adherence to defined strategic and operational principles and in the collaboration for the achievement of the SDGs; the ten principles that businesses should follow deal with human rights, labour, environment and the contrast to corruption (United Nations Global Compact, 2020).

This thesis focuses on the types of businesses which can play a role in supporting the socioenvironmental cause. There are, indeed, businesses which, beside pursuing their natural goal of achieving a profit, also commit to the creation of social and environmental value. This first Chapter, after briefly illustrating the traditional institutional logics of for-profit and non-

profit, will focus on the different types and characteristics of businesses which actually blend the two logics in their operations and mission, classified under the umbrella name of "hybrid organizations". Then, it will describe an innovative legal form of hybrid organization, named Benefit Corporation in the United States, and Società Benefit in Italy, highlighting its characteristics and diffusion.

1.2. Beyond the for-profit versus non-profit dichotomy

Traditionally, there has been a clear distinction between for-profit and non-profit worlds. Commercial entities originally aim at generating a profit and maximizing value for shareholders; on the other side, non-profit organizations are characterized by the pursuit of a mission entailing the creation of value for the community or the broader society. The two archetypes have typically been regarded as being separate organizational modes, with incompatible missions, adhering to different institutional logics. Following P. H. Thornton & W. Ocasio (1999), institutional logics provide "formal and informal rules of action, interaction and interpretation that guide and constrain decision makers in accomplishing the organization's tasks". From this perspective, non-profit organizations are guided by rules of conduct that respond to a social logic, according to which they should operate to create social value, without seeking a profit. On the other side of the dichotomy, the behaviour of for-profit entities, exemplified by the corporation legal form, is dictated by a market logic, historically centred on profit maximization and search for efficiency (Stubbs, 2017). Viewing these two models of operation as distinct and incompatible has been the predominant perspective during the 20th century, although, especially in the recent decades, it has been under debate. Here below, some latest developments of the debate in the United States are presented.

In the United States, the concept of "shareholder primacy", or the assumption that the principal purpose of the corporation is the creation of wealth for its investors, has always been particularly entrenched in legislative, juridical and corporate board practices. For example, as reported by J. S. Hiller (2013), during the last century, Delaware court more than once embraced the concept in legal proceedings regarding directors' fiduciary duties, affirming the shareholder interests' supremacy over all the other interests. Also, in 1970s, the Nobel laureate M. Friedman, representing a current of thought of the Chicago University, asserted that managers and directors, as employees, should prioritize the interests of the owners, representing the employers: on the basis of the agency theory, he affirmed the shareholder primacy, and gained a large following among scholars and business constituencies at the global level (Friedman, 1970).

However, in the most recent decades, shareholder primacy has been challenged by the emerging awareness that companies affect a wider variety of stakeholders beyond shareholders, and, for this reason, they should be held accountable for that impact. The concept, opposite to shareholder primacy, has been first introduced by R. E. Freeman (1984), under the name of "stakeholder approach", but it is gaining momentum; the trend is guided by the increasingly acknowledged gravity of environmental and social problems, by the influence of a generation that is more sensitive to the theme of sustainability and by the emerging distrust in the ability of the traditional capitalistic system of properly addressing those issues (Sabeti, 2011; Haigh & Hoffman, 2011; Young, *et al*., 2019; Porter & Kramer, 2011). Actually, the 2008-2009 financial crisis demonstrated that the traditional system of capitalism, blindingly searching short-term profit, can harm the society (Battilana, *et al*., 2012). Also, major damages to the ecosystem have been caused by the voluntary or accidental release of polluting substances in the environment by businesses, in developed and developing countries. As a result, trust in the traditional way of doing business, exclusively focused on profit, has decreased; according to the 2020 Edelman Trust Barometer report, indeed, 56% of the people surveyed declared that "capitalism as it exists today does more harm than good in the world"; hence, people call for a change, in the direction of a "socially inclusive capitalism"[1], since, when dealing with the long-term competitiveness of a firm, the interests of stakeholders are considered by 87% of the interviewees to be more important than shareholders' needs (Edelman, 2020).

The need for a modification of the purpose of the corporation in the direction of considering a broader set of interests has also been recently recognized by the Business Roundtable, a US non-profit led by the CEOs of the biggest American companies, issuing corporate governance principles since 1978. In 2019, almost 200 CEOs signed a new "Statement on the Purpose of a Corporation", explicitly affirming: "while each of our individual companies serves its own corporate purpose, we share a fundamental commitment to all of our stakeholders. […] Each of our stakeholder is essential. We commit to deliver value to all of them, for the future success of our companies, our communities and our country" (The Business Roundtable, 2019). In this way, signatories overcome the shareholder primacy concept by committing to serve the interests of, in the order: consumers, workers, suppliers, local communities and shareholders. The initiative is particularly important, since it has the potential to guide a massive shift in the mindsets of entrepreneurs and business constituencies; according to J. S. Harrison, *et al.* (2019), this "redefinition puts pressure on other organizations and their leaders to explain their support for, or opposition to, the Statement. Indeed, opposition may be the more difficult position to

[1] Hochstadter & Scheck (2015).

defend should the principles become the default position for corporations". Spurred by collective actions like this, the consideration of multiple stakeholders in the daily decision-making and in the surrounding mission of a company could become the norm. Moreover, starting from the Unites States, an even more radical initiative to facilitate the pursuit of benefits other than shareholders' ones has emerged worldwide, through the introduction of modified corporate legal forms, such as the Benefit Corporation, as will be explained in a later part of the Chapter.

However, the phenomenon of trying to create value for multiple stakeholders is rooted in economic history, as exemplified by the practices of entrepreneurial philanthropy and by self-funding initiatives launched by non-profit organizations (Bugg-Levine & Emerson, 2011). Also, in the recent decades, the field of study regarding corporate social responsibility has become widespread, leading many organizations to embrace the opportunity to create social value by engaging in activities outside their core business. The practices of CSR are closely related to the idea of stakeholder theory, as they both call for a widening of the interests to be taken into account when doing business. As a more radical solution, certain types of entities, originally positioned in both the sides of the for-profit versus non-profit dichotomy, aim at blending aspects and practices of the two pure institutional logics to form what are called "hybrid organizations".

1.3. Hybrid organizations overview

Although there is not a unique definition, organizations linking aspects of for-profit and non-profit logics within their business model for the pursuit of sustainability are to be identified as hybrid organizations. According to B. Doherty, *et al.* (2014), they can be defined as "structures and practices that allow the coexistence of values and artefacts from two or more […] sectoral paradigms, logics and value systems", recognizing that these entities are typically spanning public, private and non-profit sectors. The fact that hybrid organizations do not entirely belong to these three traditional sectors has caused them to be also categorized as the "fourth sector" (e.g., André, 2012; Mickels, 2009). Accordingly, H. Sabeti (2011) recognizes the emergence of a fourth economic sector, composed of "for-benefit enterprises", defined as a hybrid organizational form blending "a commitment to social purpose and a reliance on earned income".

Overall, all the entities that do not fit into traditional organization categories can be, to some extent, categorised as hybrids, once ascertained that they adopt a revenue-generation model while searching sustainability (Doherty, *et al*., 2014). Note that, in the most recent hybrid

organizations literature, sustainability is intended as the attempt by businesses to introduce socioenvironmental improvements, rather than limiting to reduce the negative business impact on the environment or the society: the latter is, indeed, a perspective that hybrids challenge and want to overcome, although it is still common in traditional organizations (Haigh & Hoffman, 2011; Venturi & Rago, 2017). Here, a distinction, that will be explored more in detail in the second Chapter, can be drawn between hybrid organizations and traditional companies pursuing corporate social responsibility initiatives; while hybrids integrate the creation of social welfare in their business model, traditional companies do not do so, but they implement social initiatives that remain parallel to the core business. In this regard, it seems appropriate to illustrate the theory of P. Bansal & H. C. Song (2017), according to which there should be a distinction between the concepts of responsibility and sustainability. If, indeed, the two fields of study have the common interest of identifying a win-win relationship between businesses and society, the first has originated from ethical concerns while the second has been triggered by the disruptions of the ecosystem caused by economic developments; also, the responsibility-related studies are antecedent to sustainability-related studies, which are linked to hybrid organizing.

Hence, the simultaneous search of profitability and sustainability as defined above is the element that all the hybrid organizations have in common, and the characteristic they need to be defined as such (Haigh & Hoffman, 2011). Indeed, the establishment of a population of hybrids is demonstrating the possibility to pursue a dual mission, jointly generating social improvements and profits. The two objectives, traditionally considered independent from one another, are instead recognized to have the potential to affect each other. Indeed, it is documented that self-interested business practices can outsource negative externalities on the environment and the society; also, it has to be acknowledged that the integration of the profitability and sustainability aims can act in favour of both the objectives. This is the concept of the "hybrid ideal", as expressed by J. Battilana, *et al.* (2012), namely an ideal organization with a perfectly integrated strategy, generating a profit while fulfilling a social mission.

A consequence of the integration, hence an intrinsic characteristic of the hybrid organization form, is the lengthening of the timeframe along which the strategy is likely to be pursued: hybrids, indeed, prioritise a long-term perspective, allowing them to achieve sustainable and autonomous development, and to avoid market pressures. Linked to that, hybrids aim at establishing mutually beneficial relationships with their multiple stakeholders, the other market constituencies and the environment, challenging the shareholder primacy concept; this is also accomplished through an active participation in setting institutional standards and policies for driving social and environmental change (Haigh & Hoffman, 2011). Indeed, founders of

hybrids organizations aspire to be examples to follow, to incentivize the formation of blending entities and, through this, the creation of value for multiple subjects.

Interestingly, a preliminary distinction can be drawn among hybrid organizations when looking at the type of establishment. Based on this distinction, the population of hybrids is composed by two broad categories: hybrids by constitution, i.e. hybrid organizations that has been founded as such, and hybrids by transformation, i.e. traditional companies or organizations (from pure for-profit or non-profit worlds respectively) which decide to integrate multiple interests in their business model (Battilana, *et al.*, 2012; Venturi & Rago, 2017). According to P. Venturi & S. Rago (2017), while hybrids by transformation are more common, opportunities in the market can encourage the emergence of hybrids by constitution: general factors, like globalization and the socio-political dynamics triggered by the recent economic crisis, alongside specific factors, like weaknesses of the welfare system and ineffective public responses to differentiated needs, constitute, according to the authors, the exogenous drivers of the formation of hybrids; endogenous drivers, instead, are linked to attempts of radical innovation and the availability of mission-oriented human capital within firms.

Nevertheless, within these two classes, and sharing the above-mentioned characteristics, there is a wide variety of hybridity types, further expanded during the recent years. According to S. Alexius & S. Furusten (2019) and N. Haigh, *et al*. (2015a), given the growing and heterogeneous population of hybrids and of traditional companies and organizations that decide to hybridize to some extent, it is more meaningful not to distinguish hybrids from non-hybrids, but to classify entities by type and degree of hybridity. The blending of institutional logics makes the traditional for-profit and non-profit dichotomy obsolete: it could be more appropriate to see the opposite logics in their pure form as the two ends of a spectrum, along which hybrids can position themselves, as showed in Figure 1.2. Based on that position, it is possible to identify broad classes of hybrid organizations and the respective aims, as will be described next. Then, it will be highlighted how, in front of several advantages brought by serving multiple interests, there are associated disadvantages, related to the management of the underlying complexity.

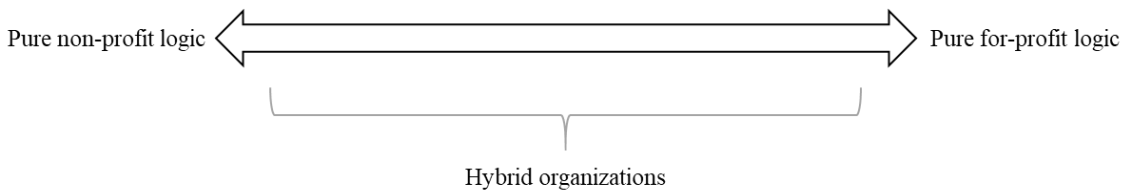


Figure 1.2 - Hybrid organizations' position along the for-profit versus non-profit continuum. Source: personal elaboration.

1.3.1. Main typologies and aims

The hybridization movement is changing the economic landscape from different points of view. In the recent decades, the boundaries between traditional sectors have been blurring and the relationships among them have been under development: for-profit and non-profit are no more mutually exclusive organization modes, private and public sectors are increasingly dependent on and linked with each other, NGOs are no more prohibited to obtain funding from sources different from donations and grants (Battilana & Lee, 2014).

Although the variables along which entities can hybridize are manifold and evolving, there are some criteria according to which hybrids can be categorized. Following N. Haigh, *et al.* (2015a), hybrid entrepreneurs can essentially choose among the following three legal structures:

- a for-profit entity embracing a social purpose
- a non-profit entity that is totally or in part financed by its revenues, or
- a "mixed-entity", formed by a for-profit linked to a non-profit entity, each of them remaining independent of but interacting closely with the other.

The willingness to better support the mission, the quest for financial sources and the compatibility with the entrepreneur's values are among the main factors that drive the choice. Similar reasons drive the subsequent eventual change of legal architecture, once experience has been gained in the competitive practice (Haigh, *et al.*, 2015a).

Note, however, that within each legal structure there is a series of strategic options adoptable, and other points of view can be embraced to study the population of hybrids. For example, S. Alexius & S. Furusten (2019) adopt the perspective of institutional logics, whereby the number of logics influencing the organization can be a proxy for the extent of hybridity. In a similar direction, J. Mair, *et al.* (2015) draw a distinction between "conforming hybrids" and "dissenting hybrids": while entities in the first category are clearly associated with either the market or the social logic, entities in the second class do not identify themselves in one of the logics, but adopt different techniques in the attempt to integrate them. On this basis, the mixed-entity category mentioned above is ascribed by W. Stubbs (2017) to the technique of "decoupling", i.e. the segregation of different logics; as affirmed by A.C. Pache & F. Santos (2013), logics decoupling is adopted by hybrid organizations that "symbolically endorse practices prescribed by one logic while actually implementing practices promoted by another logic". However, the authors also evidence the existence of a most promising technique adopted

in alternative to decoupling, called "selective coupling", defined as the "purposeful enactment of selected practices among a pool of competing alternatives", where only some identified demands from each logic are met and sustained; the selective coupling practice seems to be better in supporting the organization's sustainability, because it does not imply the incoherence of decoupling (Pache & Santos, 2013). Overall, if the embracement of multiple institutional logics is established as a common characteristic of hybrids, the mechanisms through which hybrid organizations manage to govern this institutional plurality are diverse and not yet deeply explored (Mair, *et al.*, 2015; Alexius & Furusten, 2019).

Within the second category identified, non-profit organizations implementing mechanisms of revenue-making to finance their contribution to a social mission, it is possible to find the class of "social enterprises". While, in the American literature (e.g., N. Haigh, *et al*. 2015a), the expression is sometimes used as a synonym of the hybrid organizations general category, from the legal point of view, as affirmed by the European Commission (2020a), the main purpose of social enterprises is "to have a social impact rather than make a profit for their owners or shareholders"; hence, they represent a subtype of hybrid organization which clearly prioritizes the social mission over profit-making.

Hereafter, the focus will be on the entities that are closer to the for-profit end of the continuum. As previously mentioned, the increasingly urgent need to tackle socioenvironmental issues is pushing towards the integration of sustainability sensitivity into businesses; the aim of for-profit hybrids is to employ common and innovative market practices for generating revenue in a way that addresses environmental and social challenges (Hoffman, *et al*., 2012).

1.3.2. Distinctive features and associated challenges

In this Paragraph, the focus will be on the distinctive features of hybrids, and on the respective positive and negative aspects.

First, to enable the fulfilment of their dual purpose, hybrid organizations should change their structure with respect to traditional arrangements, adopting an appropriately modified business model (Venturi & Rago, 2017). Beyond challenging the form of traditional business models, hybrids challenge their function, in that they seek sustainable development, clearly "dismissing the notion that reducing the negative impacts of business equates to sustainable practice, and instead seeking to increase positive impacts", as affirmed by N. Haigh & A. J. Hoffman (2011). However, hybrids have to keep into consideration that the changes of traditional business models to account for the interests of an increased range of constituencies has some important

implications, related to the complexity that has to be managed. As called by N. Haigh & A. J. Hoffman (2011), the "sustainability-driven" business model backing hybrid organizations will be explored in its main characteristics in the second Chapter.

Equally crucial for hybrids to survive and thrive is the creation of a robust organizational identity, to guide employees towards the recognition of their dual mission and reinforce their commitment to it. Founder entrepreneurs have a key role in this direction, since it is assumed that they are the first to embrace the values of the organization they set up. Also, creating an organizational identity capable of blending the social and the market logic would help in mitigating, if not avoiding, conflicts between the two institutional logics present in hybrid organizations, thus increasing the likelihood of effective operation (Venturi & Rago, 2017; Hoffman, *et al*., 2012). Moreover, by spreading their organizational culture, the leaders of these entities have the potential to influence the mindset of commercial partners and other entrepreneurs, and their orientation to social benefit. Ultimately, an appropriate communication is essential to raise customers' awareness and create loyalty, likely leading to an enhancement of the brand value.

Linked to that, another important aspect in which hybrids differ from traditional companies is the way they compete in the market. (Haigh & Hoffman, 2011). Guided by the desire to spread their mission and to increase the common awareness on the possibility to pursue multiple objectives, hybrid organizations and their representatives share experiences and results with the public. However, as asserted by A. J. Hoffman, *et al.* (2012), this practice is a double-edged sword: if, by doing so, hybrids promote their organization model and obtain legitimacy to operate from their stakeholders, they also risk to damage the competitive advantage gained, by being copied by traditional organizations developing environmentally-sensitive product lines or deciding to hybridize.

Another characteristic trait that distinguishes hybrid organizations is their long-term orientation. As mentioned before, in order to be sustainable, hybrids prefer to avoid short-termism and accept to obtain results over a longer timetable. Patience for results is key for hybrids to allow the pursuit of the dual mission; however, financial viability is essential for every enterprise to survive, and for hybrids to remain loyal to commitments (Haigh, *et al*., 2015b). Here emerges a related challenge: the issue of how to obtain financing (Sabeti, 2011). Indeed, if the category spanning characterising hybrids has the potential to attract multiple sources of financing, it is essential that hybrids attract the right type of resources. Accordingly, the need for patient capital has to be reconciled with the availability of such capital: the offer

could not be sufficient to meet the demand, especially if the impact and the risk associated with the organization are not clearly measurable or communicated. While the "mainstream" investors have traditionally focused on short term profits and liquid investments, the needs of hybrids call for longer commitment and trust: the possibility to solve this financing issue comes from the growing phenomenon of sustainable investing, encompassing the investment in entities with a demonstrated socioenvironmental impact (Venturi & Rago, 2017). The phenomenon of impact and sustainable investing will be at the centre of the third Chapter.

Moreover, the issue of governance must not be underestimated. Since the effective functioning of hybrids implies accounting for the interests of multiple stakeholders in strategic and operating decisions, representatives of these multiple interests should be considered when establishing objectives and priorities. Here, the challenge is related to the integration of needs and wants and the prioritization of goals (Venturi & Rago, 2017). A related and crucial issue is represented by the choice of the key performance indicators against which to measure and communicate performance, in order to have a holistic view of the economic and socioenvironmental value generated by the entity (Battilana, *et al*., 2012); the theme will be also explored in the third Chapter.

Beside the above-mentioned challenges, J. Battilana, *et al.* (2012) and H. Sabeti (2011) also draw attention on the issue of legal recognition. Indeed, the specific characteristics of hybrid organizations make their operation difficult under traditional legal structures, calling for the development of dedicated organizational forms. Advancements in this direction have been done in the most recent decade, with an increasing number of states introducing innovative legal structures to accommodate the special needs of hybrids. In the next Paragraph, in particular, the form of Benefit Corporation will be explored, to then focus on its Italian version, named Società Benefit.

1.4. Benefit Corporations and Società Benefit as hybrid organizations

Before the recent legal developments, entrepreneurs willing to establish a hybrid organization or to transform a traditional organization into a hybrid had little discretion in the choice of the legal structure for their entity. Indeed, the possibilities were limited to the two traditional arrangements: either they chose a for-profit or a non-profit organizational form (Sabeti, 2011). Each of them clearly has virtues, but also drawbacks: by choosing a for-profit structure, in front of an easy access to financial sources, hybrid entrepreneurs could see their social mission undermined by the pressures of competition and of directors' fiduciary duties to shareholders for the sake of profit maximization; on the other hand, opting for a non-profit structure can offer

social legitimacy and granted tax benefits, but typically ensures a limited availability of resources (Battilana, *et al.*, 2012). Hence, choosing one of these pure arrangements is likely to impede the full realization of the dual mission, since neither of them seems to enable the simultaneous search of profitability and sustainability required by hybrid organizations. Some hybrids tried to solve the problem by adopting the previously mentioned mixed-entity strategy, establishing two separate but linked organizations, each belonging to one pure logic. However, this approach often leads to cumbersome processes and overarching complexity, as affirmed by J. Battilana, *et al.* (2012).

The emerging need expressed by hybrid entrepreneurs of having the possibility to adopt an appropriate form of organizing has been upheld by several countries worldwide in the most recent decade. Legally recognized structures, purposefully created to satisfy the requirements of hybrid organizations and protect their dual missions, started to be introduced, and are acquiring consensus. Notably, the legal innovations do not exclusively interest hybrids by constitution, since they can also serve the needs of traditional organizations willing to form a hybrid by transformation (Rawhouser, *et al.*, 2015; Battilana, *et al.*, 2012).

Focusing on the for-profit types of hybrids, hence on the entities that are close to the for-profit end of the spectrum (see Figure 1.2), there are some main legal options. In the United States, legal structures designed for hybrid organizations include the "Low-Profit Limited Liability Company" (L3C), enabling companies to access non-taxable financing, the "Flexible Purpose Corporation", loosening directors' fiduciary duties to the owners, and the Benefit Corporation, requiring the consideration of social welfare beside profit in the course of business. Outside the United States, for example, the United Kingdom introduced the "Community Interest Company" (CIC), allowing for increased flexibility in creating collective welfare. These and other worldwide legislative attempts, implemented to respond to the demands of hybrids of having a tailored and legitimized architecture, are contributing to unlock their potential. Regardless, not all the forms achieved an equal number of adhesions; of the listed typologies, the one which is obtaining more success in terms of adoption and recognition is the Benefit Corporation model (Rawhouser, *et al.*, 2015). As hybrid organizations, Benefit Corporations integrate the demand-driven market logic with the need-based social logic; however, they can be distinguished from other hybrid types for some peculiarities. The distinctive features of the model are described in the next Paragraph, also illustrating the form of Società Benefit as the Italian equivalent of Benefit Corporations. Then, data on the models' diffusion and enactment will be presented.

1.4.1. Characteristic traits

The Benefit Corporation hybrid legal form was first introduced in the United States, with the aim of addressing the needs of a number of organizations of blending previously independent institutional logics and sectoral practices. The leading role in introducing and promoting the new legal framework was played by B Lab, a non-profit organization founded in 2006 in Pennsylvania. Indeed, B Lab created a model statute for the new form and promoted it during the years among legislators, who could enforce it to introduce national statutes enabling the formation of Benefit Corporations, which started in 2010 (Rawhouser, *et al.*, 2015).

As already mentioned, Benefit Corporations are located closer to the for-profit end of the non-profit versus for-profit continuum: indeed, they essentially are corporations with a modified purpose, or, using the words of J. S. Hiller (2013), "a for-profit, socially obligated, corporate form of business". Although subject to the rules governing for-profit corporations, they are required to commit to social benefit alongside the creation of shareholders return; therefore, they can be said to seek a "profit with purpose" (Levillain & Segrestin, 2019). In that it expands the purpose of the corporation to include the consideration of interests other than shareholders' ones, the legal form of Benefit Corporation concretely challenges the debated concept of shareholder primacy. Through a modification of the incorporation statute, the board is no more exclusively accountable to its principals, but it is also subject to additional parallel duties and responsibilities towards identified stakeholders. It is important to highlight that none of the interest considered has the priority above the others, in a way that the integrity of the dual mission is preserved. The fact that the pursuit of the public benefit is mandatory for Benefit Corporations is a distinctive characteristic of the new legal form, a necessary element for an entity to be categorized as such.

The modified purpose distinguishes Benefit Corporations from the traditional corporations and other business forms, which can commit to social value creation too, but are not obliged to do so, and cannot be sued for not having contributed to the public benefit (Clark Jr & Babson, 2012), as in the case of traditional businesses implementing CSR initiatives. On the contrary, Benefit Corporations' statutes bind to pursue sustainability, in the form of an identified "general public benefit", defined in different ways depending on the state, but commonly required to be a comprehensive and material socioenvironmental beneficial impact (Corporate Laws Committee, 2013). Moreover, bylaws also allow Benefit Corporations to contribute to a "specific public benefit", chosen at discretion or among those listed by the model statute, for example related to the preservation of the environment, human health, the promotion of arts

and innovation, or the reduction of unemployment (Hiller, 2013). In most legislations, a third statutory provision requires or suggests that the impact, or the general public benefit, should be measured with respect to a third-party standard, which has to be "independent" from the entity to be certified, "comprehensive", "credible" and "transparent" (Rawhouser, *et al.*, 2015; Benefit Corporation, 2020b). Indeed, beside the enlarged responsibility and accountability for a sustainable value creation, an ulterior distinctive feature of Benefit Corporations, and a condition for their successful operation, is the commitment to transparency. This commitment is partly fulfilled through the preparation and publication of the "Annual Benefit Report", documenting the success, the impediments and the means employed in generating the public benefit indicated in the bylaws, which has to be certified by the independent third-party. The Annual Benefit Report also contains the "Benefit Director's compliance report", through which the statutorily nominated Benefit Director concludes on the conduct of the entity and its board in fulfilling the public benefit (Hiller, 2013). More traditional forms of reporting also contribute to transparency, as will be explained in the third Chapter.

After the creation of the first Benefit Corporations in the United States in 2010, the model started to spread, beginning to obtain legal recognition and consensus in an increasing number of North American states. During the years, the success of this legal form expanded, with Italy being the first country outside the United States to introduce an equivalent of Benefit Corporations; since January 2016, the Italian legislator allows the establishment of Società Benefit, regulating the formation of hybrid organizations in between the for-profit versus non-profit continuum. Analogously to Benefit Corporations, the Italian Società Benefit form facilitates the operation of businesses pursuing a dual mission, balancing the financial interests of shareholders with the common benefit. More specifically, the common benefit to be pursued has to be indicated in the social object, although the legislator does not indicate the level of detail required for compliance. As explained by M. Bianchini & C. Sertoli (2018), this lack of precision could be a double-edged sword when looking at directors' responsibilities; if, on the one side, leaving some discretion in making decisions could be necessary to allow to balance the multiple interests involved, on the other side, leaving too much discretion could render it difficult to held directors accountable for their decisions. In this regard, it is prescribed that a figure responsible for the pursuit of the common benefit is nominated; although the Italian legislator does not specify which should be the position of this person within the entity, M. Bianchini & C. Sertoli (2018) find that the role is assigned to a member of the board in the majority of the cases analysed, as it is prescribed by the American legislation.

Moreover, like Benefit Corporations, Società Benefit are not granted tax advantages, since they are considered to be in the sphere of for-profit. From this point of view, it is easy to distinguish Benefit Corporations and Società Benefit from the category of social enterprises, which, in turn, are included in the sphere of non-profit entities, hence enjoying a softer tax regime. However, driven by the crisis brought by the COVID-19 pandemic, and with the objective of encouraging the development of the sustainable organizational form of Società Benefit, the Italian law is starting to recognize them some advantages; for example, they are prioritised in the context of public tenders, and they can obtain a tax credit on the expenses for their constitution or transformation (Rizzo, 2020).

Another analogy with the Benefit Corporations' provisions is found in the requirement to draft an annual report on the means, the impediments and the results in the pursuit of the common benefit. The impact generated has to be evaluated by a third-party standard having the same requirements explained above for the Benefit Corporation; each entity can freely choose among a variety of certifiers, even though in practice the most used standards are two: the "GRI Sustainability Reporting Standards" and the "B Impact Assessment". GRI standards are prepared by the Global Reporting Initiative, a non-profit operating internationally to spread a multi-stakeholder thinking among organizations and encourage the preparation of sustainability reports. Instead, the B impact Assessment is prepared by B Lab, as will be explained next (Bianchini & Sertoli, 2018; Global Reporting Initiative, 2020).

1.4.2. The B Corp certification

Beside the pioneering role played in the introduction and diffusion of the Benefit Corporation model in the world, B Lab also leads a "global movement of people using business as a force for good", as declared in its website; in other words, this organization commits to raise awareness about the need to rethink traditional commercial practices, for businesses to become protagonists in tackling socioenvironmental challenges (B Corporation, 2020a). Moreover, B Lab is one of the most trusted third parties having the requisites to certify the effective pursuit of a public benefit by Benefit Corporations, through the "B Impact Assessment" (BIA). The BIA is a comprehensive test that can be utilized for free by every business to assess their socioenvironmental performance, transparency and accountability; more specifically, the evaluation takes into consideration the impact of an entity on its workers, customers and community, on the environment and on governance issues (Rawhouser *et al.*, 2015; Benefit Corporation, 2020b; Nativa Lab, 2020a).

At the global level, the B Impact Assessment is also the only tool through which to obtain the "B Corp Certification", a prestigious label validating a business' commitment and results in delivering socioenvironmental value. The certification can be gained by businesses which already are Benefit Corporations or equivalents, but also by the other forms of private for-profit entities: indeed, the population of B Corps do not coincide entirely with the Benefit Corporations' (or equivalent national versions') category. However, in some instances, the achievement of the certification is subject to legal requirements and can entail the modification of the articles of association; for example, Italian businesses wanting to complete the certification have to become Società Benefit within two or four years from the Assessment (Società Benefit, 2020). The other prerequisites for a business to obtain the B Corp label are: the attainment of a minimum score of 80 out of 200 in the B Impact Assessment, the submission of the related documents, the signature of the B Corp Declaration of Independence and the B Corp Agreement, and the payment of an annual fee in proportion to the entity's sales level (Stubbs, 2017; B Corporation, 2020a). Once obtained, the certification has to be maintained, through the reperformance of the BIA and the scrutiny of related documents by B Lab every two years. To those business which are not yet able to reach the minimum score, the BIA is useful as well, since it gives them the possibility to benchmark their performance with respect to other businesses and it offers a tailored improvement plan for increasing the socioenvironmental impact. Despite the demanding process, the benefits associated with becoming a B Corp are manifold and are related to an enhanced visibility, instrumental to attract talent, build relationships and lead the change, and to an increased impact performance (B Corporation, 2020a).

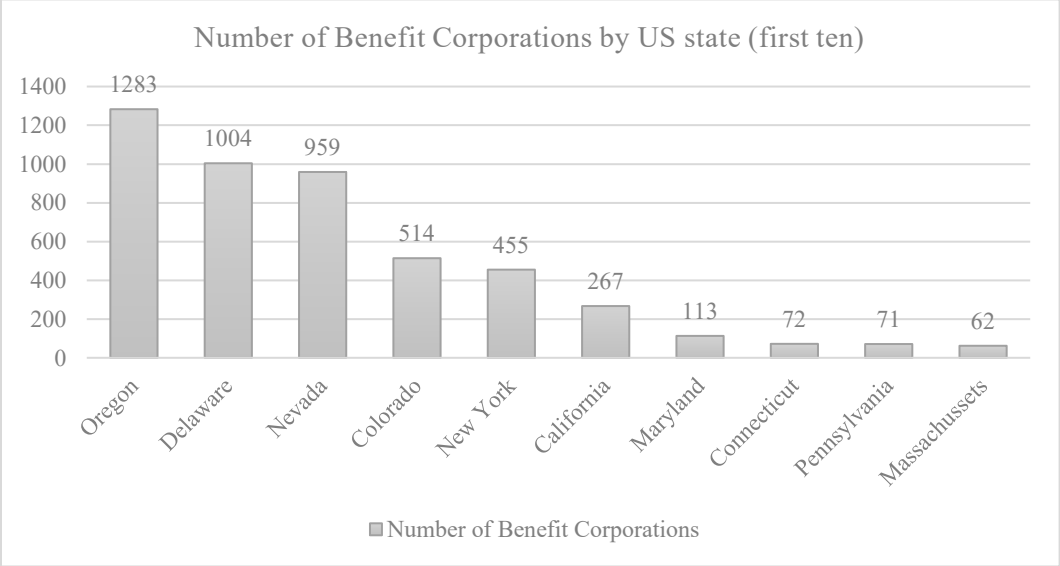
In Italy, the reference subject for supporting the B Corp certification process and for promoting the model of Società Benefit is Nativa, the first certified B Corp and Società Benefit in Italy, and the Italian country partner of B Lab (Nativa Lab, 2020b). Other country partners around the world mediate the relationship between B Lab and those interested in the certification or in the Benefit Corporation status. Indeed, B Lab not only pioneered the model of Benefit Corporation in the United States, but also outside, as will be explained in the next Paragraph.

1.4.3. Data on diffusion

Starting from Maryland, the first state to regulate the Benefit Corporation in 2010, a number of other American legislations quickly followed. In the timeframe of three years, by the end of 2013, 31 states had introduced the new hybrid legal form and 19 of them had already adopted it (Rawhouser, *et al.*, 2015). As of September 2020, 37 US states have recognized the Benefit

Corporation status, and the passage of the law is pending in other four legislations (Benefit Corporation, 2020a). Here below, the line chart in Graphic 1.3 shows the number of Benefit Corporations in the ten states most populated by these entities. Unfortunately, data, elaborated from a dataset[2] by B Lab, are updated to April 2018, hence they are not comprehensive. However, they can be useful as well, to have an impression of the scale of the phenomenon. In total, Benefit Corporations in the mentioned dataset are 5197: as showed in the line chart, nearly one fourth of them have been established in Oregon, almost one fifth of them in Delaware and the same for Nevada.

Note that, with respect to available data, the number of Benefit Corporations is likely to have increased, also due to the legislative recognition in other three states since 2018.



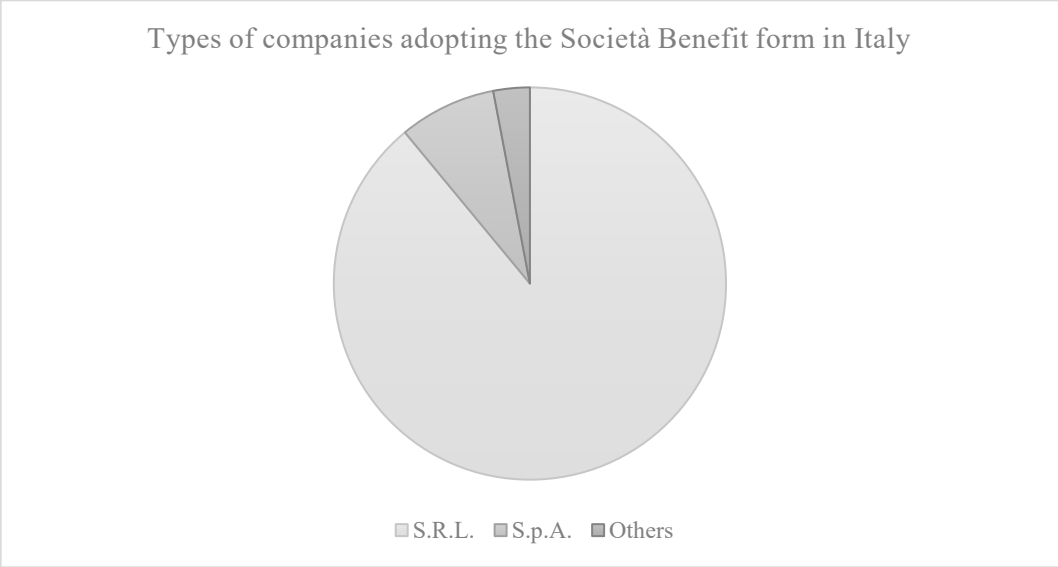
Graphic 1.3 - Number of Benefit Corporations by US state (first ten). Source: personal elaboration from B Lab (2018).

As already mentioned, the success of the model of Benefit Corporation made it spread beyond the United States boundaries, starting from Italy, where, since 2016, the number of Società Benefit has showed a constant increasing trend.

In particular, according to M. Bianchini & C. Sertoli (2018), as of June 2018, there was in Italy a total of 187 Società Benefit, mainly located in the North and for the major part in the form of limited liability companies. However, in order to have updated numbers for the Italian landscape, an investigation in AIDA database has been conducted, trying to reconcile results with the information found in the website dedicated to Società Benefit (AIDA, 2020; Società Benefit, n.d.), offering a first census of the population of entities in question. More specifically, the list of 257 Società Benefit found in the dedicated website has been supplemented by those

[2]B Lab (2018).

resulted from the search of the company name keywords “società benefit” and “SB” through AIDA database on September 28th, 2020. Then, data cleaning has been performed in order to eliminate duplicates and “false positive” entities, meaning those entities that were included in results because they contained the “SB” letters in the company name, but without effectively being Società Benefit. Last, entities in a declared status of liquidation have been subtracted. The list obtained after the described personal elaboration is made of 504 Società Benefit, an amount which is confirmed by the B Corporation website[3] in the section dedicated to Italy. Moreover, the research confirms that Società Benefit are spread all over Italy, but especially in the North, in accordance with the findings of M. Bianchini & C. Sertoli (2018). Also in line with the authors’ assertions, it emerges that the majority of the entities deciding to adopt the hybrid form in question is composed by limited liability companies (S.R.L.). As shown in the following pie chart in Graphic 1.4, the large majority of Società Benefit are, indeed, limited liability companies (89%), while corporations account for 8%, and the category “others”, accounting for 3% of the total, mainly includes cooperatives.



Graphic 1.4 - Types of companies adopting the Società Benefit form in Italy. Source: personal elaboration through AIDA database and B Corporation (2020c).

Although still having a minor role, the number of corporations (S.p.A.) amending their articles of association to become a Società Benefit is increasing: as of September 28th, 2020, they result to be 41, compared to the 11 listed by M. Bianchini & C. Sertoli (2018). Notably, some of these entities are well-known leaders in their market segment and became Società Benefit very recently: for example, Aboca SpA modified its statute in August 2018[4], Chiesi Farmaceutici

[3] B Corporation (2020c).
[4] Aboca (2018).

SpA in February 2019[5], Danone SpA[6] and illycaffè SpA[7] in March 2020; also, Banca Mediolanum controls Flowe SpA SB, an innovative banking platform launched in June 2020[8]. The interest shown by these prominent players could be an important signal for the current and future success of the Società Benefit legal form, also having the potential to raise awareness among their partners and customers around the opportunity offered by the Benefit Corporation movement.

Beyond Italy, the movement has reached Colombia, Ecuador and, recently, the British Columbia Canadian province and France. The legislation passage is pending in four US states, as already specified above, and in other 12 nations in the world (Nativa Lab, 2020a; Benefit Corporation, 2020a).

As regards the diffusion of certified B Corps, data are easily retrievable; the dedicated website reveals that there are more than 3.500 certified B Corps in the world, distributed in 74 countries and 150 economic sectors; notably, more than 200 entities are in the process of achieving the label, thus they are expected to become B Corps soon (B Corporation, 2020b). Also, Nativa Lab (2020a) reports that, of the total number of B Corps, nearly 750 are established in Europe, and more than 100 in Italy. Moreover, a query in the dataset[9] on B Corps updated by B Lab in September 2020, suggests that nearly a half of certified B Corps are located in North America, especially in the United States. This overview on certified entities will be complemented by a deeper analysis in the fourth Chapter of the thesis.

Overall, recognized that this preliminary analysis on the diffusion of the Benefit Corporation model is not perfectly comprehensive, since the phenomenon is in constant evolution and available data are not always updated (hence complete and accurate), yet it can offer a useful overview of the width of the Benefit Corporation movement in the world and in Italy.

1.5. Conclusions

People's awareness on environmental and social problems is raising, as their sensitivity towards sustainability, defined by the UN World Commission on Environment and Development (1987) as the "development that meets the needs of the present without compromising the ability of future generations to meet their own needs". Since people can identify as customers,

[5] Chiesi Farmaceutici (2020).
[6] Danone (n.d.)
[7] Illy (2020).
[8] Banca Mediolanum (2020).
[9] B Lab (2020).

parts of the community, workers and entrepreneurs, at times simultaneously, they have the ability to ask for and lead a change in the business world. Several business constituencies, indeed, are abandoning the shareholder primacy concept in favour of the consideration of a multiplicity of stakeholder interests in daily operations. With respect to this mindset shift, businesses can be engaged to a wider or lesser degree: they can choose to contribute to tackling socioenvironmental problems by implementing a range of initiatives, from the simplest actions, like donations, through more comprehensive CSR programs, to the most complex solution of integrating the socioenvironmental mission in the business model. The latter alternative, at the centre of this thesis, is embraced by entities which have decided to organize in a hybrid way, committing to the pursuit of two, previously considered opposite, objectives. Indeed, hybrid organizations, combining the pure institutional logics of for-profit and non-profit, seek both profitability and sustainability.

The pursuit of a dual mission locates hybrids in the position of potentially creating valuable synergies, but also require them to mitigate the tensions emerging from having to consider multiple interests. Indeed, scholars associate hybrid characteristic traits to a series of challenges, related to the need to shape a uniform culture and manage competition, the issue of legal recognition, the necessity to modify the business model, the focus on the long-term in achieving results and acquiring financing, and the issue of governance and performance measurement. As regards legal recognition, some solutions have emerged in the most recent decade; focusing on the entities closer to the for-profit end of the continuum, innovative legal forms have been introduced worldwide to accommodate the interests of hybrid organizations, although the one that proved to be the most successful is the Benefit Corporation form. The model, now widely diffused in the United States, has been adopted in Italy in 2016 with the name of Società Benefit, and is spreading in other nations. Through a modification of the corporate purpose, this type of entity facilitates the operation of hybrid organizations willing to have a socioenvironmental impact while making a profit, by legitimizing the exercise of their intended function (Sabeti, 2011). To be distinguished from the Benefit Corporation, the B Corp certification is, instead, a label granted to an entity if it creates an assessed amount of impact. Overall, the diffusion of Benefit Corporations and B Corps worldwide and of Società Benefit in Italy is a signal of the continued success of the model, also testified by some prominent market players who adopted it very recently.

While this first Chapter provided an overview of hybrid organizations and of the model of Benefit Corporation as business arrangements characterized by an enhanced responsibility, the following Chapters will focus on some challenges characterizing them. More specifically, the

next Chapter will deal with the need to appropriately modify the traditional business model to allow hybrids to operate in the name of sustainability. The third Chapter, instead, will focus on the financing issue in the context of hybrids' long-term orientation to results, and on the importance of measuring and reporting non-financial performance for ensuring transparency. To conclude, the last Chapter, building on the information furnished by the B Impact Assessment, will present a descriptive and an empirical investigation of B Corps' impact performance and sustainable business models, respectively.

2. CHAPTER 2 - Sustainable business models inside Benefit Corporations and B Corps

2.1. Introduction

In the recent decades, the increasing general social consciousness accompanied by public regulations and non-governmental organizations' activism have demanded businesses to commit to sustainability (Joyce & Paquin, 2016; Young, *et al*., 2019). The responses to these demands have proven to be diversified, in time and from firm to firm, based on whether the company has an "intrinsic" motivation, driven by authentic socioenvironmental concerns, or an "extrinsic" motivation, linked to the desire to exploit the sustainability trend (Parguel, *et al*., 2011; Brockhaus, *et al*., 2017).

As a possible immediate reaction to the external demands, some businesses could decide to pursue sporadic incremental innovations: for example, they could develop green versions of their core products, or modify single processes and procedures, publicizing the achievements to benefit from a better image; alternatively, they could decide to adopt socio-environmentally friendly practices to retain the legitimacy to operate from stakeholders (Stubbs, 2019; Stubbs & Cocklin, 2008). The objective of such initiatives can be represented by the desire to avoid negative publicity and show an interest in sustainability as a trend, more than a real commitment to sustainability as a mission (Parguel, *et al*., 2011). Without an effective commitment, the actions undertaken in the name of sustainability by these entities are not so different from misleading marketing ploys, triggered to protect the organization's self-interest; here, the concern for the environment is mainly reactive, and it can be linked to the practice of "greenwashing", defined by W. S. Laufer (2003) as a kind of "disinformation from organizations seeking to repair public reputations and further shape public images". M. A. Dermas & V. C. Burbano (2011) describe the deceptive practice of greenwashing as the "intersection of two firm behaviours: poor environmental performance and positive communication about environmental performance", while B. J. Horton (2019) recognizes that similar dynamics can also interest the social dimension. Overall, since it has the potential to cause serious damage to customers' and investors' confidence in the authentically sustainable market, the problem of greenwashing should be carefully addressed; however, this task could be challenging, since the drivers of greenwashing are of many types and act at different levels: for example, the pressure of competition and NGO activism act as market and nonmarket drivers, beside organizational-level and individual-level variables (Dermas & Burbano, 2011).

On the contrary, some businesses could choose to embrace sustainability values, making them part of their mission. These authentic sustainable entities take a proactive approach in addressing the socioenvironmental challenges and are able to transform the pursuit of sustainability into a source of competitive advantage and differentiation (Da Giau, *et al.*, 2020).

In that they simultaneously seek profitability and sustainability, hybrids constitute an organization category which deeply and proactively commits to solve social and environmental problems. Indeed, hybrids not only aim at reducing their environmental footprint, but they also want to have a direct positive external impact. The idea is captured by N. Haigh & A. J. Hoffman (2011), affirming that, for socioenvironmental problems to be effectively tackled, businesses' focus should depart from striving to be less unsustainable, through reducing "deficit gaps", towards trying to be more sustainable, so handling "abundance gaps"; in general, to be more sustainable, businesses need to acquire, nurture and develop specific resources and capabilities, introduce changes to the organizational design and modify their business model appropriately, as explained by A. Da Giau, *et al.* (2020). Hybrid organizations are characterized by an innovative and sustainable business model, specifically designed to allow them to directly contribute to socioenvironmental prosperity while remaining profitable (Geissdoerfer, *et al*., 2018; van Bommel, *et al*., 2018; Gazzola, *et al*., 2019). Therefore, the transformation of the business model represents a prerequisite for hybrids to exist, but it also poses some burden on the entity itself, related to the management of operations and of relationships.

This Chapter will deal with what it means and what is needed to transition towards a sustainable business model, detailing its peculiarities and its differences with respect to traditional business models. Then, it will focus on the challenges that adopting such a business configuration entails, in the particular context of hybrid organizations.

2.2. The transformation of the business model towards sustainability

Opposite to the scenario of incremental innovations for sustainability, some entities implement a "transformative sustainable innovation" (Stubbs, 2019), involving a breakthrough development path embedding changes in culture, product design and technology, and the introduction of modified business models; using the words of D. J. Teece (2010), "the more radical the innovation, and the more challenging the revenue architecture, the greater the changes likely to be required to traditional business models". Although businesses are most likely to approach sustainability doing incremental innovations, there is increasing recognition among scholars (e.g., Stubbs, 2019; Geissdoerfer, *et al.,* 2018; Franca, *et al*., 2017; Joyce & Paquin, 2016; Markman, *et al*., 2016; Schaltegger, *et al*., 2012) that radical changes to the

business model could be necessary for achieving a fruitful green transformation, and to give concreteness to the sustainability strategy. More specifically, in order to reach a sound and stable position in terms of sustainability achievements, businesses should innovate established business models to include social and environmental goals in the value creation logic (Schaltegger, *et al.*, 2012). For the companies already engaged in CSR, the goal should be the integration of the various initiatives implemented, to transform a secondary commitment into a set of foundational values in the name of sustainability (Porter & Kramer, 2011). Indeed, the sustainability concept broadens the idea of corporate social responsibility, promoting a more comprehensive vision of the multiple interests to accommodate and of the performance in delivering the different forms of value (Kleine & von Hauff, 2009). Ideally, by adopting this holistic view, radical innovators should be better able than incremental innovators to balance economic, social and environmental aspects (Stubbs, 2019). The integration concept is central in the study by S. Schaltegger, *et al.* (2012) as well, as it is the foundation of the "business case *for* sustainability" idea; according to this idea, businesses can achieve economic results *by means of* a spontaneous and authentic commitment in socioenvironmental initiatives; in contrast, the "business case *of* sustainability" refers to the attempt to achieve economic results *alongside* a positive socioenvironmental impact. The authors' subsequent thesis is that adequate modifications to the business model should be implemented, in order to support the setting up of "business cases *for* sustainability", and the attainment of positive results with respect to some of the factors facilitating the creation of integrated value. These factors, related to cost and risk decrease, revenue and image enhancement and the ability to innovate, are the economic variables that can be most affected by the pursuit of sustainability; hence, they represent a group of motives for which businesses invest resources in social and environmental initiatives (Schaltegger, *et al*., 2012). Based on the motivations underlying sustainability initiatives, and on the associated degree of required changes to the business model (which will be explained later), three types of business strategies can be distinguished, in the order of increasing degree of integration:

- the "defensive" strategy, where the interest in sustainability activities is a mere reaction to legal obligations or marketing attacks
- the "accommodative" strategy, entailing a partial commitment to sustainability, where operational changes are made while preserving the core business, and
- the "proactive" strategy, according to which a total integration of socioenvironmental considerations in the core business is achieved (Schaltegger, *et al.*, 2012).

Similarly, S. Brockhaus, *et al.* (2017) develop a typology of entities which can be delineated according to their reasons to undertake sustainability efforts; their classification identifies four types of entities based on the motivation type, listed in the order of increasing authenticity:

- The "image enhancer", driven by the desire to meliorate its perceived brand image in the market or to take remedial actions to a damaged reputation
- The "efficiency maximizer", referring to entities concerned with operational efficiency, pursuing sustainability mainly because they adhere to lean principles
- The "resource acquirer", focused on the sustainable management of scarce and valuable resources, both natural and human, in the belief they are to be preserved for the future, and
- The "true believer", sharing the commitment to sustainability as a foundational value, strongly motivated by the possibility to have a positive socioenvironmental impact.

The entities which are part of the first category show the lowest level of authenticity, risking to experience reputational problems when their actual operation appears to be inconsistent with their sustainability claims and initiatives, since the latter do not arise from core values (Brockhaus, *et al*. 2017); the conduct of the "image enhancer" can be associated to the practice of greenwashing previously described, and to the "defensive" strategy identified by S. Schaltegger, *et al.* (2012). Instead, the last category is characterized by the highest level of authenticity and internal consistency: the "true believers" are likely to implement transformative sustainable innovations, including the adoption of modified business models; hence, they enact the "proactive" strategy, as defined by S. Schaltegger, *et al.* (2012). Since they are driven by an intrinsic holistic commitment to sustainability, leading to the crafting of modified models of value creation, hybrid organizations and Benefit Corporations belong to this class of entities, as Paragraph 2.4 will highlight.

From the first to the last strategy and organization class listed, sustainability is increasingly considered as a strategic path and as a core value: understandably, the alignment between the core business and the sustainability practices makes it easier for an entity to prosper in time, especially when there is coherence between strategic directions and actions (Brockhaus, *et al.*, 2017; Joyce & Paquin, 2016). In order to achieve this alignment, organizations need to transform themselves from the inside, through the development of adequate resources and the inclusion of considerations related to the society and the environment in their business model. Clearly, the degree to which a business model is innovated depends on several factors, the most important of which is the strategy to be pursued. Returning to the study by S. Schaltegger, *et*

al. (2012), indeed, the extent of the modifications applied to a business model has a strict connection with the strategy implemented for achieving sustainability. More specifically, minor changes are likely to be required by a "defensive" strategy, while an "accommodative" strategy calls for incremental and straightforward variations; instead, more profound and extensive modifications, leading to a reshaped business model, enable a "proactive" strategy to be effective. Nevertheless, it is also important to consider whether there are impediments to modifications, which may impair the possibility to innovate, if not removed: barriers to change represent one of the challenges experienced by sustainable business models, as will be explained later in the Chapter.

Hereafter, the focus will be on the characteristics and the innovation paths of truly sustainable entities. Next, a commonly agreed definition and structure of the traditional business model is presented, to then focus on the key features of sustainable or "sustainability-driven[10]" business models.

2.2.1. Traditional business models

As explained by D. J. Teece (2010), the research on business models has been disregarded in economic theory until recently; previously, on the assumption that the price governing mechanism was sufficient to regulate a business' operation in the market, there was no interest in conceptualizing the value creation and capture logic employed by a business. Instead, during the last two decades, in the presence of increasingly intense competitive pressures and a changing landscape, the interest in the study field of business models has grown (Teece, 2010).

First and foremost, the concept of business model has been defined in several ways by many authors; according to the literature review conducted by M. Geissdoerfer, *et al.* (2018), the efforts to define it have started in the 1990s, and the attention on the issue has raised particularly in the most recent decade. The analysis performed by the authors, with the aim of summarizing the research advancements on the topic, leads to a new (and possibly comprehensive) description of business models as "simplified representations of the value proposition, value creation and delivery, and value capture elements and the interactions between these elements within an organizational unit" (Geissdoerfer, *et al.*, 2018).

Therefore, a business model can be considered to be a conceptual description of the structure of the elements allowing an organization to survive, and possibly thrive, in the market. Business model design, indeed, when approached strategically, could represent a source of competitive

[10] Haigh & Hoffman (2011).

advantage, especially when it is not easily replicable; however, even when quickly imitable by rivals, business models can contribute to a company's competitiveness, through their continuous revision and adjustment to contingencies. Although the proactive modification of the business model could seem unreasonable during periods of success, and challenging, since it involves changing the business architecture, an inertial or reactive approach to innovation could not be sufficient to ensure the sustainability of the competitive advantage over time; understandably, performing a preliminary strategic analysis and developing dynamic capabilities, related to the ability to adapt to ever-shifting external conditions, are crucial in the process of business model innovation (Teece, 2010; Da Giau, *et al.*, 2020).

Returning to the business model definition drawn by M. Geissdoerfer, *et al.* (2018), it is important to note that it builds, among the others, on the well-known defining phrase by A. Osterwalder & Y. Pigneur (2010), according to whom a business model "describes the rationale of how an organization creates, delivers and capture value"; the authors also affirm that a business model can be comprehensively described through nine "building blocks", or constituent parts, which are listed below:

- "Customer segments", including the subject classes a business wants to target
- "Value propositions", constituted by the combination of products and services offered to and tailored on customer segments' needs
- "Channels", as the ways through which an organization connects to the customer segments to offer them the value proposition and facilitate commercial exchanges
- "Customer relationships", namely the characteristics of the relationships an entity builds and maintains with its customer segments
- "Revenue streams", including the different payment types received from sales during the normal course of business
- "Key resources", referring to the assets, of different types, which are necessary for the effective functioning of the business model
- "Key activities", referring to the practices, of different types, which have to be performed for the effective functioning of the business model
- "Key partnerships", describing the collaborative relationships with selected actors in the value chain, for ensuring the good performance of the business model, and
- "Cost structure", including the costs that have to be sustained for making the business model work.

The business model constituencies as delineated by A. Osterwalder & Y. Pigneur (2010) can be visualized using the well-known "business model canvas" tool. The business model canvas is a useful tool to map an organization's actual business model, allowing to identify the related strengths and weaknesses, and to evaluate the degree of competitive advantage. Moreover, the resulting awareness constitutes an initial reference for defining the most valuable avenues along which to innovate the business model (Joyce & Paquin, 2016; Strategyzer, 2020). Indeed, using the words of C. L. Franca, *et al.* (2017), the instrument "has become one de facto standard for business model development".

However, the business model canvas is acknowledged to have a limitation when dealing with business model innovations towards sustainability, since it does not explicitly include socioenvironmental considerations in the analysis. For this reason, it is considered to have an economic orientation, and this is the motive for which Figure 2.1 below depicts the traditional canvas as the "economic business model canvas" (Joyce & Paquin, 2016; Ludeke-Freund, *et al.*, 2018). In front of the increasingly central role of socioenvironmental challenges and opportunities in the competitive landscape, an exclusive reliance on the traditional business model canvas might bring to short-sighted solutions, potentially leading to missed opportunities for strengthening the business and its impact on the society and the ecosystem. Nonetheless, the wide success of the Osterwalder & Pigneur model still places it as a valid starting point for other scholars in conducting their analyses, also in the field of sustainability; as will be explained in the next Paragraph, the model can be expanded or complemented by other tools, to account for social and ecological dimensions.

2.2.2. Characteristics of sustainable business models

Some enterprises choose to adopt modified business models, either since the beginning of their operation, or subsequent to the foundation, in response to internal or external challenges, or a combination of both; for example, they could undertake initiatives in this direction to refocus their strategy, or to have the appropriate structure to tackle opportunities in the market (Geissdoerfer, *et al.*, 2018). What is interesting in this context is understanding the way and the reasons why businesses choose to revise their business model to include social and environmental considerations in daily operations and strategy. The previous sections have already explained some motivation types driving organizations in the decision of adopting a business model for sustainability; next, the focus will be on the roadmap to follow in the modification process, once the opportunity has been recognized.

First, it is useful to agree on a definition of "sustainable business models". After an accurate review of the existing literature on the theme, M. Geissdoerfer, *et al.* (2018) end up with describing them as "business models that incorporate pro-active multi-stakeholder management, the creation of monetary and non-monetary value for a broad range of stakeholders, and hold a long-term perspective"; therefore, according to the authors, the creation of sustainable value, a voluntary concern towards stakeholder interests and an extended timeframe are the key features distinguishing sustainable business models from traditional business models. It is important to note that these distinguishing features also coincide with some of the intrinsic values of hybrid organizations and of the Benefit Corporation model. While the consideration of multiple stakeholders' views has already been explored in the first Chapter when dealing with hybrids' characteristics and Benefit Corporations' responsibility, the creation of sustainable value deserves more attention at this point; indeed, it is useful to clarify the meaning of sustainable value and the process through which it is created.

In this regard, sustainability studies frequently adopt the "triple bottom line" framework as the initial reference for discussion. Coined in 1994 by John Elkington, the term "triple bottom line" embeds the idea that the performance of an organization should be assessed through the simultaneous evaluation of its impacts generated over time on three dimensions:

- the economic bottom line, referring to the impact on Profit
- the social bottom line, along which the impact on People should be quantified, and
- the environmental bottom line, against which to measure the impact on the Planet (Slack, *et al*., 2016).

According to the framework, a business can claim to be sustainable only if, and to the extent to which, it benefits the triple bottom line, not only generating an appropriate economic profit, but also creating value for the society and limiting damages to the environment. A sustainable business, indeed, does not focus exclusively on shareholders' wealth maximization, but it accounts for the entire cost of running a business (Slack, *et al.*, 2016; Elkington, 2018; Markman, *et al*., 2016). In other words, businesses adopting a triple bottom line mindset take into account the externalities they generate, both positive and negative.

Being in line with the idea of corporate social responsibility and with the stakeholder theory, the triple bottom line framework has gained wide acceptance since its conceptualization. However, the coiner of the term, John Elkington, recently perceived the need to recall the original objective of the approach, because alarming social and environmental conditions still

endure, despite the efforts. Contrary to what many adopters believe, the framework does not encourage to make trade-offs to balance the performance among the three dimensions; rather, by facilitating the simultaneous measurement of multiple performance dimensions, it encourages to adopt a systemic perspective to change the old single bottom line mindset, "spurring the regeneration of our economies, societies and biosphere" (Elkington, 2018).

Hence, it seems that a diffused mindset shift is the starting point for elevating the efforts in favour of sustainability to a real commitment, which is capable to trigger the advancements needed. A sustainability culture shared within the organization also makes it easier to adopt, run and preserve purpose-embedded business models, which are likely to be more complex than traditional business models, since they integrate socioenvironmental considerations, thus engaging with a wider range of stakeholders (Sabeti, 2011; Young, *et al*., 2019).

In this regard, A. Joyce & R. L. Paquin (2016) propose an interesting instrument for assessing the opportunities and the directions along which to include sustainability concerns in the business model. The tool is essentially a triple bottom line expansion of the above-mentioned business model canvas: it is, indeed, called "triple layered business model canvas". As the name implies, the modified canvas is made of three layers: beside the economic layer (corresponding to the traditional canvas, considered to predominantly have an economic orientation), there are the environmental and the social layers. In particular, the environmental layer helps to assess the net environmental impact of a business; focused on assessing the lifecycle of the businesses' products and services, it is made of nine building blocks (the environmental equivalents of the traditional canvas): "functional value", "materials", "production", "supplies and outsourcing", "distribution", "use phase" (subsequent to production), "end-of-life" (after consumption), "environmental impacts" and "environmental benefits". Analogously, the social layer, based on the stakeholder perspective, is made of nine building blocks (the social equivalents of the traditional canvas): "social value", "employee", "governance", "communities", "social culture", "scale of outreach" (meaning the strength and expansion of the relationships with stakeholders), "end-users" (in relation to consumption), "social impacts" and "social benefits". The triple bottom line business model canvas has been developed to ensure both "horizontal coherence", thanks to an integrated perspective linking the nine elements within each layer, and "vertical coherence", since the building blocks in each layer are connected to their analogues in the other layers. Figure 2.1 shows the triple layered business model canvas by A. Joyce & R. L. Paquin (2016); note that the first layer corresponds to the traditional canvas developed by A. Osterwalder & Y. Pigneur (2010).

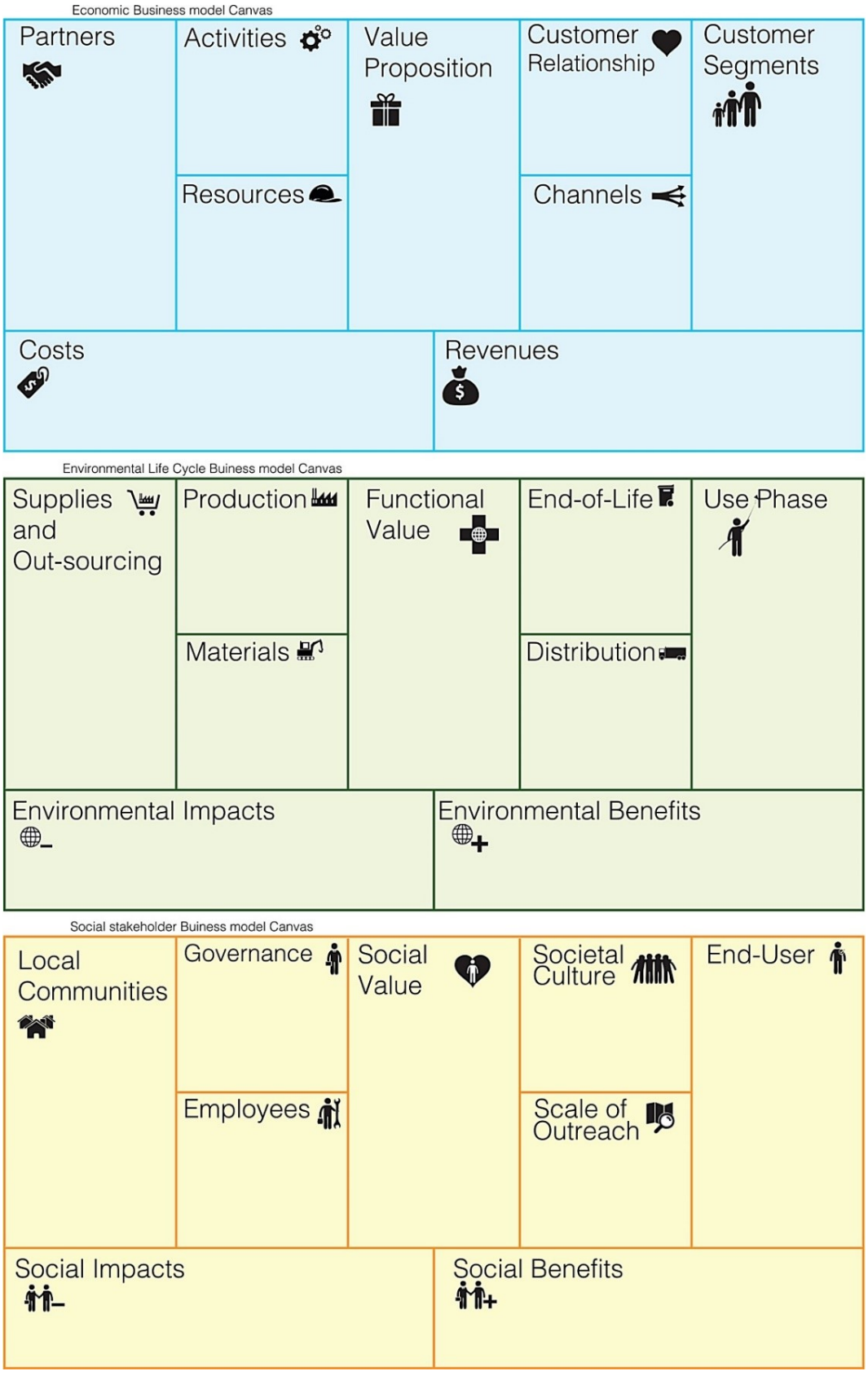


Figure 2.1 – The triple layered business model canvas. Source: Joyce & Paquin (2016).

The triple layered canvas is particularly interesting here, as it integrates the concept of triple bottom line and the business model canvas tool; moreover, the instrument is able to offer a comprehensive view of a company's business model, highlighting innovation opportunities, the

identification of which is crucial for the transition towards sustainable business models. Indeed, the virtue of the tool lies in the opportunity it offers to "support developing more robust and holistic perspectives on sustainability-oriented business model innovation", in addition to facilitating an assessment of a business model current state regarding the economic, environmental and social dimensions (Joyce & Paquin, 2016).

Clearly, there are several other tools an organization can make use of; for example, C. L. Franca, *et al.* (2017) complement the business model canvas tool with the "framework for strategic sustainable development"; the latter is based on the idea that the ability of the society and of the ecosystem to satisfy people's needs is shrinking like a funnel, and that only the organizations which will be able to reduce their socioenvironmental impact will manage to survive in the narrower part of the funnel. The framework is composed of five levels of analysis, and it is aimed at facilitating the gradual integration of the multiple elements interested by business model design and renewal (Franca, *et al.*, 2017).

Other tools have been developed to expand the traditional ones in the direction of accommodating more dimensions beside the economic aspects; however, the end result should be the same: guiding businesses in achieving an acceptable (if possible, excellent) economic, environmental and social performance over time. The next section will present an overview of the main types of sustainable business models allowing to reach this ambitious goal.

2.2.3. Types and priorities of sustainable business models

In the context of a relatively new field of study, such as the research on sustainable business models, it is particularly important to develop clear classifications, for several grounds. By giving the possibility to organize the current information, the categorization of sustainable business models can bring several benefits: it enables information sharing and collaboration, spurring further research and awareness, ultimately encouraging the spread and the adoption of innovative sustainable business models by entrepreneurs (Ludeke-Freund, *et al.*, 2018).

During the recent decades, several criteria have been adopted by scholars in the attempt to obtain an exhaustive classification of sustainable business models. In this regard, it is common to make use of the triple bottom line framework to obtain an initial macro-subdivision in People-, Profit- and Planet-oriented business models (e.g., Ritala, *et al.*, 2018; De Marchi, *et al.*, 2019). Accordingly, V. De Marchi, *et al*. (2019) identify three distinct overarching classes of sustainable business models: those mainly focused on the environment and the attentive management of resources, those prevalently concerned with the society and the responsible

consumption, and those following an economic logic in benefitting the triple bottom line. Differently from this common preliminary subdivision, the more specific distinctions underlying the major classes vary widely depending on the study. Here, the viewpoint shared is the one adopted by F. Ludeke-Freund, *et al.* (2018); according to the authors, the existing classifications at the date of their research provided a "fragmented body of knowledge and incoherent messages", resulting to be difficult to reconcile and based on not sufficiently objective procedures. Hence, with the aim of reducing the confusion and uncertainty surrounding the typology of sustainable business models, F. Ludeke-Freund, *et al.* (2018) propose a comprehensive classification, obtained through a literature reorganization and empirical analyses. The theoretical frame used by the authors is an instrument developed by A. Kleine & M. von Hauff (2009), the "integrative sustainability triangle", whose objective is to facilitate the systemic coordination of the different CSR initiatives. The triangle is built on the triple bottom line framework: its vertices represent the economic, environmental and social dimensions. According to the positioning assumed with respect to each dimension, a business can be assigned to one of the ten areas defined inside the triangle. Below, Figure 2.2 shows the sustainability triangle in the slightly modified version by F. Ludeke-Freund, *et al.* (2018).

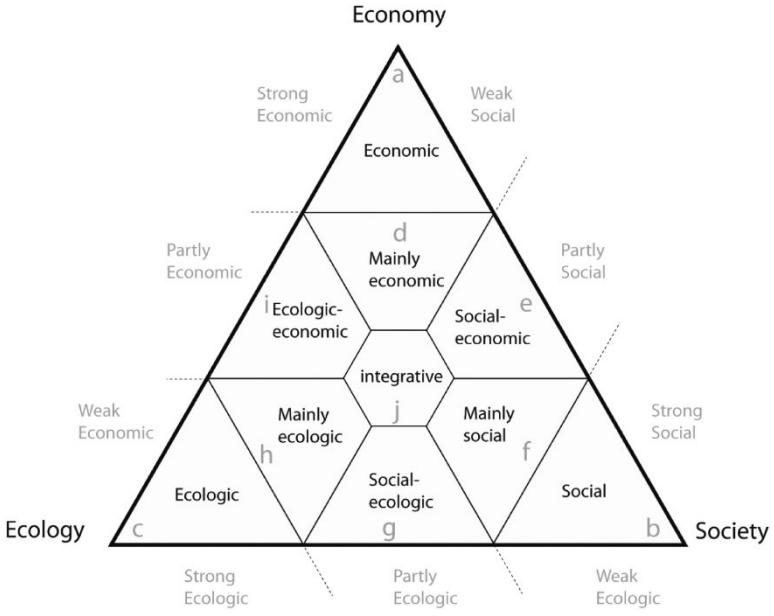


Figure 2.2 - The sustainability triangle. Source: Lüdeke-Freund, et al. (2018), based on Kleine & von Hauff (2009).

Understandably, each area is characterized by a certain degree of connection to the economy, the ecology and the society dimensions, meaning that, for being sustainable, a business has to make efforts in all the fields. The exclusive concentration on a single dimension, maybe at the detriment of the others, is more likely associated to a company pursuing isolated CSR initiatives and to a wrong understanding of the triple bottom line logic, linked to the "image enhancer" conduct and greenwashing practices, and to a "defensive" strategy (Kleine & von Hauff, 2009;

Schaltegger, *et al.*, 2012; Brockhaus, *et al.*, 2017). Instead, sustainable businesses adhere to the principle of caring for all the three bottom lines; however, they could have a prevalent orientation to one dimension, and this is the reason why the triangle delimits different sections. More specifically, the three areas at the vertices have a clear prevalent focus on the creation of a single type of value; the six areas forming the inner hexagon blend the different dimensions and are characterized by various degrees of association to each of them; last, the "integrative" area is equally associated to economic, ecological and social aspects (Kleine & von Hauff, 2009).

Based on the position occupied in the integrative sustainability triangle, F. Ludeke-Freund, *et al.* (2018) define a set of sustainable business model schemes and group them according to the form of value creation they adopt; their analysis results in eleven groups of value creation patterns, associated to a specific set of problems and solutions: "pricing and revenues" (focused on revenue-making mechanisms), "financing" (focused on sources of financing), "ecodesign" (centred on more sustainable design of products and practices), "closing-the-loop" (related to circularity, a system of recycling and reusing products dismissed by customers), "supply chain" (focused on the other actors in the value chain), "giving" (concerning donations), "access provision" (focused on underserved markets), "social mission" (involving disregarded people), "service and performance" (centred on products' functionality), "cooperative" (for the collaborative inclusion of stakeholders and executives) and "community platform" (related to the *servitization* phenomenon and the "product-service system" concept[11], entailing the integration of services in the product offering) (Ludeke-Freund, *et al.*, 2018).

In particular, the "closing-the-loop" solution identified by F. Ludeke-Freund, *et al*. (2018) can be associated to one of the most known types of sustainable business models, the circular business model, as a form of value creation based on the principles of the circular economy. A comprehensive definition of circular economy is developed by M. Geissdoerfer, *et al*. (2017), describing it as a "regenerative system in which resource input and waste, emission, and energy leakage are minimised by slowing, closing, and narrowing material and energy loops". Hence, in opposition to the linear economic model, where the life of a product is divided in the phases of "make, use, dispose", the idea at the basis of the circular economic model is to extend the life of products, through the implementation of a series of techniques; for example, at the origin, products can be designed and developed in a way which allows them to be long-lasting or more sustainable, or, at the end of the user's consumption, they can be reused or recycled to be

[11] Franca, *et al.* (2017).

employed for other purposes (Slack *et al*., 2016). In short, the conscious and efficient use of scarce resources and the minimization of waste are among the core principles of the businesses deciding to embrace the circular economy idea, through a deeply sustainable business model.

The preliminary subdivision distinguishing sustainable business models based on their orientation to the triple bottom line and the integrative sustainability triangle with its ten sections will be used as theoretical references in the context of the analysis of B Corps' business models in the fourth Chapter.

2.3. Key challenges of sustainable business models

As already mentioned, the distinctive overall features of sustainable business models, identifiable in the adoption of the threefold focus and the stakeholder perspective over the long term, are potentially conducive to the opportunity to achieve durable competitive advantages. In front of this, the existence of specific critical issues related to the design and operation of such modified business models makes the link between the implementation of sustainability practices and the achievement of a competitive advantage dependent upon the ability to deal with those issues (Schaltegger, *et al.*, 2012). More specifically, business models which aim at simultaneously creating environmental, economic and social value have to confront the different interests, timeframes and viewpoints characterising the multiple constituencies populating the three dimensions. As a result, sustainable organizations might have to face complex management dynamics and specific challenges, which have been categorised by K. van Bommel (2018) in four distinct groups:

- "performing" rigidities, resulting from the choice of accommodating multiple stakeholders' views with respect to the adoption of an exclusive focus on shareholders, thus requiring to balance numerous interests and value creation forms
- "belonging/identity" challenges, related to values' incompatibility among the different actors in the company
- "organizing/change" difficulties, stemming from diverse governance mechanisms and architectural and cultural heterogeneity, and
- "learning/temporal" divergencies, linked to the concurrent presence of dissimilar temporal orientations.

Once identified these four types of challenges, K. van Bommel (2018) then highlights the ways through which an organization manages the conflicts that emerge when simultaneously pursuing economic, social and environmental goals. Based on that, when businesses try to trade-

off the multiple goals, or to direct them to construct *ad hoc* business cases, they are pursuing an "instrumental strategy". More specifically, the first behaviour is ascribable to the "avoidance" strategy, according to which businesses consider their performance on the triple bottom line as a zero-sum game, where an improvement in an area implies a deterioration in the others; this strategy, resulting in the elimination or the neglection of conflicts, is frequently employed by entities which choose to prioritise the Profit dimension over People and Planet. In turn, the second behaviour, called "alignment" strategy, involves the development of a framework allowing to obtain economic objectives along with socioenvironmental objectives (namely the above-mentioned "business case *of* sustainability" by S. Schaltegger, *et al.*, 2012); this strategy seems to be strictly connected to the practice of greenwashing, since the endeavour to align the dimensions is driven by reputational concerns and the interest in sustainability is not embedded in the soul of the business, but only leveraged in image-enhancing claims (van Bommel, 2018; Schaltegger, *et al*., 2012). On the contrary, businesses which acknowledge and accommodate conflicts among plural objectives are considered to be following an "integrative strategy", which ultimately seems to be more effective in ensuring the prosperity of businesses committed to sustainability (van Bommel, 2018). In particular, there are three types of sub-strategies adopting the latter holistic view of the triple bottom line: the "opposition" strategy, which recognizes the conflicting elements and attempts to satisfy both the parts of the conflict without making priorities; the "spatial and temporal separation" technique, according to which dissenting elements are maintained, but kept separated in space or time; and the "synthesis" strategy, building a new value creation framework in which the commitment to sustainability is central. Hybrid organizations, in that they constitute an organizational form blending the profit-seeking logic and the social logic, clearly enact the "synthesis" strategy to manage the challenges related to the encounter of diverse perspectives and practices (van Bommel, 2018; Stubbs, 2019).

Overall, an interesting perspective involves considering the transformation of business models towards sustainability as a process of change, that has to be managed (Geissdoerfer, *et al.*, 2018). If, indeed, a business decides to modify its traditional business model to account for socioenvironmental aspects beside the economic concerns, it has to start a controlled transformation path. In both the cases of a radical and an incremental business model innovation, but especially for extensive changes, designing a proper transition plan could enhance the chances of a successful implementation; on the contrary, failing to plan for the innovation could lead to the stagnation or the abandonment of promising ideas, or even to the failure of the new model once implemented (Geissdoerfer, *et al*., 2018). The reasons why some

business model innovations do not succeed in the market are manifold, and they recall the motives for which change processes often fail, identified as barriers (present at the individual, at the group and at the organizational levels) which impede a transformation and favour "organizational inertia", as explained by M. Geissdoerfer, *et al*. (2018).

In this regard, J. P. Kotter articulated in 1995 the well-known model for change management, made of the following eight critical steps that businesses should follow to avoid inertia and to guide a successful change implementation:

1. "establishing a sense of urgency"
2. "forming a powerful guiding coalition"
3. "creating a vision"
4. "communicating the vision"
5. "empowering others to act on the vision"
6. "planning for and creating short-term wins"
7. "consolidating improvements and producing still more change"
8. "institutionalizing new approaches" (Kotter, 2007).

Beside the roadmap for managing change provided by J. P. Kotter, W. Stubbs (2019) suggests some general areas of concern which should be addressed in conditions of institutional complexity, such as those characterizing sustainable business models and Benefit Corporations; the author highlights the importance for organizations of establishing a uniform culture centred on the commitment to the triple bottom line, through an appropriate sharing and communication system, the development of efficient compensation mechanisms, and the promotion of a governance function capable of guaranteeing the safeguard of multiple interests (Stubbs, 2019). In this regard, the next Paragraph will deal with the methods for managing tensions employed by Benefit Corporations and B Corps, embedding a particular type of sustainable business model.

2.4. Sustainable business models inside Benefit Corporations and B Corps

As a study by V. De Marchi, *et al*. (2019) confirms, the main change implemented by a sample of Italian businesses when they adopted the form of Società Benefit or they achieved the B Corp label is the modification of the business model. As anticipated, hybrid organizations in general, and Benefit Corporations and B Corps in particular, are considered to be constructed on a special type of sustainable business model; indeed, they share the distinctive features of sustainable business models, namely the creation of sustainable value, the orientation to

stakeholders and the long-term outlook, as identified by M. Geissdoerfer, *et al*. (2018). By adopting an innovative business model, allowing to integrate their dual mission of profitability and sustainability, hybrid organizations and Benefit Corporations are well positioned to have a positive impact on the ecosystem, while simultaneously exploiting a powerful competitive advantage (Franca, *et al*., 2017; Ritala, *et al*., 2018).

The Benefit Corporation movement, by modifying the purpose of the corporation, has allowed the spread of an innovative legal form, having the potential to integrate the triple bottom line concept in established business models; also, the B Corp label is awarded to businesses only if their overall performance on multiple dimensions exceeds an ambitious threshold. Notably, it is possible for these entities to have a systemic perspective of their efforts in producing a positive impact on People, Planet and Profit (Stubbs, 2019). Overall, these organizations are likely to be "true believers", adopting "proactive" strategies when transforming the value creation logic to approach sustainability (Brockhaus, *et al*., 2017; Schaltegger, *et al*., 2012; van Bommel, *et al*., 2018). Ultimately, the legal obligation for Benefit Corporations to generate socioenvironmental value and the independent assurance granted on the performance of B Corps constitute strong signals of these entities' intrinsic commitment, allowing to distinguish them from greenwashers (Parguel, *et al*., 2011; Laufer, 2003).

Leading to opposite results, the research conducted by P. Ritala, *et al*. (2018) focused on the study of the sustainability commitment by some of the biggest corporations in the world[12] from the year 2005 to 2014. The results of the analysis reveal that the sustainability strategies adopted by these large corporations are mainly reactive and incremental, driven by trends and by their link to economic results; hence, the conduct of these entities could be associated to the "image enhancer" paradigm in pursuing "defensive" strategies, and to the tendency to seek "business cases *of* sustainability" rather than "business cases *for* sustainability" (Brockhaus, *et al*., 2017; Schaltegger, *et al*., 2012). These findings can be explained by the fact that large companies, beside being often dependent on global value chains, are particularly affected by the problem of organizational inertia (Ritala, *et al*., 2018); this could be due to the concern that, by implementing more radical changes, such as the modification of the business model, they could lose the competitive advantage they hold, as also suggested by G. D. Markman, *et al*. (2016) and D. J. Teece (2010). Clearly, some degree of risk is always present when changing something successful, but escaping change represents a risk too, especially in a rapidly evolving context such as business sustainability; the failure to innovate towards sustainability by these

[12] The companies listed in the Standard and Poor 500 index.

giant incumbents could threaten their competitiveness, making them vulnerable to rivals, but also to reputational attacks, since they are usually subject to enhanced social expectations, publicity requirements and supervision with respect to smaller companies (Ritala, *et al*., 2018).

Overall, it seems that there is a link between the size of companies and their degree of proactivity in undertaking radical changes, such as the integration of social and environmental considerations into the business model; according to P. Ritala, *et al*. (2018), "emerging small-scale sustainable and social ventures" are more receptive to sustainability demands. Also, as explained by G. D. Markman, *et al*. (2016), more sustainable enterprises, such as certified B Corps, are usually characterized by an all-pervading governance, with the responsibility to oversee the creation of socioenvironmental value in conjunction with economic results; according to the authors, this type of oversight could be difficult to afford in large listed corporations, especially in the more profit-oriented ones (Markman, *et al*., 2016). In line with these assertions, it is acknowledged that B Corps and Benefit Corporations, naturally predisposed to embrace a triple bottom line perspective, are, for the major part, small and medium enterprises, as also partially testified by the legal forms they adopt (see Graphic 1.4 for data on Società Benefit, and Chapter four for data on B Corps' size). However, as mentioned in the first Chapter, an increasing number of large corporations is deciding to modify their legal purpose, or to achieve the B Corp certification.

Whatever the company dimension, Benefit Corporations are not immune from the challenges characterizing sustainable business models; indeed, the paradoxes present in the management of different timeframes for achieving results, in the consideration of multiple constituencies' interests and in the simultaneous creation of different forms of value are part of the hybrid organizations' soul. As already mentioned, the most promising way to manage them is recognizing their existence and adopting appropriate methods to preserve them, as they are essential elements for a hybrid organization to be called as such. More specifically, the holistic perspective employed by the "integrative strategy" allows to adequately balance the entity's impact on the triple bottom line. In the practice, the techniques ascribable to the "integrative strategy" can be also applied in combination, or even alternated to techniques which are part of the "instrumental strategy". The possibility to craft different combinations of responses to deal with the complex and dynamic requirements of sustainable business models ensures hybrids the degree of flexibility and agility they need (van Bommel, 2018).

Particularly important to maintain the right direction when flexibly adopting the various techniques to balance the different aspects of performance, is shaping and reinforcing a

common identity inside the organization, simultaneously focused on the economic and the socioenvironmental returns (Battilana, *et al*., 2012). Equally vital is the effort in communicating the core values, both inside the organization, to create and reinforce the employees' commitment, and outside it, to raise stakeholders' awareness on the achieved progresses and the foreseen development path. Linked to that, a reliable reporting system has to be put in place by hybrids in order to track and substantiate communications about performance, in a way that authentically sustainable businesses can be distinguished from greenwashers; however, here a problem emerges, related to the availability of a multitude of reporting standards and to the difficulty in measuring the impacts generated, especially in relation to the social and the environmental dimensions (Stubbs & Cocklin, 2008; De Marchi, *et al*., 2019; Stubbs, 2019). The theme of impact measurement and reporting will be more deeply explored in the third Chapter.

2.5. Conclusions

In the context of the increasingly pervasive and visible issues affecting the ecosystem and the communities, the world of businesses is "recognized as being part of both the problem and the solution" (van Bommel, 2018). However, there are different degrees to which an organization can contribute to the socioenvironmental cause, from the implementation of minor operational changes and non-core "greening"[13] initiatives to the more complex "sustaining"[14] option of making extensive changes in the core value creation logic. Different motivations determine the breadth and depth of the sustainability programs implemented by businesses. More specifically, incremental initiatives, which are more frequently adopted by organizations, are often driven by the willingness to follow market trends and to mitigate reputational risks; instead, as a radical solution, some businesses decide to conceptualize and to adopt modified business models, suited to the authentic pursuit of sustainability, and identified as sustainable business models. Differently from traditional business models, in which the economic value creation is the privileged focus, sustainable business models expand the range of performance dimensions considered, to integrate social and ecological aspects. Using the triple bottom line concept as a reference, a business can, indeed, be said to be sustainable only if its impact on the three dimensions of Planet, Profit and People is positive (Elkington, 2018).

The organizations embracing sustainability as a core value, embedding it in the business logic, such as Benefit Corporations and B Corps, are the optimal candidates to achieve differentiation

[13] Gladwin, *et al*. (1995).
[14] *Ibid*.

in the market and in the society for their ability to pursue sustainability along with profitability. Indeed, since they are supported by sustainable business models, they share the related advantages; for example, they are likely to assume a leading role in raising awareness on and tackling the actual social and environmental challenges, and they are prone to implement breakthrough innovations. On the other side, these entities also share the drawbacks characterising sustainable business models, which essentially relate to the management of complexity and to the difficulty of maintaining an equilibrium among the different performance dimensions, to avoid the prioritization of one to the detriment of the others.

Nevertheless, acquiring the ability to make decisions and to evolve in front of complex situations could increase the likelihood of achieving a sustainable competitive advantage: indeed, the development of dynamic capabilities and of flexibility characterizing hybrid organizations could render them more resilient in the competitive landscape (Geissdoerfer, *et al*., 2018; De Marchi, *et al*., 2019; Da Giau, *et al*., 2020). Especially when dealing with change and the associated risks, innovation and cultural consistency have to be combined. In this regard, for the innovation processes to be successful, it is useful to follow a clear and structured path of development, such as the famous eight-step model proposed by J. P. Kotter in 1995. Moreover, during all the life stages of hybrid organizations in general, and of Benefit Corporations and B Corps in particular, it is essential to shape a common identity inside the organization, but also to communicate it outside: frequent interactions with the specific stakeholders involved and with the general market and the society are necessary for these entities to remain consistent with their dual mission. Indeed, an effective communication system, coupled with consistent behaviour, would protect hybrids from the risks known as "mission drift" or "revenue drift"; the terms respectively refer to the instances in which the economic performance dimension is prioritised over the social one and vice versa, both leading to a situation in which one of the hybrid's goals is jeopardized (Raisiene & Urmanaviciene, 2017; Haigh & Hoffman, 2011).

Regarding communication, there are two interrelated themes which deserve more attention: the issue of impact measurement, namely the difficulties experienced by sustainable businesses when trying to quantify the social and environmental impact they generate; and the question of reporting, linked to the presence of multiple reporting guidelines and the lack of a uniform consensus on which standard to use. The measurement and reporting themes will be jointly explored in the following Chapter, after an investigation of the related sustainable investing phenomenon will be presented.

3. CHAPTER 3 - The importance of measuring and communicating the ESG performance

3.1. Introduction

The spread of the conviction that it is possible for companies to create multiple forms of value in an integrated way is testified by the fact that the number of Benefit Corporations and B Corps in the world is following an increasing trend, as explained in the first Chapter.

Despite this increasing awareness, one of the challenges that hybrid organizations such as Benefit Corporations still have to face is related to funding (Horton, 2019). Indeed, historically investors, in deciding their investment strategies, have adopted an exclusive focus on the businesses' financial performance; in turn, the main objective of businesses has been to serve the interests of shareholders, hence the investors. The concept of shareholder primacy dominated the mindset of market participants. In the most recent decades, however, alongside the diffusion of the stakeholder theory, the dominant mindset of businesses and funders is starting to shift towards the adoption of a wider perspective on value creation; as explained by D. Young, *et al*. (2019), "stakeholders are beginning to pressure companies and investors to go beyond financial returns and take a more holistic view of their impact on society"; accordingly, businesses should change their focus from a "total shareholder return[15]" towards a "total social impact[16]", departing from an exclusive interest on stock value in favour of promoting a "shared value[17]" creation. Also, the United Nations have formalized this need in 2015 with the "Addis Ababa Action Agenda", proposing a plan for directing the different sources of capital towards sustainable investments; the framework is placed within the broader "Financing for Development" initiative, aiming at fostering and tracking progress in respect of the 2030 Agenda and the underlying Sustainable Development Goals. Moreover, at the end of 2019 the United Nations supported the formation of the "Global Investors for Sustainable Development Alliance", a group of business exponents with the role of guiding the investment flows towards sustainable undertakings (United Nations, 2020b; European Environment Agency, 2019).

In this direction, increasingly companies are hybridizing their strategies and structures to generate an impact beside the economic results, and a growing number of investors is considering the socioenvironmental impact of a company in deciding where to inject financial resources. As explained in the second Chapter, businesses can be involved in sustainability

[15] Beal, *et al*. (2017).
[16] *Ibid.*
[17] Porter & Kramer (2011).

initiatives to different degrees, from the implementation of secondary and reactive activities to survive in the market, to the embracement of social and environmental missions upon which to construct the strategy and the business model necessary for its enactment. As the most radical solution, the configuration of business models tailored to pursue sustainability is particularly powerful in enabling the concurrent achievement of economic, environmental and social goals (Unruh, *et al*., 2016; Geissdoerfer, *et al*., 2018). In this regard, what is crucial for businesses is to monitor and communicate their performance along the three dimensions, so that they can form an idea of their actual position and of the possible future improvements, beside reinforcing the organizational commitment. Also, establishing a comprehensive and accurate system of reporting can be essential to facilitate the issuing of financing; more informed investors can make more informed decisions and place their resources on the ventures which are more suited to their needs and beliefs. Hybrid organizations such as Benefit Corporations are especially deemed to obtain advantages from enhancing their communication system, as will be explained further in the Chapter (Horton, 2019).

Notably, if the interest in dual purpose entities was originally limited to "impact investors", increasingly the wider community of "mainstream" investors is directing resources to businesses engaged in sustainability. In this respect, environmental, social and governance issues, frequently abbreviated in "ESG", are comprehended in all the investment initiatives aiming to produce socioenvironmental and governance positive impacts beside the financial return; ESG investment strategies are ascribable to a sustainable investing approach, which will be dealt with in the following sections (Global Sustainable Investment Alliance, 2018; Wall Street Italia, n.d.). Note, however, that most of the information investors can grasp about the sustainability initiatives of companies comes from the companies themselves; indeed, most of the businesses are left discretion in the choice of whether to disclose ESG data and in the information detail to provide. Only recently, there have been legal efforts to regulate sustainability reporting, as the Directive 2014/95/EU, rendering non-financial disclosure mandatory for the European large companies[18] (European Commission, 2020b). Also, in order to increase the assurance on the objectivity of data, several frameworks for reporting have been developed in the last years. Indeed, following clear and independent standards could enhance data comprehension and reliability, and could mitigate the risk of greenwashing (Laufer, 2003; Parguel, *et al*, 2011). Nonetheless, to also allow for data comparability, it could be necessary for market participants at the global level to agree on a few common standards.

[18] Those having more than 500 employees.

Some of the guidelines currently most used by sustainability-sensitive organizations, namely the Global Reporting Initiative, the standards developed by the Sustainability Accounting Standards Board, and the Integrated Reporting Framework, will be presented in the Chapter; then, they will be compared with the B Impact Assessment, as one of the reference tools for the evaluation of businesses' impact.

3.2. Investing for the creation of a "blended value"

As explained in the previous Chapters, the overall goal of sustainable organizations is to jointly create social, economic and ecological value. The idea of integrating these multiple performance dimensions in the businesses' operations and purpose has been conceptualized by M. E. Porter & M. R. Kramer (2011), in the "shared value" principle. According to the authors, companies should abandon the exclusive focus on shareholders' wealth maximization and adopt a wider perspective, recognizing they can have a primary role in solving or mitigating the problems affecting the society. In particular, each firm should focus on the socioenvironmental issues in favour of which its distinctive capabilities can be leveraged; indeed, by choosing impact areas connected to the core business, organizations could have the potential to generate more significant results. With an authentic commitment, businesses could be able to deliver both economic and social value, hence a "shared value"; the nature of hybrid organizations and B Corps makes them the optimal candidates to pursue this integration (Porter & Kramer, 2011).

Testifying the competitive importance of embracing an integrated conception of value creation, the "2020 Edelman Trust Barometer Global Report" finds that the ethical component of businesses is a far stronger determinant of company trust by individuals than competence. More specifically, ethical considerations, such as honesty, the willingness to have a positive impact on society and reliability, are estimated to drive 76% of people's trust in businesses, while companies' competence, defined as the ability in performing their usual tasks, only accounts for the remaining 24%. Moreover, the study reveals that "belief-driven" customers, basing their purchase decisions on the brands' support to social concerns, represented 64%, hence almost two thirds, of the surveyed consumers in 2019 (Edelman, 2020). Overall, results from the research report disclose that companies could be more trusted if they engaged in triple bottom line initiatives, towards being increasingly guided by purpose.

Accordingly, a 2019 study conducted by Accenture Strategy and the United Nations Global Compact reports that a large majority (71%) of the CEOs interviewed[19] is convinced that

[19] 1000 Chief Executive Officers across 21 industries and 99 nations have been surveyed.

businesses can make a fundamental contribution in the solution or the weakening of social inequalities and environmental deterioration. However, despite expressing their commitment to contribute to the UN Sustainable Development Goals, CEOs also highlight that a "set of pressures continue to slow broad-scale transition to sustainable business"; notably, 55% of the leaders surveyed indicates the market focus towards costs as an impediment to devote resources for the sustainable development in the long term (Accenture Strategy & UN Global Compact, 2019). Indeed, as mentioned in the previous Chapters, investors' exclusive focus on short termism is incompatible with the long-term perspective adopted by sustainable ventures. As a matter of fact, companies cannot survive without the capital resources provided by investors: financial viability is a prerequisite for them to operate and fulfil their goals, and for-benefit enterprises are not different in this (Sabeti, 2011). Hence, through the concerted actions demanded by the 17th Sustainable Development Goal, governments and companies should collaborate to shape a more supportive business environment, by involving investors in the process (Accenture Strategy & UN Global Compact, 2019). Interestingly, in the recent years, the capital market has become aware of the role it can play in producing an integrated value, also thanks to the "blended value" conceptualization and the development of the related "impact investing" approach; understandably, both the principles are strictly connected to the triple bottom line framework described in the second Chapter.

Specifically, the "blended value" principle can be considered analogous to the concept of shared value, although it differs from it because it is formulated from the investors' perspective. The idea of "blended value", originated in 2000 under the leading role of J. Emerson, aims at propelling the world of investors and the business constituencies towards adopting an integrated value creation perspective. In order to create a blended value, investments should be directed towards those organizations capable to provide an adequate financial return synergistically with social and environmental benefits; therefore, the concept should encourage going beyond the established narrow focus on short-term financial returns, in favour of a wider perspective integrating socioenvironmental and economic improvements (Bugg-Levine & Emerson, 2011; Blended Value, 2020).

3.2.1. The "impact investing" phenomenon

If the creation of blended value is the end, according to A. Bugg-Levine & J. Emerson (2011), the means through which this is accomplished are represented by the "impact investing" phenomenon. The expression has been coined in 2007, during a meeting organized in Italy by the Rockefeller Foundation, with the objective of identifying and grouping a broad range of

investors committed to employ their funds for a dual purpose and to overcome the exclusive financial focus (Hochstadter & Scheck, 2015). Indeed, core to the impact investment idea is the pursuit of both financial and non-financial (namely socioenvironmental) payoffs, in the belief that the interests of investors can be aligned with the wellbeing of nature and people.

However, at the time the expression was first introduced, other related terms already existed which pointed to similar investment approaches, the most cited of which is "socially responsible investing", frequently abbreviated in "SRI" (Agrawal & Hockerts, 2019; Hochstadter & Scheck, 2015; Bugg-Levine & Emerson, 2011). According to the literature review performed by A. K. Hochstadter & B. Scheck (2015), although the new concept shows some overlap with the "SRI" general scope, some distinctive characteristics can be identified. Indeed, SRI is recognized as an investment approach taking into consideration non-financial commitments of traditional businesses, especially in the (negative or positive) screening phase, when investment targets are evaluated. Instead, impact investing is deemed to have three distinctive properties: "intentionality, measurement and accountability" (Wendt, 2018); more specifically, with respect to SRI actors, impact investors are considered to be more proactive and focused on socioenvironmental issues, and strongly devoted to the measurement and the reporting of the impact generated (Hochstadter & Scheck, 2015; Wendt, 2018).

Regarding the latter issue, there are two main references for quantifying the value generated along the triple bottom line by impact investors: the Impact Reporting and Investment Standards (IRIS and IRIS+) and the Global Impact Investing Rating System (GIIRS) (Wendt, 2018). IRIS and IRIS+, offering guidelines to set impact goals and targets, and to measure and communicate achievements, are developed by the Global Impact Investing Network (GIIN), a non-profit organization with the goal of spreading and further legitimizing the impact investing phenomenon worldwide (The GIIN, n.d.). In turn, the GIIRS is developed by B Lab, and primary serves to rate funds based on their overall impact performance; more specifically, the rating is assigned to a fund based on IRIS+ metrics, the BIA scores of its portfolio companies and its investment behaviour (related to investment attitudes, screening methodologies, reporting accuracy) (B Analytics, n.d.). According to the GIIN (2020a), impact investors also rely extensively on the UN Sustainable Development Goals, presented in the introduction to the first Chapter, to set their strategic priorities and assess their socioenvironmental impact. Moreover, a minor but growing role as references to assess and monitor impact performance in the investment context is played by the Sustainability Accounting Standards Board (SASB) and by the Global Reporting Initiative (GRI) (The GIIN, 2020b), which will be deeply explored in the second part of this Chapter as two of the reporting guidelines most used by sustainable

businesses. Relying on standards to track and communicate the performance in terms of impact can give a sense of concreteness to the declared intentions; however, a universally accepted framework for impact measurement and reporting has not established yet (Wendt, 2018; BlackRock Investment Institute, 2019).

Another dimension along which impact investing can be distinguished from SRI regards the investment targets. According to A. Bugg-Levine & J. Emerson (2011) and A. K. Hochstadter & B. Scheck (2015), both the investment approaches can be employed across different asset classes. However, SRI seems to be more employed for investments in large public businesses implementing ESG practices as secondary activities, while impact investing usually requires a higher level of involvement in small and private organizations which commit to a dual mission.

Overall, investment types could be represented in a continuum, going from those having an exclusive financial focus (traditional or "mainstream" investors) to those exclusively focused on social value (philanthropists). Understandably, each type of investment has different risk-return profiles and is characterized by specific providers, beneficiaries, instruments and time horizons (Emerson, 2003). Here, there is an analogy with the range of different organizational forms and institutional logics, spanning from non-profit to for-profit, presented in the first Chapter and illustrated in Figure 1.2. In both the cases, the extreme positions of the spectrum are occupied by pure and established solutions, while in between them there are innovative hybrid arrangements, whether organization or investment types.

Hybrid investment approaches appear to be ascribable to the umbrella term "sustainable investing", within which the specific impact investing category can be found. The relationship linking sustainable and impact investing is explained by the BlackRock Investment Institute (2019), defining the sustainable investing approach as "combining traditional investing with sustainability-related insights in an effort to reduce risk and enhance long-term returns". According to the Institute, sustainable investments include a range of four strategies, based on whether the investor's interest in sustainability is driven by the desire to "avoid" certain businesses or to "advance" selected initiatives; as illustrated in Figure 3.1 below, the screening strategy is ascribable to the first driver, whereas investment strategies based on ESG data, theme-based investing and impact investing are driven by an increasingly proactive behaviour (BlackRock Investment Institute, 2019). Figure 3.1 presents the classification of the sustainable investment strategies drawn by BlackRock, one of the main investment firms at the global level, detailing their respective primary objective, some important aspects and examples.

	Avoid	Advance		
	Screened	ESG	Thematic	Impact
Objective	Remove specific companies/industries associated with objectionable activities	Invest in companies based on ESG scores/rating systems	Focus on particular E, S or G issues	Target specific non-financial outcomes along with financial returns
Key considerations	Definition of and financial impact of screens	ESG data sources; active risk taken	Broad versus specific exposures	Report on progress toward outcomes
Examples	Screening out producers of weapons, fossil fuels and/or tobacco	Optimized ESG benchmarks; active strategies overweighting strong ESG performers	Environmental focus (low carbon or renewable energy); social focus (diversity)	Specific green bond or renewable power madates

Figure 3.1 - Sustainable investing styles. Source: BlackRock Investment Institute (2019).

In particular, the first three types of strategies are employed in the context of SRI, being mainly related to positive or negative screening, while, as already mentioned, impact investing has a higher level of proactivity and engagement in a specific mission (Hochstadter & Scheck, 2015; Agrawal & Hockerts, 2019; Wendt, 2018). Regardless of the strategy adopted, the spread of the sustainable investing approach demonstrates that the "bifurcated world" mindset, as A. Bugg-Levine & J. Emerson (2011) call it, which conceived the not-for-profit and the profit-maximizing logics as opposite and incompatible, is losing support in the capital market. The conviction that social value and financial results are in a trade-off relationship is exactly what is challenged by the idea of creating integrated value through investments in entities capable of having a socioenvironmental impact while generating market returns (Emerson, 2003).

Overall, both providers and beneficiaries of investment capital should embrace the holistic perspective in their actions and strategies. In this regard, if hybrid organizations and impact investors have been pioneering this mindset shift, there is increasing evidence that also actors which are closer to the extremes of the spectrum are massively following in the effort to create a blended value. The next section will present the current scale and the future perspectives of the macro-category of sustainable investments, with an initial focus on the impact investing sub-category.

3.2.2. Scale and growth of sustainable investments

To understand the scale of capital markets for sustainability, it is useful to start with a focus on the specific category of impact investments; then, the perspective will be broadened to the wider class of sustainable investments.

Remaining within the boundaries of impact investing, the most recent investigation on the theme is the GIIN "Annual Impact Investor Survey 2020"; according to the estimates based on

surveying almost 300 impact investors, who collectively manage assets for nearly $ 400 billion, the scale of the impact investing market at the end of 2019 was equal to $ 715 billion. The impact investors interviewed are spread in 46 countries worldwide, a large majority of which (77%) is based in developed nations; however, their overall focus is nearly equally divided among developed and developing countries. Regarding their size in terms of assets managed, the survey reveals that impact investors are small[20] in 53% of cases, while medium and large investors account for 21% and 24% of the total, respectively. As for the perspectives of the market, it is interesting to note that 69% of the surveyed investors considers it to be "growing steadily", and 21% to be "about to take off" (The GIIN, 2020a). Data for a subgroup of investors[21] participating to the survey since 2015 show an increase in the value of the assets managed globally by impact investors equal to a CAGR of 17% between 2015 and 2019. Moreover, respondents believe that there have been consistent improvements in recent years in areas such as industry research and impact quantification and reporting, testifying growing interest in the impact investing market. Nevertheless, some key issues to be dealt with remain, the greatest of which are perceived by interviewees to be related to "impact washing", the "inability to demonstrate impact results" and the "inability to compare impact results with peers". More specifically, "impact washing", worrying 66% of surveyed investors, refers to the instances when impact achievements or commitments are publicized but not real; this represents a major challenge for the development of an authentic market for impact investments, especially when coupled with the other two indicated issues (The GIIN, 2020a; Hochstadter & Scheck, 2015). However, a promising solution to the listed problems has already been identified in the further development of the "Impact Measurement and Management" instruments, to allow for "comparability and validation of impact performance" (The GIIN, 2020a). In other words, the evolution and the refinement of the guidelines used for quantifying and communicating non-financial results would help in discriminating authentic impact investors from "impact washers". Notably, the mirror image of this challenge from the businesses' viewpoint is represented by the greenwashing phenomenon, which has been described in the second Chapter.

Overcoming the boundaries of impact investing, now the attention shifts to the general macro-category of sustainable investments, in order to understand its scale and perspective growth. According to the Global Sustainable Investment Alliance (2018), at the beginning of 2018, the value of sustainable investments in the world amounted to $ 30.7 trillion, with a 34% increase

[20] In this survey, small impact investors are defined to be those investing less than $ 100 million.
[21] 79 investors identified as "repeat respondents".

compared to 2016 (68% if compared to 2014[22]). The sum refers to the first five markets for value of assets committed to sustainable investing, namely Europe, United States, Japan, Canada and Australia, with Europe and the United States respectively accounting for 46% and 39% of the total. The amount contributed includes funds employed in a range of investment strategies: while strategies involving the elimination of non-sustainable entities in the process of screening investment opportunities and the funding of organizations embedding ESG considerations account for the greatest part of the financial resources provided, other less employed strategies, among which there is impact investing, are showing a consistent growth in the resources managed. Overall, the conclusions which can be drawn from this study are that the capital market for sustainability is growing globally, and that investors are redirecting their resources to the undertakings having the ability to create shared value (Global Sustainable Investment Alliance, 2018).

In this favourable context, the above-mentioned financing issue experienced by hybrids and, in particular, Benefit Corporations and B Corps, could be solved; it seems, indeed, that funds are increasingly available in the market for the entities demonstrating a triple bottom line performance. The Global Sustainable Investment Alliance (2018) specifies that sustainability investments account for a consistent proportion of the overall assets handled: in 2018, they were nearly 50% of the total in Europe and Canada, and more than 60% in Australia, while they represented 18% of the total investments in Japan and 26% in the United States. Clearly, although the trend has been growing since 2014, there is the possibility to further spread investors' consciousness of the role they could have in creating multiple forms of impact; especially "mainstream" investors, according to G. Friede, *et al*. (2015), have been lazy in seizing the opportunity.

The increasing recognition that improvements along one dimension of the triple bottom line do not imply performance deterioration along the other dimensions could contribute to a collective mindset shift, as will be explained in the next Paragraph. On their side, authentically sustainable organizations have to construct a blended value proposition, which has to be measured and communicated through a robust reporting system; in this way, they can be trusted as vehicles capable of producing an impact alongside a financial return, so they can attract the most appropriate funding sources necessary to their operation. The main references available for impact quantification and reporting will be described in the second part of the Chapter.

[22] Koller, *et al*. (2019).

3.2.3. The link between sustainable investments and financial performance

In order to overcome the view that pursuing sustainability through investments implies a sacrifice in terms of financial returns, it is useful to present some research findings on the relationships that exist between economic and non-economic gains in the context of investments for sustainability. Data referring to the impact investing category will be presented first; then, the focus will shift towards the broader class of sustainable investments.

As previously explained, impact investments are characterized for being a hybrid investment approach, concurrently seeking a financial return and non-financial benefits. Concerning the amount of these two types of results required, the literature analysis performed by A. K. Hochstadter & B. Scheck (2015) draws two conclusions: specifically, the presence of a minimum threshold for impact is recognized, but the qualification and quantification of it seems to be dependent on the investor; instead, the minimum threshold for return in the context of impact investing is commonly identified in the principal invested. Clearly, maximum limits are not defined, but it is agreed that the financial return expected is considered to be variable, ranging from below- to above-market-rate.

In practice, the 2020 survey conducted by the GIIN on impact investing[23] evidences that a large majority of the interviewees, equal to 67% of the total, aims at achieving "risk-weighted market-rate returns", while the remaining percentage expects to obtain slightly lower returns. Here, an interesting relationship emerges between financial expectations and the investor' size: more specifically, large investors are more likely (88%) than small investors (57%) to seek market-rate returns; accordingly, below-market-rate investors are small in 70% of cases. Nevertheless, almost nine investors out of ten (88%) declared they have reached or gone over the envisaged financial returns; as regards non-financial results, the study reveals that almost all the respondents (99%) have realized their expectations (The GIIN, 2020a). These findings are in line with the above-mentioned theoretical framework, which highlights the simultaneous presence in impact investors of both the orientations to realize a profit and a socioenvironmental benefit. If, indeed, the main reasons driving interviewees to invest are related to the commitment to generate an impact, the linked financial return produced is valued by 70% of them as an important element in choosing the impact investing approach (The GIIN, 2020a).

Intrinsically blending the desire to benefit the natural and social systems and the moderate financial focus, it seems that impact investors are likely to consider businesses which demonstrate to share their dual commitment as the natural recipients of their resources.

[23] The GIIN (2020a).

Understandably, hybrid organizations and Benefit Corporations could be in a privileged position for receiving the impact investors' funds, once they put in place and manage an appropriate measurement and reporting system. In this regard, certified B Corps could have an additional advantage, since the undergone B Impact Assessment constitutes an independent and rigorous evaluation of the impact they generate. A detailed presentation of the reporting frameworks used by sustainable businesses will be drawn later in the Chapter.

Now, with the intent to widen the perspective beyond the specific category of impact investors, the attention will focus on more traditional investors, increasingly directing resources towards entities engaged in sustainable initiatives to some extent. If conventional investors might have been unresponsive versus the moral imperative of employing their resources for benefitting the society and the ecosystem beside themselves, they could be more sensitive to the positive relationship existing between investments in sustainability and financial performance (Beal, *et al*., 2017). Evidence on the existence of a positive link between companies' or funds' economic and socioenvironmental results is of particular importance for the spread of an integrative mindset among business constituencies and the entire society, since it testifies the concrete possibility to overcome perceived trade-offs by achieving both profitability and sustainability. Several researchers and consulting firms have explored the theme during the recent decades; here, some key perspectives are reported.

First, the results from the literature analysis conducted by G. Friede, *et al*. (2015) are presented. Specifically, the authors performed a review of the more than 2000 empirical studies investigating the relationship between companies' ESG and financial performance published during the last 50 years. Overall conclusions drawn by the research state that it is possible to confirm with reasonable confidence the existence of a positive correlation linking firms' financial performance and ESG achievements, regardless of geography, time of the study, asset classes and sustainability areas considered. In particular, a percentage of nine studies out of ten discover a positive or neutral relation between the two dimensions; therefore, according to the authors, "the business case for ESG investing is empirically well founded. Investing in ESG pays financially" (Friede, *et al*., 2015). However, less clear results come from the analysis of portfolios, probably due to the simultaneous interaction of multiple disturbing effects; clarification on the issue comes from the BlackRock Investment Institute (2019), stating that ESG-oriented portfolios not only are positively linked to returns, but they are also characterized by a reduced volatility, thus risk, with respect to investments in worse ESG performers.

Accordingly, T. Koller, *et al*. (2019) and the BlackRock Investment Institute (2019) share the view that an integrated value creation framework has the power to protect an organization from

a number of external risks, contributing to render it more resilient in front of changes and potentially extend its life. Moreover, according to T. Koller, *et al*. (2019), firms investing in ESG show positive repercussions in the upside results, in terms of equity return. To offer an enhanced comprehension of the relationship, the authors identify five elements connecting financial and socioenvironmental value creation, specifically related to growth, decreased costs, legal requirements, increased productivity and the optimized allocation of resources. Conducing to similar conclusions, D. Beal, *et al*. (2017) find that the ESG performance is positively linked to both valuation multiples and margins; also, G. Unruh, *et al*. (2016) conclude that sustainability is a crucial determinant of investment decisions for 70% of the investors interviewed, since it is increasingly recognized to contribute to reduce the downside (risk and volatility) and boost the upside (profitability), especially when changes in the business model are involved.

Last, a frequently cited study by R. G. Eccles, *et al*. (2014) compares over almost two decades the return performance of two groups of companies, only different in the number of socio-environmentally friendly processes introduced. The findings from the comparison reveal that firms in the more sustainable group "significantly outperform their counterparts over the long term, both in terms of stock market and accounting performance[24]". Interestingly, the authors identify four dimensions along which organizations which are part of the more sustainable group are different from the others in the study, namely "governance, stakeholder engagement, time horizon of decision-making, and measurement/reporting". More specifically, sustainable organizations are likely to require directors and top managers to be accountable for the social and the environmental achievements of their firm, to facilitate a balance among the multiple interests of stakeholders by ensuring their effective involvement and by adopting a long-term perspective, and to supervise the quantification and communication of both financial and non-financial results (Eccles, *et al*., 2014). Notably, similar characteristic traits have been isolated in the first Chapter when dealing with Benefit Corporations and B Corps, thus constituting the appropriate candidates for outperforming market rivals less engaged in ESG. Accordingly, B The Change (2018) affirms that the majority of B Corps has a stronger brand with respect to other comparable companies; linked to that, it is reported that, on average, B Corps have experienced a more consistent sales growth with respect to the other companies in the same market category (B The Change, 2018). B Corps' economic performance will be explored by the analyses conducted in the fourth Chapter, as well.

[24] The accounting performance is measured in the study through return on equity (ROE) and return on assets (ROA) rates.

Among the four elements connecting profitability and sustainability identified by R. G. Eccles, *et al*. (2014), the theme of measurement and reporting deserves more attention; thus, it will be at the centre on the following part of the Chapter.

3.3. ESG reporting for attracting the right resources

In a recent communication to business leaders, the CEO of BlackRock reckons that, in front of the current climate and social issues, "purpose is the engine of long-term profitability". This conviction is at the basis of the decision by BlackRock to increasingly include sustainability in the managed portfolios, playing an active role in the reallocation of capital towards the enterprises which demonstrate to be sustainable by adopting a stakeholder approach and consistent ESG reporting practices (Fink, 2020).

However, some obstacles delaying this shift might still be present. Indeed, while it is acknowledged that creating sustainable value requires lengthening the time horizon of value creation, in many practical contexts the focus on short-term profit is still pressing (Accenture Strategy & UN Global Compact, 2019). Moreover, despite investors are increasingly willing to commit their resources based on non-financial considerations, they point out that available data on the socioenvironmental performance of firms are not sufficient, both in qualitative and quantitative terms (Agrawal & Hockerts, 2019; Beal, *et al*., 2017). This could be due to the understatement by companies of the investors' need for non-financial information, or to the lack of validation and comparability of data provided; in practice, both the dynamics concur in impeding the reduction of the communication gap dividing investors and companies (PwC's Governance Insights Center, 2020). On the corporate side, management underestimates the importance to disclose information regarding sustainability initiatives, thinking of the capital market as still exclusively focused on financials; instead, on the investor side, the increasing awareness of the benefits associated with sustainable investing results in the tendency to include ESG in decision-making, also on the part of more traditional capital providers.

The discrepancy between providers and beneficiaries of capital is testified by a research conducted by the MIT Sloan Management Review in collaboration with the Boston Consulting Group, stating that a company's sustainability efforts are considered important in the context of making an investment by 75% of the investment leaders, but only by 60% of the corporate leaders interviewed (Unruh, *et al*., 2016). Moreover, the companies disclosing data related to social and environmentally friendly practices have not agreed on a common measurement and reporting system among the several available frameworks, making it difficult for investors to compare potential investment targets. The absence of a universal reference can also raise

concerns on the reliability of available data, which is often not verified by an independent subject (BlackRock Investment Institute, 2019; PwC's Governance Insights Center, 2020): indeed, in the words of R. G. Eccles, *et al*. (2014), "quality, comparability and credibility of information are enhanced by internal and external audit procedures that verify its accuracy and/or the extent to which certain reporting practices are being followed".

As a consequence of the gap, authentically sustainable entities could not find appropriate and sufficient funds, and investors could misplace their resources. Therefore, a more standardized, honest and independent system of quantification and communication of impact performance would allow companies to attract the right type and quantity of funds, ultimately leading to a better allocation of resources (Eccles, *et al*., 2014). On their part, investors committed to create value on the triple bottom line should be aware of the difficulties faced by sustainable organizations and have patience for results (Eccles, *et al*., 2014). Moreover, they should be conscious that a company cannot excel in all the performance dimensions or commit to many purposes; measuring and reporting results along the dimensions would clarify a company's intent, achievements and improvement opportunities. Overall, the level of detail of the disclosed items should balance the need of companies to communicate extensively their own strengths and peculiarities and the need of investors to avoid confusion by having clear, concrete and standard references (Young, *et al*., 2019; Wendt, 2018). Ultimately, what is important is the compatibility among providers and beneficiaries' commitment and the existence of a strong relationship linking them, in a way that incentives are aligned: as a result, the organization would be more likely to thrive in the market, and to achieve both profitability and sustainability (Evans, 2013); reducing the communication gap would also serve this alignment purpose.

Despite the proliferation of sustainability reporting guidelines by manifold institutions during the most recent decade, or maybe due to that, there seems to be no common agreement on which measurement and reporting standards set to be used by businesses (Unruh, *et al.*, 2016; BlackRock Investment Institute, 2019; Eccles, *et al*., 2014); however, both investors and standard setters are acknowledging that a process of reconciliation among different frameworks is necessary, for clarity purposes.

Next, the most employed references for the quantification and disclosure of a company's sustainability performance are presented, highlighting the recent developments in the field; first, the GRI and SASB standards for sustainability will be presented, followed by an overview of the Integrated Reporting Framework and by a clarification of the relationship existing between those guidelines and the B Impact Assessment employed for certifying B Corps.

3.3.1. GRI and SASB standards

Since its foundation in 1997, the non-profit organization Global Reporting Initiative has been working to spread among undertakings the practice of reporting sustainability performance, through an extensive communication, and the diffusion of best practices and guidelines. During the years, GRI sustainability reporting standards have been developed and increasingly adopted internationally, to the point where they are considered to be one of the main guidelines for assessing and communicating the socioenvironmental impact of an entity. The GRI standards aim at serving as a reference for small and large, public, private and non-profit actors by addressing their evolving measurement and disclosure needs in the field of sustainability, through relentless improvements; encompassing a wide range of ESG matters, they are divided in six different sets, the first three of which are universal in scope and refer to general matters, the others include guidelines and key performance indicators along each dimension of the triple bottom line (Global Reporting Initiative, n.d.).

Interestingly, among the objectives of the organization there are the promotion of an "effective and efficient sustainability reporting" and the harmonization of the existing sustainability reporting guidelines (Global Reporting Initiative, 2020); in this direction, the GRI has recently announced its collaboration with the Sustainability Accounting Standards Board (SASB), another prominent standard setter for ESG disclosure. Indeed, the two institutions share the common intention to promote sustainability reporting, by clarifying the compatibility between and the distinctive features of the standards they respectively develop. More specifically, GRI and SASB principles mainly differ for their scope, recipients and materiality definition. The GRI standards aim at extensively measuring a company's performance on the triple bottom line, which could eventually affect financials in the present or in the future, to inform the whole range of stakeholders; differently, the standards developed by SASB are constructed based on the industry specificities, to determine and measure the elements of sustainability performance with the highest likelihood of generating a direct material impact on a company's financial situation, thus having investors and companies themselves as the main targets (SASB, 2020a). Therefore, since they only refer to sustainability areas and targets materially affecting financials, SASB standards appear to be narrower in scope than GRI standards; the range of users also differs accordingly. In compatibility with the standards developed by these two institutions, the non-profit organization CDP, the Climate Disclosure Standards Board (CDSB) and the Task Force on Climate-related Financial Disclosures (TCFD) also offer consistent guidelines for the measurement and reporting of environmental performance, and the evaluation of companies' risks related to climate change (CDSB, 2020).

Notably, as affirmed by SASB (2020b), each of the listed guidelines can be employed alone, but it can be also combined with the others, since the developing institutions are moving in the effort of ensuring transparency and compatibility among them. In this direction, all the mentioned institutions endorse the wide adoption of a systemic guideline for reporting, represented by the Integrated Reporting Framework, introduced next.

3.3.2. Integrated Reporting Framework and recent developments

Developed in 2013 by the International Integrated Reporting Council (IIRC), formed by business and non-business constituencies, the framework for Integrated Reporting aims at communicating the creation of multiple forms of value, based on the concept of integrated thinking. Building on the traditional forms of corporate reporting, the Integrated Reporting (<IR>) Framework aims to offer a comprehensive view of the mechanisms through which "an organization's strategy, governance, performance and prospects, in the context of its external environment, lead to the creation of value in the short, medium and long term" (Integrated Reporting, 2020a). As illustrated in Figure 3.2, the structure of the Framework is based on six different types of capital, which, interacting with the elements of a company's business model, are transformed into different forms of value over time; more specifically, the six categories are related to "financial", "manufactured", "intellectual", "human", "social and relationship" and "natural" input capitals and value outcomes (Integrated Reporting, 2020a).

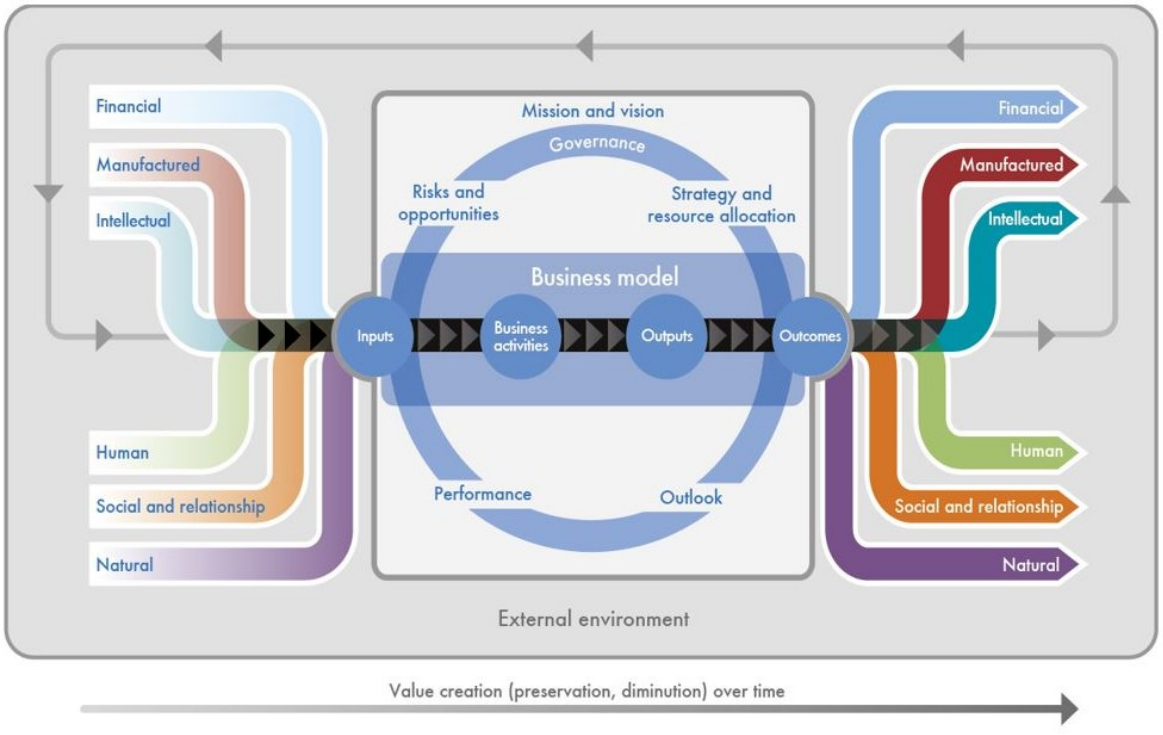


Figure 3.2 - Integrated Reporting Framework structure. Source: Integrated Reporting (2020a.)

Therefore, what distinguishes the Framework is its ability to integrate the financially oriented traditional system of reporting with the more recent practice of publishing stand-alone sustainability reports; in perfect accordance with the increasingly recognized interdependence between the environmental, social and economic performance dimensions of a business, this holistic measurement and disclosure instrument has the ambition of substituting traditional reporting systems, exclusively focused on financials, by treating socioenvironmental considerations as equally central in the evaluation of a company's performance. An ulterior important element is related to the time dimension, since the <IR> Framework requires that the information on value creation and risks is presented based on different timeframes, not only referred to the past; this proves to be particularly useful for an accurate evaluation of businesses by capital providers, who represent the main recipients of the reports. The orientation to future is one of the pillars of the <IR>, accompanied by the adoption of a stakeholder perspective, and the interest on information connectivity, conciseness and materiality, data reliability and comparability (Integrated Reporting, 2020a). Ensuring that the disclosed data are reliable and that they can be compared across firms is a particularly important commitment, since it addresses the above-mentioned needs expressed by investors of having validated and more standardized references for decision-making.

As for the current adoption of the Framework, the Sustainable Investment Institute (2018) states that, while, in 2018, 78% of the S&P 500 companies published sustainability reports, there were only 14 businesses which drafted an integrated report. Currently, accordingly to the figures in the Integrated Reporting website, more than 2000 companies spread in over 70 countries worldwide issue an integrated report (Integrated Reporting, 2020b). Overall, the still low number of adopters can be justified by the newness of the Framework; however, the trend of adoption remains, and is expected to remain, upward, as the Framework gains consensus, also thanks to the concerted endorsement activities that multiple standard-setters are pursuing.

In this regard, five leading institutions in the field, CDP, CDSB, GRI, IIRC and SASB, declared in September 2020 the willingness to engage in a collaborative effort for the establishment of a universally accepted comprehensive measurement and reporting framework. On the basis of the performance metrics developed by SASB, GRI, CDP and CDSB (appropriately taking into account TCFD recommendations) and the integrated reporting architecture offered by IIRC, these institutions will cooperate in the effort to clarify how their different guidelines can be associated, and the ways through which they can be complemented with the financial Generally Accepted Accounting Principles (GAAPs) (CDSB, 2020; SASB, 2020b). Ultimately, the initiative could have the potential to close the communication gap existing between companies

and investors in the field of sustainability. Indeed, thanks to the promotion of a more comprehensive but concise and standardized reporting, business constituencies would benefit from enhanced data comparability and validation. Serving a similar purpose, the B Impact Assessment provided by B Lab will be the focus of the following section, in which the relationships between the above listed reporting guidelines and the BIA standard will be clarified.

3.3.3. The role of the B Impact Assessment

The nature of Benefit Corporations, combining the pursuit of a social mission with the generation of a financial return, makes the role of disclosure for these entities even more important than for traditional for-profit businesses engaged in sustainability to a lesser degree. Indeed, the challenge for Benefit Corporations, as hybrid and sustainable organizations, is to credibly assess and communicate the different forms of value they create, and their whole value creation path. A comprehensive and honest measurement and reporting system would serve the double purpose of attracting the most appropriate resources from shareholders and increasing stakeholders' reliance on the company's claims; consequently, both the issue of financing and the greenwashing concerns affecting Benefit Corporations could be reduced (Horton, 2019). Ultimately, since "what cannot be measured cannot be managed[25]", the formation of an integrated system of reporting could provide guidance for the management of the overall business performance, particularly challenging for Benefit Corporations; indeed, clarifying the achievements along multiple dimensions could facilitate the management of resources, thus the balance of stakeholders' interests (Nigri & Del Baldo, 2018; Network Italiano Business Reporting, 2019).

A crucial role in the field of impact measurement and communication for Benefit Corporations is played by B Lab, through the development of the BIA evaluation system. As mentioned in the first Chapter, the B Impact Assessment developed by B Lab is not exclusively designed for the entities willing to obtain or maintain the B Corp label, but it is also available for the wider population of companies which simply want to understand their impact along a comprehensive set of sustainability dimensions; moreover, it is one of the leading third-party standards that Benefit Corporations can employ to comply with the legal requirement of having their non-financial performance verified (Nigri & Del Baldo, 2018). However, there are several accepted standards against which to assess the progress of a Benefit Corporation along a specified public benefit, including those developed by the GRI. In this regard, allowing for the simultaneous

[25] Nigri & Del Baldo (2018).

presence of multiple standard-setting organizations could protect the independence of judgement, which, according to R. André (2012), could be impaired in the case of an exclusive reliance on B Lab's evaluation system. On the other side, the proliferation of standards for assessing the Benefit Corporations' sustainability performance poses an analogous problem to the above mentioned issue of ESG reporting affecting the wider market: since third-party standards differ in the specific impact measured and in the methodologies employed for measuring it, the lack of an agreement on which reference to use can create difficulties in comparing data across firms and over time (Horton, 2019).

Nevertheless, the B Impact Assessment holds a leading role as a third-party standard, with more than 120.000 entities in the world currently using it (Nativa Lab, 2020a); moreover, in addition to offering a comprehensive view of a company's impact, the assessment process is developed to provide performance benchmarks against other businesses and guidance for improvement. Hence, further spreading the adoption of the B Impact Assessment among the Benefit Corporations' community and outside it could mitigate the problem of performance comparability among different entities and over time. In addition, according to M. B. Dorff (2016), the concerns on independency could be weakened once awareness is raised about the formation of the standards, which, indeed, are developed and regularly updated by the "Standards Advisory Council", a committee made of independent corporate professionals and scholars, also taking into account feedbacks from the evaluated entities (B Impact Assessment, n.d.). As a distinctive feature which also contributes to the tool's legitimacy, the B Impact Assessment is constructed in accordance with other main measurement and reporting guidelines; indeed, it is explicitly based on GRI standards and IRIS+ metrics, although it is distinct from them, since the BIA provides a relative measure of performance, while the other guidelines are better indicators of absolute performance and best practices (B Impact Assessment, n.d.; The GIIN, 2008). Moreover, in the direction of enhancing data comparability and reliability, thus responding to the capital market demands, the 2019 version of the Assessment aims at rendering the evaluation more standardized and focused on outcomes, and more adherent to global standards for sustainability measurement and reporting. Indeed, the latest version of the BIA has been conceived to more closely align with the GRI standards and the UN Sustainable Development Goals (B The Change, 2019a); another link with the UN Sustainable Development Goals comes from the recent introduction of the "SDG Action Manager", an instrument combining the UN Global Compact principles and the B Impact Assessment procedure for allowing businesses to identify action priorities along the 17 SDGs. The new tool clearly differs from the BIA in the focus adopted, since it aims at offering to

businesses a concrete indication of the specific SDGs along which they could generate the most impact, in contrast to the holistic perspective adopted by the BIA (B The Change, 2019b).

Overall, as affirmed by G. Nigri & M. Del Baldo (2018), the B Impact Assessment is for Benefit Corporations a "unique form of measurement which also functions as a guidance for management and as a standard for reporting that is integrated into their performance management system", regardless of their intention to achieve or not the B Corp label. However, for the tool to be effective, simplicity and accuracy have to be balanced. Indeed, the total score obtained by a company through the evaluation could result to be insufficiently informative for users; in order to obtain more useful insights and meaningful comparisons, it would be necessary to "go below the headline[26]", by disaggregating the overall BIA score (Dorff, 2016). The detailed information that can be obtained from the B Impact Assessment will be presented in the following Chapter, where, based on those data and on the insights regarding business models and reporting emerged until this point, B Corps' impact performance and sustainable business models will be explored.

3.4. Conclusions

For hybrid and sustainable organizations, attracting the right amount and type of resources requires that cultural, operational and structural specificities characterizing these entities are understood by capital providers. Ultimately, investors in hybrid and sustainable organizations, such as Benefit Corporations and B Corps, should share their commitment to achieve both profitability and sustainability; indeed, the alignment between the objectives of the entrepreneur and the investors proves to be a pivotal driver of superior investment performance (Evans, 2013).

The initial proponents of adopting an investing approach not only focused on financial return, but equally oriented to the creation of socioenvironmental value are represented by impact investors, whose main goal is to employ resources to fund those entities capable of creating an impact beside economic results. As explained above in the Chapter, the impact investing market is growing; and notably, under the lead of impact investors, the broader investment community is experiencing a change in mindset, departing from the traditional exclusive focus on financials to embrace the idea of creating an integrated value (The GIIN, 2020a). Moreover, other elements are contributing to this mindset change, including the central role currently played by sustainability practices in competitiveness, and the increasing evidence of the positive relation

[26] BlackRock Investment Institute (2019).

existing between sustainability investments and financial performance. As a result, although impact investors continue to be the most proactive and authentic in carrying out their dual mission, different sustainable investment strategies have emerged over time, and the market is growing globally.

As the investors' interest in sustainability rises, a related need for rigorous data about the triple bottom line performance of businesses emerges; the information asymmetry and the communication gap existing between corporates and investors has to be filled, in order for companies to attract the resources they need, and for capital providers to have an assurance that they are not investing in greenwashers (Laufer, 2003; PwC's Governance Insights Center, 2020). The disclosure of performance along the multiple dimensions is particularly important for Benefit Corporations and B Corps to provide a comprehensive view of their efforts and achievements, since they operate under a relatively new value creation framework blending different aspects of performance (Horton, 2019).

The most used guidelines available to sustainability-sensitive entities, described in the Chapter, include metrics, standards and references for the identification, quantification and communication of the results of both companies and funds regarding ESG matters. Although each reference serves its own purpose, recently the main standard setters have started to collaborate in the harmonization of the guidelines, to respond to the need expressed by businesses and investors of enhancing data comparability and reliability. Accordingly, the adoption of the Integrated Reporting Framework as a holistic, more standardized and transparent measurement and communication system is currently endorsed unanimously by the major standard-setters. Serving the same purpose of enhancing information comparability and validation, the B Impact Assessment by B Lab is increasingly employed by businesses (not only Benefit Corporations and B Corps) to evaluate their socioenvironmental impact and compare their results against the performance of other entities and over time. Beside the overall score furnished by the test, it could be useful to explore partial scores to make more interesting comparisons and grab more useful insights; this is exactly what will be done in the fourth Chapter. More specifically, building on the content of the previous Chapters, data about the impact scores of certified entities in the BIA will be examined, in order to explore B Corps' impact performance and make an attempt to extract a typology of their sustainable business models.

4. CHAPTER 4 - An exploration of B Corps' impact performance and business models

4.1. Introduction

As explained in the first Chapter, the traditional model of capitalism, exclusively centred on creating value for shareholders, is losing social legitimization, in favour of more inclusive models of capitalism, constructed to take into account the interests of the wider range of stakeholders affected by a business (Sabeti, 2011; Porter & Kramer, 2011; Young, *et al*., 2019). Traditional boundaries existing among institutional logics and organizational forms are blurring, as testified by the emergence of innovative types of entities blending aspects of for-profit and non-profit worlds. Among the protagonists of this hybridization movement, Benefit Corporations are increasingly widespread, as corporate legal forms characterized by the additional responsibility of creating a public benefit. In addition, B Corps, connected but not coincident with the population of Benefit Corporations, are businesses which have decided to undergo the B Impact Assessment and obtained a certification of their ability to generate a significant impact along several performance dimensions. In that Benefit Corporations and B Corps simultaneously seek to create economic and socioenvironmental value for multiple stakeholders, they are deemed to be supported by sustainable business models.

As the second Chapter clarified, business models can be regarded as sustainable when they integrate social and environmental considerations along with economic concerns in their building blocks. Therefore, the innovation of the value creation logic to allow for the concurrent attention to all the triple bottom line dimensions is a characteristic trait of sustainable business models. However, although all sustainable businesses adopt the threefold focus, they are likely to have different orientations to the dimensions. A frequently used overarching typology of sustainable business models distinguishes them on the basis of this orientation; accordingly, companies with Planet-oriented business models are mainly focused on their environmental footprint, People-oriented business model entities' primary aim is related to the enhancement of social wellbeing, while the search of a financially-viable value creation structure is the principal element guiding firms with Profit-oriented business models (De Marchi, *et al.*, 2019).

Linked to this, the third Chapter highlighted that the development of a comprehensive system allowing to measure and communicate the achievements of sustainable businesses serves different purposes. Indeed, not only it enhances the awareness of the current and potential performance inside the organization, but it also constitutes the link between businesses and capital providers; more specifically, complete and accurate data about the achievements of a

business would clarify its strengths, weaknesses and improvement potential, beside contributing to attracting the resources most suited to its needs. In this regard, several guidelines for the quantification and reporting of results emerged in the recent decades, signalling the growing centrality of the issue; however, the proliferation of different standards caused confusion and comparability problems (Eccles, *et al*., 2014; The GIIN, 2020a). For this reason, the current intent expressed by the main standard setters is to complement and harmonize the guidelines, in order to provide clarity for users and enhance data reliability; more uniform references for the measurement and the communication of performance along the triple bottom line would also allow for data comparability. This is the case of the B Impact Assessment tool, furnishing a comprehensive and independent evaluation of the achievements of the businesses examined, whether they are B Corps or not; moreover, the latest version of the BIA[27] ensures further data comparability (B The Change, 2019a).

Building on the available impact data and on the theoretical conclusions drawn until this point, this Chapter has a dual objective: the initial part will focus on the exploration of B Corps' diffusion, overall impact performance and features, while the second part will delineate a preliminary typology of B Corps' sustainable business models. To conclude, the outcomes of these two analyses will be combined, to grab additional insights on Italian B Corps.

4.2. The B Impact Assessment in detail

First, it is useful to present in detail the source and the structure of data used for the analysis, thus the B Impact Assessment and the composition of the resulting BIA score. As already mentioned, the evaluation tool devised by B Lab has among its strengths the comprehensiveness of the impact areas considered and the fact that it provides a relative measure of performance, which can be benchmarked with the results obtained by the other businesses assessed. However, as already pointed out, the overall BIA score, useful to decide whether the business can be awarded the B Corp certification or not, might also furnish valuable insights when disaggregated into its subcomponents. Considering the first level of disaggregation, the total amount of points results from the sum of five numbers, each representing the score obtained by a business in one of the key impact areas, namely "governance", "workers", "community", "environment" and "customers". In turn, the second disaggregation tier consists of a set of impact topics within each of the five categories; the performance against each impact topic is evaluated based on a series of questions on the policies and the practices implemented and on the resulting outputs and outcomes. Interestingly, a first section in each impact area aims at

[27] Version 6, launched on January 15th, 2019.

evaluating and rewarding the companies that create a significant positive impact for one of their stakeholders through their business model; specifically, for a business model to be considered impactful, it has to be core to the company, to be particularly beneficial to stakeholders beside remaining financially viable, and to be linked either to the revenue-generating activities or to the value creation structure. Hence, the requirements to achieve these additional points are stringent, and that is the reason why many of the companies evaluated have zero or one impact business model. The remaining questions are referred to operational aspects and day-to-day activities (B Impact Assessment, n.d.). Figure 4.1, replicating an image found in a website curated by B Lab (B Impact Assessment Knowledge Base, 2020a), illustrates the structure of the sixth version of the Assessment, where the first disaggregation level is represented by the five impact areas, each embedding a set of questions on a series of impact topics; operational impact topics can be distinguished from the structural impact topics (those related to the business model) because the latter ones are in coloured cells.

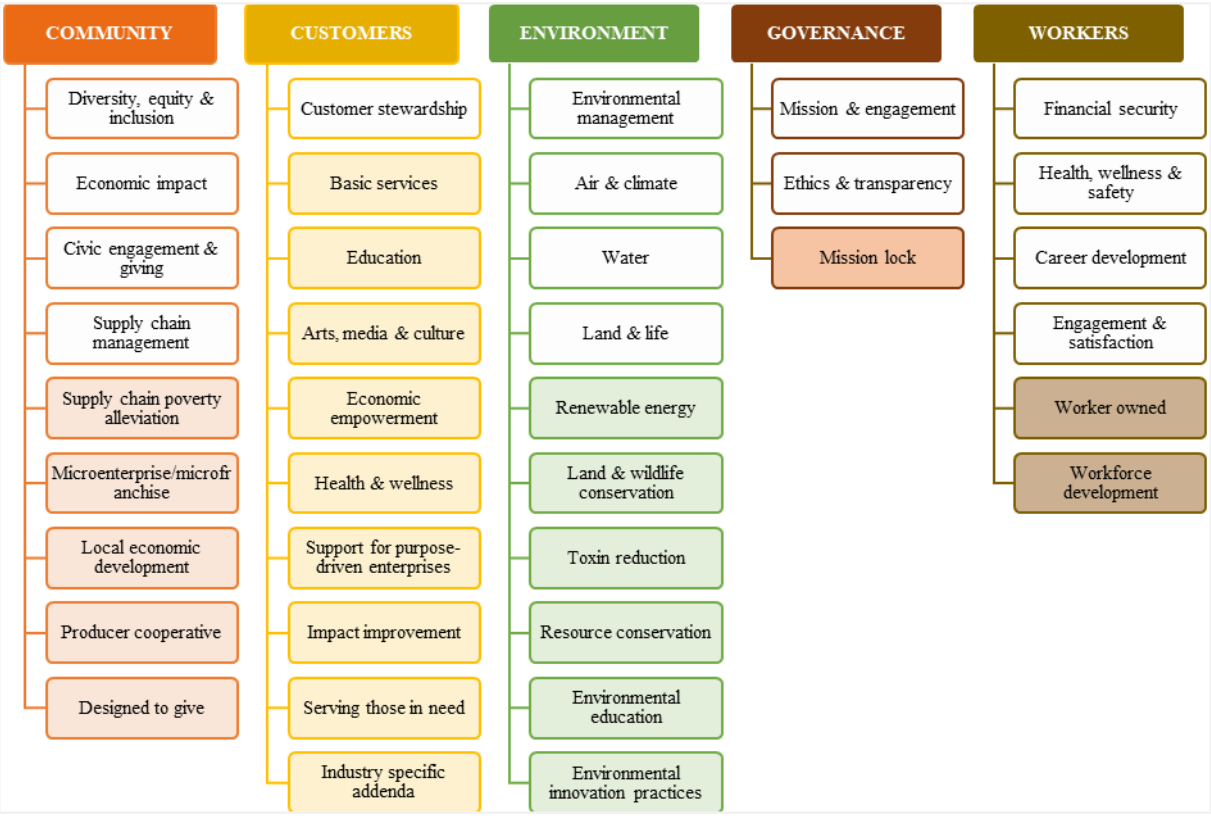


Figure 4.1 - The structure of the sixth version of the B Impact Assessment. Source: personal elaboration from B Impact Assessment Knowledge Base (2020a).

Notably, with the changes introduced in the sixth version of the Assessment, the weighting of questions inside impact topics is no more tailored according to the company size or the market in which it operates, but the only discriminating factor is represented by the sector to which the business belongs.

Specifically, the Assessment assigns companies to one of the following five industry sectors:

- "Agriculture/Growers", including firms that run "a farm, agroprocessing facility, or source crops directly from farmers/growers for the majority of raw input materials"
- "Manufacturing", referring to companies which "manufacture more than 10% of its own products for sale or manufacture products for sale by another company or brand"
- "Service with Minor Environmental Footprint", embedding organizations dedicated to "the provision of non-physical services"
- "Service with Significant Environmental Footprint", including firms operating in "a service industry with a material environmental footprint due to its facilities, supply chain, or the intensity of its operations", and
- "Wholesale/Retail", with companies that "sell physical products and do not own or operate the manufacturing processes or facilities responsible for the creation of those physical goods" (B Impact Assessment Knowledge Base, 2020b).

Next, the illustrated distinctions among industry sectors and impact areas will be complemented by data on B Corps' diffusion, in order to obtain more detailed insights on the impact performance of B Corps in the world and in Italy. The main source of information for the following part of the Chapter is represented by the "B Corp impact data" dataset made available and recently updated[28] by B Lab.

4.3. Diffusion and impact performance of B Corps in the world

The initial focus will be on the overall diffusion of B Corps at the global level. While some introductory figures have already been mentioned in the first Chapter when dealing with the B Corp certification, this section aims at presenting more detailed insights on the impact performance of B Corps in the world. Notably, in the context of the analyses which are presented next, only organizations which are currently certified have been considered, disregarding those which have lost their certification during the years, which revealed to be more than 1000 entities across numerous countries; the resulting definitive group consists of 3309 currently certified B Corps spread worldwide.

With the objective of obtaining an initial disaggregation of information, Table 4.2 presents the distribution of B Corps in the world by country.

[28] B Lab (2020). Last update: September 10th, 2020.

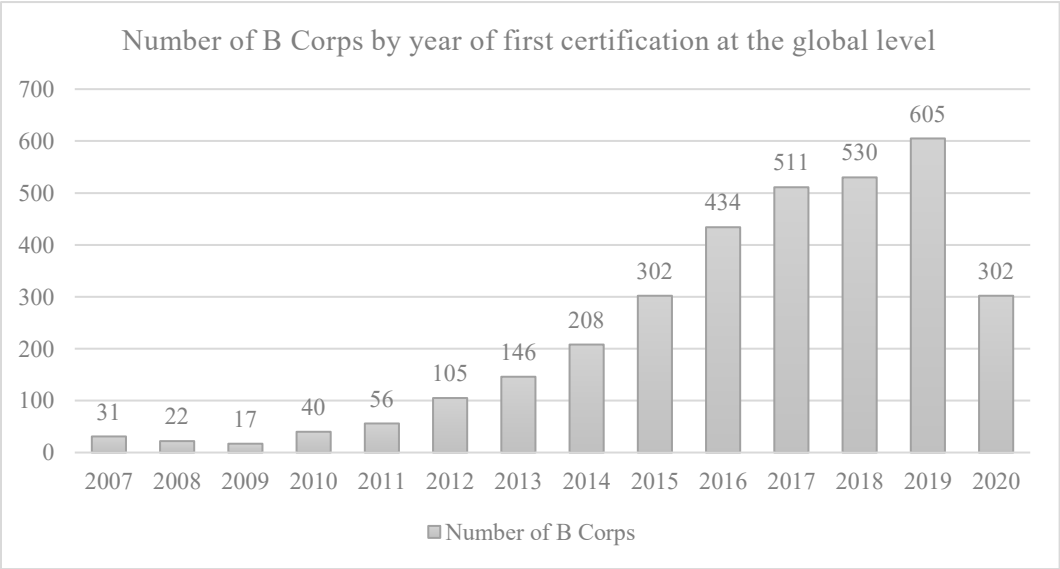
Table 4.2 - Number of B Corps by country and their percentage incidence on the total. Source: personal elaboration from B Lab (2020).

#	Country	B Corps	On the total	#	Country	B Corps	On the total
1	Argentina	95	2,87%	**39**	Malaysia	1	0,03%
2	Australia	264	7,98%	**40**	Malta	1	0,03%
3	Austria	3	0,09%	**41**	Mexico	37	1,12%
4	Bahamas	1	0,03%	**42**	Mozambique	1	0,03%
5	Bangladesh	1	0,03%	**43**	Myanmar	1	0,03%
6	Belgium	14	0,42%	**44**	Netherlands	87	2,63%
7	Benin	1	0,03%	**45**	New Zealand	33	1,00%
8	Bolivia	2	0,06%	**46**	Nicaragua	1	0,03%
9	Brazil	135	4,08%	**47**	Norway	3	0,09%
10	Burkina Faso	1	0,03%	**48**	Panama	3	0,09%
11	Canada	279	8,43%	**49**	Paraguay	10	0,30%
12	Chile	130	3,93%	**50**	Peru	23	0,70%
13	China	16	0,48%	**51**	Philippines	2	0,06%
14	Colombia	55	1,66%	**52**	Poland	3	0,09%
15	Costa Rica	8	0,24%	**53**	Portugal	12	0,36%
16	Cyprus	1	0,03%	**54**	Russian Federation	1	0,03%
17	Czech Republic	1	0,03%	**55**	Ruanda	1	0,03%
18	Denmark	21	0,63%	**56**	Senegal	1	0,03%
19	Ecuador	16	0,48%	**57**	Serbia	1	0,03%
20	Egypt	1	0,03%	**58**	Sierra Leone	1	0,03%
21	Finland	1	0,03%	**59**	Singapore	13	0,39%
22	France	100	3,02%	**60**	South Africa	9	0,27%
23	Germany	34	1,03%	**61**	Spain	54	1,63%
24	Ghana	2	0,06%	**62**	Sweden	4	0,12%
25	Greece	1	0,03%	**63**	Switzerland	36	1,09%
26	Guatemala	6	0,18%	**64**	Taiwan	27	0,82%
27	Haiti	1	0,03%	**65**	Tanzania	1	0,03%
28	Hong Kong	9	0,27%	**66**	Thailand	2	0,06%
29	Hungary	2	0,06%	**67**	Turkey	4	0,12%
30	India	6	0,18%	**68**	Uganda	4	0,12%
31	Indonesia	3	0,09%	**69**	United Arab Emirates	1	0,03%
32	Ireland	3	0,09%	**70**	United Kingdom	276	8,34%
33	Israel	3	0,09%	**71**	United States	1285	38,83%
34	Italy	101	3,05%	**72**	Uruguay	9	0,27%
35	Japan	6	0,18%	**73**	Venezuela	1	0,03%
36	Kenya	18	0,54%	**74**	Vietnam	2	0,06%
37	Korea (Republic of)	13	0,39%	**75**	Zambia	1	0,03%
38	Luxembourg	3	0,09%		**Total**	**3309**	**100,00%**

The Table above offers interesting insights. First, it is possible to evince that B Corps are currently present in 75 different countries, although they are located in large numbers especially in North and South America, Europe and Oceania. In terms of single countries, as already mentioned in the first Chapter, the United States represent the nation with the highest number

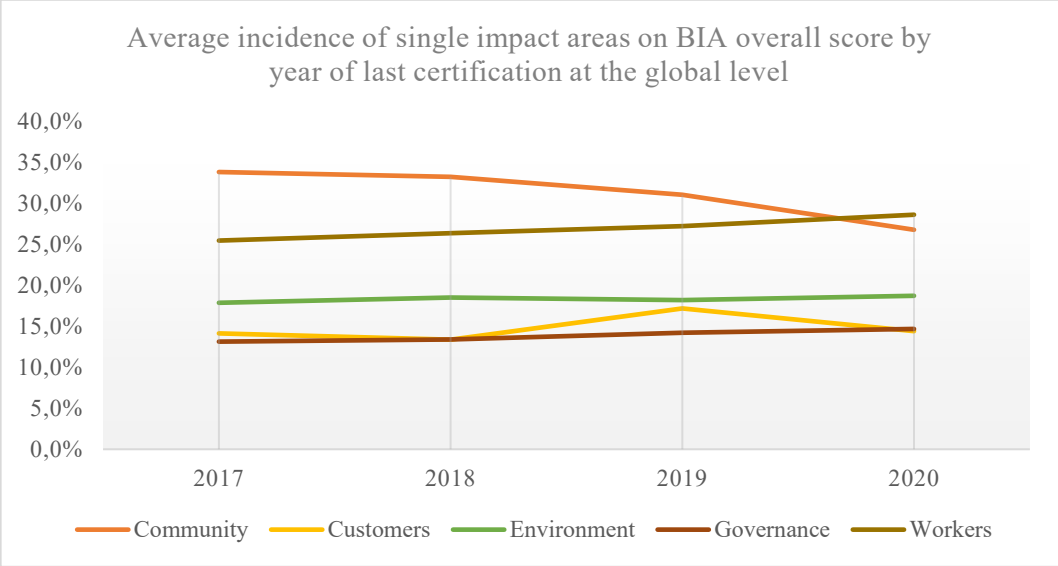
of B Corps (1285), hosting almost the 39% of the total B Corps existing in the world as of September 10th, 2020. Canada, the United Kingdom and Australia also host a consistent number of B Corps, specifically more than 250 each. In turn, Italy has 101 B Corps; in a similar range there are France, the Netherlands and Argentina, with a slightly smaller B Corp population than Brazil and Chile. The majority of the remaining countries is, instead, poorly populated, with 49 nations out of 75 (almost two thirds) having less than ten B Corps; this is probably due to the fact that the B Corp movement in those countries is at the early stage of development. Hence, two conclusions can be drawn about the diffusion of B Corps: first, it is clear that the B Corp movement is becoming global, with a moderate and growing presence in all the continents; second, data on the current national populations of B Corps highlight that the number of entities deciding to obtain the certification is strictly influenced by the development path of the phenomenon. Indeed, the American continent, currently hosting more than 63% of the total B Corps in the world, benefits from the pioneering role played in the United States by B Lab since 2006 in encouraging the adoption of a sustainable mindset among entrepreneurs. However, despite the delay of a few years, countries outside America are experiencing the development of the movement as well, and could have the possibility to reach the numbers of the United States in the future.

Now, it is interesting to highlight aggregate data on the growth trend of the phenomenon in the world, on the impact generated globally by B Corps and on their distribution according to the sector of operation. Specifically, Graphic 4.3 shows the total number of B Corps, sorted by year of first certification, allowing to understand the trend of adoption of the B Corp model by businesses during the years.



Graphic 4.3 - Number of B Corps at the global level by year of first certification. Source: personal elaboration from B Lab (2020).

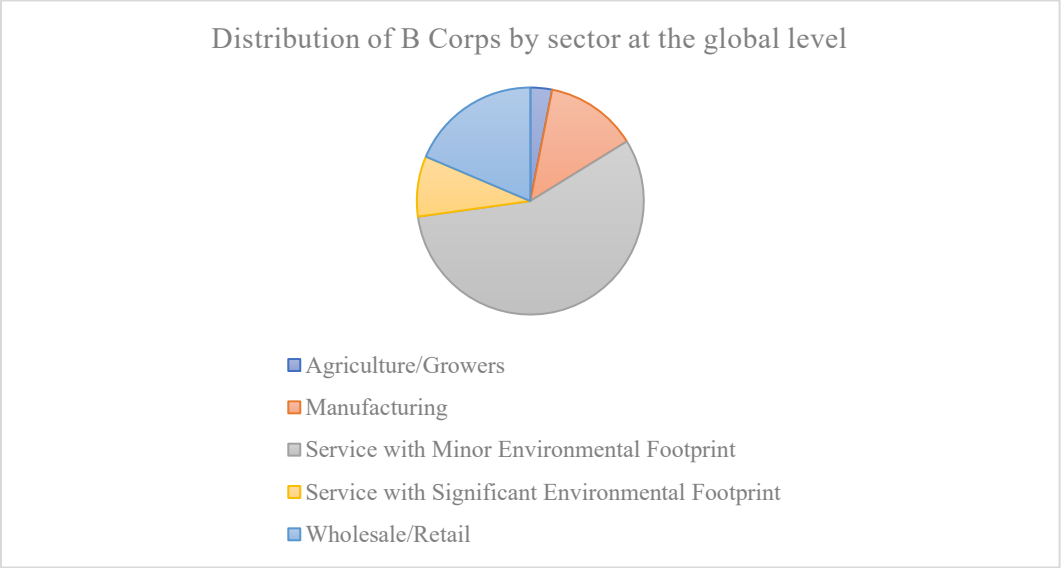
Looking at the bar chart in the graphic above, it is evident that the B Corp movement has constantly spread, growing slowly in the first years after the foundation of B Lab, while experiencing a significant growth from 2012 onwards. The positive peak in terms of number of businesses becoming a B Corp has been reached in 2019; however, note that numbers for 2020 are incomplete. In terms of impact, it is useful to understand the composition of the BIA overall score obtained by B Corps in their most recent certification. Graphic 4.4 illustrates how each of the impact areas contribute to form the overall score on average by year of last certification.



Graphic 4.4 - Average incidence of single impact areas on BIA overall score by year of last certification at the global level. Source: personal elaboration from B Lab (2020).

As the Graphic above shows, the five impact areas contribute to different extents to the formation of the BIA overall score. Interestingly, Community and Workers seem to be the major components of the total score in all the years considered; Environment, and especially Customers and Governance, represent still consistent but minor parts of the BIA. The relative incidence of the five areas does not significantly change over the years under consideration, although small fluctuations are present. An interesting conclusion which can be drawn is that the incidence of the single impact areas seems to converge over time; in other words, while in 2017 and 2018 the partial scores from the Assessment are clearly unbalanced, the incidence of single impact areas on the overall score in 2019 and 2020 is more homogeneous, probably testifying the effort by businesses to adopt a more holistic perspective, or proving that a more diverse range of entities, with different orientations, has achieved the certification recently. Another interesting aggregate statistic, referring to the distribution of B Corps by industry sector, is presented by Graphic 4.5, in the next page. As the pie chart in the graphic reveals, the majority of B Corps in the world, specifically 56,6% of the total, operates in industries specialized in the provision of non-physical services. The Wholesale/Retail and the

Manufacturing sectors also account for a significant portion of B Corps, respectively 18,6% and 13,1% of the total, while B Corps operating in industries ascribable to the Service with Significant Environmental Footprint sector represent 8,6% of the total. Last, the remaining 3% of B Corps belongs to the Agriculture/Growers sector.



Graphic 4.5 - Distribution of B Corps by sector at the global level. Source: personal elaboration from B Lab (2020).

Another interesting information comes from the analysis of B Corps' size, in terms of number of workers: notably, a large majority of the certified entities, specifically 81% of the total, is small (they have a staff composed by less than 50 people), while 13% of B Corps has a medium size (they employ between 50 and 249 employees), and the remaining 6% is large (with more than 250 workers), at least considering the number of workers criterion of classification.

Now that overall findings for the global population of B Corps have been explained, it could be useful to disaggregate results for the nations with a consistent number of certified entities. Accordingly, a brief overview of the four largest B Corp populations is presented, starting from the United States, to then focus on Canada, the United Kingdom and Australia. Particular attention is given to the aspects along which the B Corps' population of each country can be distinguished from the aggregate statistics presented above.

4.3.1. The four biggest B Corps' populations by country

Understandably, accounting for 39% of the total, the US population of B Corps heavily influences global statistics; hence, it is expected that figures for the United States are in line with the aggregate results. However, the United States can be clearly distinguished from the other nations for the early diffusion of the B Corp phenomenon, with a first group of entities that already achieved the certification in 2007. Since then, the number of certified businesses

in the country has increased year by year, driving the global trend shown in Graphic 4.3. As expected, the disaggregation of the BIA overall score into its five components results in an incidence path of each impact area on the overall score which closely resembles the global one, shown in Graphic 4.4; the same is valid for the distribution of US B Corps by sector.

In Canada, B Corps started to emerge in 2009, remained an exiguous number until 2011, and experienced a consistent growth since 2012, replicating the aggregate tendency. Also, the impact created by Canadian B Corps along the five areas follows the global trend; indeed, the incidence of Community and Workers impact areas on the overall score tends to decrease over years in favour of a more balanced and integrated perspective on value creation. Regarding the sectors in which Canadian B Corps operate, there are some minor differences with respect to the global statistic: in Canada, B Corps are slightly more diffused in Service with Minor Environmental Footprint and Wholesale/Retail sectors, at the expense of the other sectors.

Instead, it is reasonably expected that data on English B Corps show some peculiarities with respect to global and North American statistics. Accordingly, the United Kingdom, as a European country, distinguishes for the delayed development of the B Corp movement, with the first certified entities appearing only in 2013 and their consistent growth starting in 2015. Differently from the global statistic about diffusion, the number of B Corps in the United Kingdom in 2020, although partial, is already superior to the previous year, testifying the momentum of the phenomenon. Another difference is found in the incidence of single impact areas on the BIA overall score, since B Corps in the United Kingdom result to have increased the imbalance among the areas, especially in 2020. Also, the distribution of certified entities by sector diverges from the global one, since Service with Minor Environmental Footprint and Wholesale/Retail sectors have a slightly increased importance, at the expense of the other sectors.

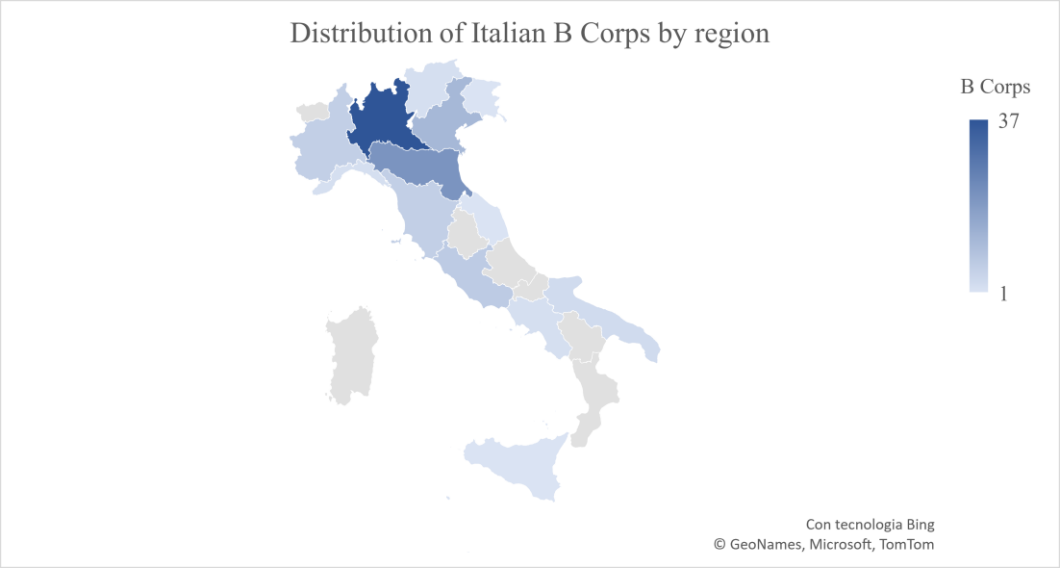
Last, findings for Australian B Corps reveal that certified entities started to emerge in the country in 2012, they consistently spread until the positive peak in 2017, and experienced a deceleration in the last three years. Regarding impact, the incidence of the single areas in Australia remains quite constant during the years considered, showing a soft tendency towards convergence. Focusing on sectors, a proportion of almost seven out of ten Australian B Corps are in the Service with Minor Environmental Footprint sector, an increased percentage with respect to the global data, at the expense of Manufacturing, Service with Significant Environmental Footprint and Agriculture/Growers sectors.

Therefore, by presenting more detailed information regarding single countries, interesting insights can be gained: indeed, while some national statistics are likely to be in line with the global ones, differences can also emerge. At this point, it seems useful to dedicate the next section to the exploration of results coming from the analysis of the Italian B Corps' population.

4.4. Diffusion and impact performance of B Corps in Italy

Italy, the first nation outside America to legally recognise the Benefit Corporation model with the Società Benefit, is also one of the European countries most populated by B Corps. Understandably, these two evidences are closely linked, since both the formation of Società Benefit and the achievement of the B Corp label are spurred by a favourable legal and entrepreneurial ecosystem.

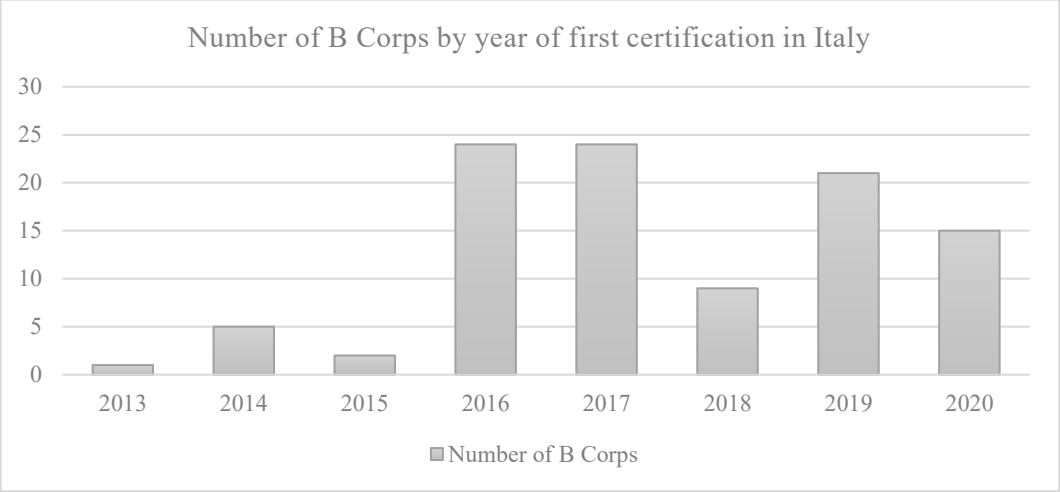
Accordingly, the analysis of B Corps' impact performance at the Italian level starts by isolating the group of currently certified entities, which result to be 101. Hence, with respect to Società Benefit, which, according to the research performed and described in the first Chapter, are more than 500, B Corps are a smaller group, as expected; also, not all the B Corps are currently Società Benefit, although 68% of the total are so. Now, to offer an overview of the distribution of B Corps by geographic area, Graphic 4.6 illustrates the disaggregation of results by region.



Graphic 4.6 - Distribution of Italian B Corps by region. Source: personal elaboration from B Lab (2020).

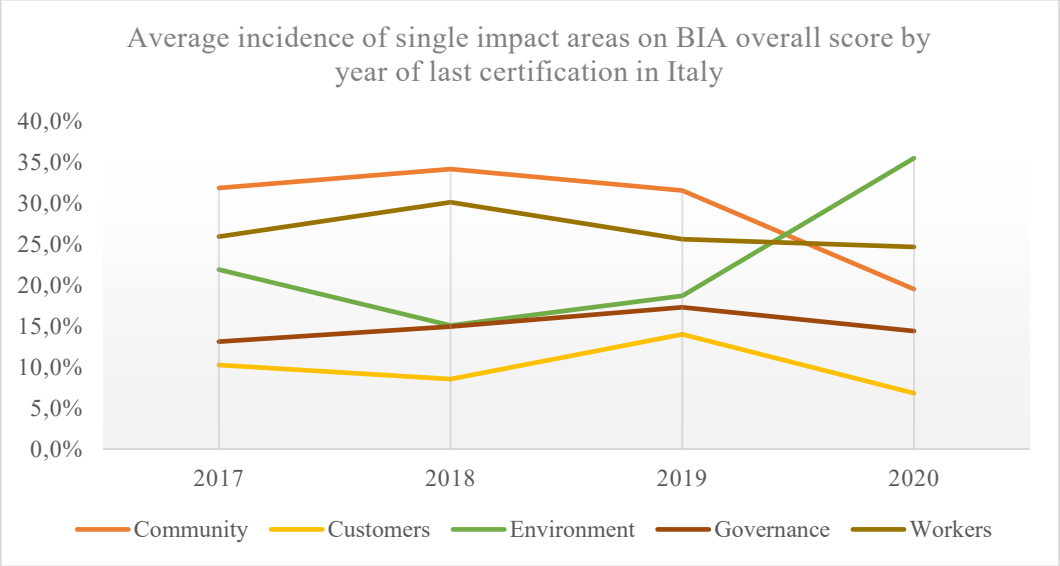
It is evident from the graphic above that the distribution of B Corps in Italy is particularly skewed, with the north hosting 80% of certified entities, particularly concentrated in Lombardia (37), Emilia Romagna (21) and Veneto (12), while the centre and the south of Italy respectively account for 14% and 6% of B Corps.

Next, the attention will shift to the statistics analogous to the ones presented at the global level. First, by looking at Graphic 4.7, showing B Corps by first certification year, it is easy to note that the trend diverges from the global one, in that it is more fluctuating: in Italy, B Corps started to emerge in 2013, and remained a minor phenomenon until 2015; then, a positive peak is reported in 2016 and 2017, followed by a decline in 2018 and an upswing in the last two years.



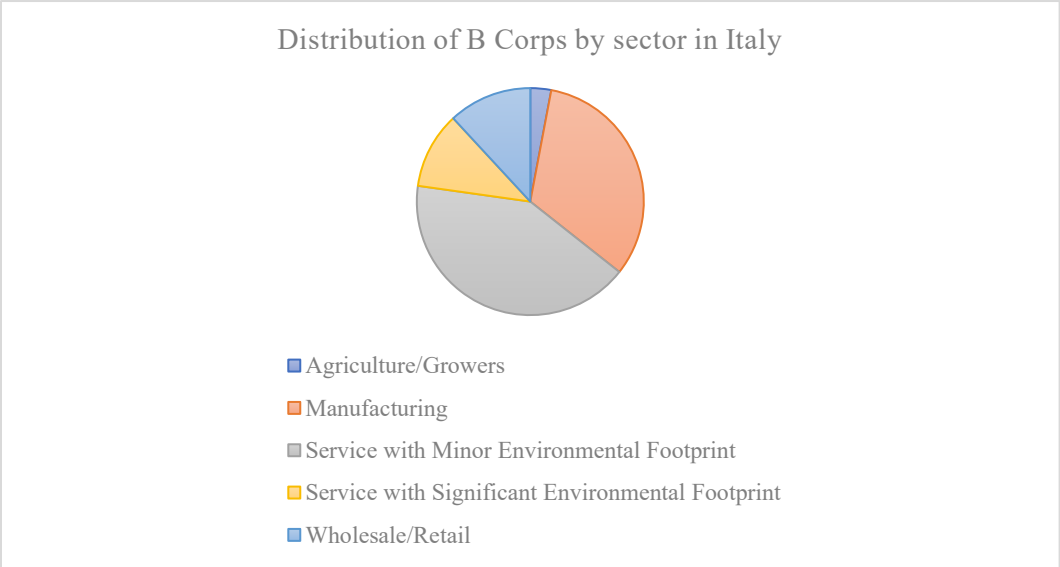
Graphic 4.7 - Number of B Corps by year of first certification in Italy. Source: personal elaboration from B Lab (2020).

Moreover, the path of incidence of single impact areas on the overall score is peculiar as well, as illustrated by Graphic 4.8 below. Indeed, with respect to the global statistic, and to the others national statistics presented above, the importance of the partial scores fluctuates among areas and over time: if, until 2019, the convergence path can be recognized, then data for 2020 show a turnaround, driven by a significant improvement of the incidence of the Environment area, especially at the expense of Community and Customers.



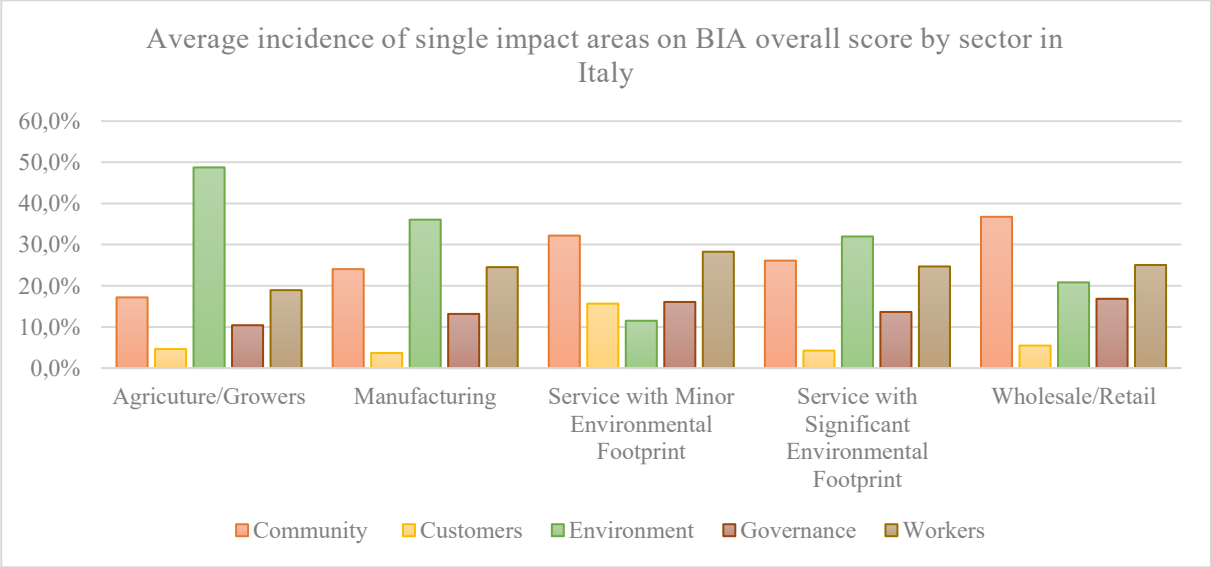
Graphic 4.8 - Average incidence of single impact areas on BIA overall score by year of last certification in Italy. Source: personal elaboration from B Lab (2020).

Another distinctive feature of Italian B Corps is related to their distribution across sectors, as it can be noted by looking at the pie chart in Graphic 4.9.



Graphic 4.9 - Distribution of B Corps by sector in Italy. Source: personal elaboration from B Lab (2020).

The graphic above results to be clearly different from Graphic 4.5 illustrating the global statistic. Interestingly, in Italy the proportion of B Corps operating in the Manufacturing sector is definitely higher than in the rest of the countries analysed; on the other side, B Corps in Service with Minor Environmental Footprint and Wholesale/Retail sectors are, to some extent, less diffused with respect to other nations. Although providing an interesting insight, the data about the importance of the Manufacturing sector is not surprising when dealing with Italy and its entrepreneurial fabric, traditionally centred on craftmanship and original production. At this point, statistics on impact areas and sectors are combined, resulting in Graphic 4.10.



Graphic 4.10 - Average incidence of single impact areas on BIA overall score by sector in Italy. Source: personal elaboration from B Lab (2020).

Graphic 4.10 displays the average incidence of single impact areas on BIA overall score by sector, evidencing the differences in the prioritization of areas among industry sectors. Notably, the Environment seems to be the prevalent concern of B Corps operating in agricultural, manufacturing and polluting services fields, at the expense of the other areas; B Corps in non-physical services and those acting as intermediaries direct their main effort towards Community and Workers. Customers and Governance areas have similar incidence across sectors, although the concern for Customers is higher in non-physical services than in the other sectors.

As regards B Corps' size, data are aligned with the global ones, with 80% of the Italian certified entities which are small, and respectively 11% and 9% which are medium and large, in terms of number of workers employed. At the level of Italy, the analysis also focused on the group of 27 companies which have obtained the certification more than once during the years: interestingly, the majority of them (67%) has increased their BIA overall score over time; this information could prove the effectiveness of the declared role of the B Impact Assessment in supporting the continuous improvement of businesses' performance.

Now that descriptive statistics on B Corps' diffusion, main characteristics and overall impact performance have been introduced, some deeper empirical analysis on their business models and performance are presented.

4.5. A typology of B Corps' sustainable business models

As anticipated in the introduction to the Chapter, the second major aim of the analysis making up this last part of the thesis is to attempt to reconduct B Corps' business models to the existing categorizations presented when dealing with sustainable business models in the second Chapter; this will be accomplished through the use of BIA results, under the assumption that they provide a "standardized analysis" of the "orientation of business models" (Nigri & Del Baldo, 2018).

In the first part of this section, building on the overall and on the partial scores obtained in the B Impact Assessment by certified entities, an indicator of their business model's orientation to the triple bottom line will be constructed. More specifically, the indicator is constituted by the combined incidence of the Social, Environmental and Economic scores (obtained by matching the BIA impact topics to the dimensions of the triple bottom line) on the total obtained by summing the three scores. Then, in the second part of this section, B Corps at the Italian and at the global level will be accordingly partitioned in clusters based on the described indicator, by using the software R Studio. Next, a step-by-step illustration of the procedure conducting to the final clustering will be presented, first adopting a global perspective, to then focus on Italy.

Before starting the analysis, a preliminary data cleaning on the B Lab dataset on B Corps[29] was performed, to only keep information regarding the last assessment of currently certified B Corps. Then, for the Italian sample, in order to have complete data, the scores on a set of new impact topics, missing in the original dataset[30], were added for the nearly one fourth of Italian B Corps which took the Assessment on the basis of the last (6th) version of the BIA; in this regard, it was not possible to retrieve missing data about three B Corps, so the final group of Italian B Corps considered for the analysis consists of 98 entities out of the total of 101. On the contrary, the greater number of B Corps at the global level made it not efficient to manually fill the voids, interesting one third of the total sample; consequently, the global analysis is performed based on the group of entities having complete data, specifically 2208 B Corps out of the total of 3309.

4.5.1. Matching impact topics to the triple bottom line dimensions

As the next step, both old and new impact topics embedded in each of the five impact areas were listed and matched to one of the three bottom lines, based on the information provided by B Lab about single impact topics[31] and on the classification of sustainable business models used in the literature and presented in the second Chapter. While finding the impact topics associated to the Environmental dimension has been immediate, the Economic and the Social dimensions implied a less straightforward matching process, which took as its foundation the classification of sustainable business models' innovation archetypes drawn by P. Ritala, *et al*. (2018).

Figure 4.11 exhibits the classification of business models along the triple bottom line dimensions developed by P. Ritala, *et al*. (2018), at the basis of the matching procedure, while the result of the process is shown in Table 4.12 below.

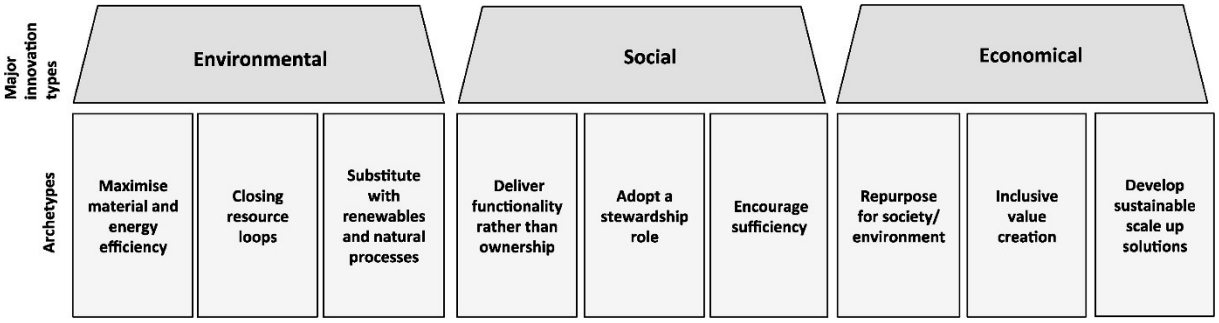


Figure 4.11 - Sustainable business models archetypes along the triple bottom line dimensions. Source: Ritala, et al. (2018).

[29] B Lab (2020).
[30] The original dataset does not include the newly developed impact topics, but only those used in the 5th version of the BIA.
[31] B Lab (2020).

Table 4.12 - How operational and structural impact topics of the BIA have been matched to the triple bottom line. Source: personal elaboration.

Dimension	Operational impact topics	Structural impact topics
ECONOMIC	Local involvement, Suppliers distributors products, Supply chain management, Past performance, Quality and continuous improvement, Corporate accountability, Ethics, Mission engagement, Transparency, Ethics & transparency, Governance, Compensation wages, Management worker communication, Training education, Worker ownership	Microdistribution/Microfranchise poverty alleviation, Producer cooperative, Capacity building, Current fund, Impact improvement, Mission lock, Portfolio management, Portfolio reporting, Positive impact, Fund governance, Improved Impact, Infrastructure/Market access building, Investment criteria, Targeted for investment, Mission locked, Worker owned
SOCIAL	Civic engagement & Giving, Diversity inclusion, Job creation, Economic impact, Customer stewardship, Educational outcomes, Privacy and protection, Worker benefits, Job flexibility corporate culture, Occupational health safety, Financial security, Health wellness safety, Career development, Engagement & satisfaction, Workforce development, Workers benefits, Human rights labour policy	Designed to give, Designed for charitable giving, Local economic development, Supply chain poverty alleviation, Workforce development, Arts media culture, Basic services for the underserved, Education, Health wellness improvement, Serving in need population, Support for underserved purpose driven enterprises, Business model and engagement, Economic empowerment for the underserved, Leadership outreach
ENVIRONMENTAL	Inputs, Land office plant, Outputs, Transportation distribution suppliers, Environmental management, Air & climate, Water, Land & Life, Material energy use	Certification, Community, Designed to conserve agriculture manufacturing wholesale process, Environmental education, Environmentally innovative agricultural manufacturing wholesale processes, Land wildlife conservation, Materials codes, Renewable energy, Resource conservation, Safety, Toxin reduction, Training collaboration, Construction practices

Specifically, as evidenced in Table 4.12 above by the use of the colours, the Environmental dimension embeds the impact topics underlying the Environment impact area of the BIA (in green), related to circularity, the careful management of energy and natural resources, and innovation for reducing the environmental footprint (Ritala, *et al.*, 2018). In turn, the Economic dimension results to include impact topics spanning the other four impact areas of the BIA, namely Community (in orange), Customers (in yellow), Governance (in red) and Workers (in

brown); the topics in the Economic dimension are related to the adoption of an "inclusive" approach to the creation of value in its multiple forms (through "sharing resources, knowledge, ownership and wealth creation" along the value chain), the modification of the business purpose and structure for embracing sustainability (as exemplified by the Benefit Corporation legal form), and the introduction of innovative ways of doing business to support socioenvironmental causes. Similarly, the Social dimension blends the remaining aspects of Community, Customers and Workers areas, associated to the provision of services to usually disregarded constituencies, the adoption of a "stewardship role" (linked to the embracement by businesses of additional socioenvironmental responsibilities), and the promotion of more sustainable consumption styles (Ritala, *et al*., 2018).

After the matching was completed, the subsequent passage required to sum, for each entity, the partial scores obtained in all the impact topics underlying each of the three dimensions. Thus, the resulting Economic, Social and Environmental aggregate scores of each B Corp were summed to obtain a total score, instrumental to find the percentage incidence of the single dimensions. Precisely, in the context of these analyses, the combination of Economic, Social and Environmental percentage incidences is what distinguishes each B Corp from the others; therefore, the relative weight of the single dimensions is used as the indicator, or a proxy, of B Corps' business models archetypes, assumed that the efforts measured by the impact topics of the BIA appropriately represent the orientation of a business towards the triple bottom line.

4.5.2. K-means clustering at the global and at the Italian level

At this point, in order to obtain a classification of B Corps based on their business model orientation, the combined incidences of the three dimensions for both the global and the Italian groups of B Corps have been used as inputs for performing a cluster analysis through the use of the software R Studio.

Clustering is an unsupervised statistical learning collection of methods: in other words, since it implies the presence of inputs but not the presence of supervising outputs, it is not suitable for predicting results based on input data, yet it allows to know relationships in input data. Therefore, clustering techniques, in that they aim at finding groups of units such that the units in a group are similar to one another and different from the units in the other groups, seemed to be the appropriate way to make distinctions among the entities under study; in the context of cluster analysis, similarity and dissimilarity are defined by the Euclidean distance (James, *et al*., 2013). Among the available clustering methods, the K-means clustering algorithm has been employed, since the desired number of clusters was already established; K-means clustering is

a partitional clustering method, i.e. it assigns all the objects to non-overlapping subsets (each observation belongs to only one cluster), based on their closeness to the centroids (the means) of each cluster. For the algorithm to work efficiently, input data should be normalized and outliers should be eliminated, while attention should be made in using this technique when dealing with clusters of different sizes, densities and shapes (James, *et al*., 2013).

In order to perform the K-means clustering through the software R Studio, the function "clusplot" was employed, allowing to create a two-dimensional or "bivariate plot visualizing a partition (clustering) of the data", according to which "all observations are represented by points in the plot, using principal components or multidimensional scaling"; the resulting clusters are delimited by an ellipse, and shaded based on their density (R documentation, n.d.). At both the global and the Italian level, K has been set to three, the number of the triple bottom line dimensions to be represented; then, K has been set to ten, the number of areas delimited inside the sustainability triangle developed by A. Kleine & M. von Hauff (2009) and modified by F. Ludeke-Freund, *et al*. (2018) to classify sustainable business models, presented in Figure 2.2 in the second Chapter.

First, the results of the clustering for the global sample of B Corps are presented, starting from the case in which K has been set to three, as reported in Figure 4.13 and Figure 4.14.

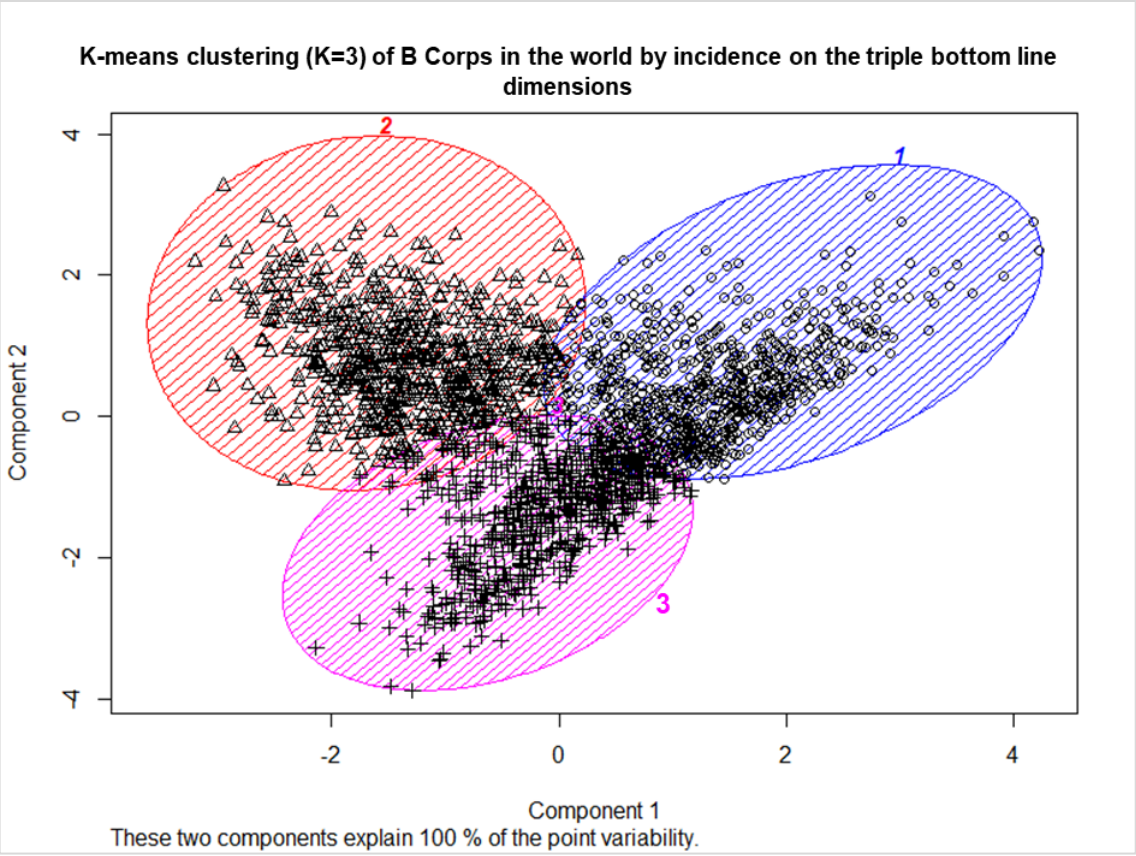


Figure 4.13 - 3-means clustering of B Corps in the world by incidence on the triple bottom line dimensions. Source: R Studio.

Figure 4.13 displays how the software elaborated data on the incidence of the Economic, Social and Environmental dimensions characterizing the 2208 B Corps in the global sample, by partitioning them into three clusters, represented in a two-dimensional plot. The three clusters have similar sizes and shapes, and together they resemble the form of a triangle. Figure 4.14 below reports the output data provided by R Studio, allowing to better interpret Figure 4.13.

```
K-means clustering with 3 clusters of sizes 786, 734, 688

Cluster means:
  INCIDENCE.SOCIAL  INCIDENCE.ECONOMIC   INCIDENCE.ENVIRONMENTAL
1        1.0919394          -0.6436769                -0.6046892
2       -0.8529071          -0.3723573                 1.2357244
3       -0.3375445           1.1326167                -0.6275233

Within cluster sum of squares by cluster:
750.7669 709.0640 622.5012
 (between_SS / total_SS =  68.5 %)
```

Figure 4.14 - R Studio output from the 3-means clustering of B Corps in the global sample. Source: R Studio.

By looking at the clusters' means reported in Figure 4.14, it can be evinced that cluster number one groups 786 B Corps with a prevalent focus on the social dimension, cluster number two includes 734 environmentally oriented B Corps, and cluster number three contains the remaining 688 entities, sharing a predominant interest towards the economic dimension.

Another useful information furnished by the software, and reported in the figure above, is related to the total sum of squares, particularly useful in the interpretation of results. Note that the total sum of squares is composed by the within and the between sum of squares. In this regard, the within cluster sum of squares allows to understand the goodness of the classification, or the homogeneity of clusters: the lower the within sum of squares, the more the units inside a group are similar to each other and the model ensures cohesive clusters (in the context of clustering, intra-cluster distances should be minimized); a complementary information is offered by the between sum of squares, measuring how well different groups are separated (in the context of clustering, inter-cluster distances should be maximized); consequently, in a good clustering the ratio of the between sum of squares on the total sum of squares should be close to one (James, *et al.,* 2013). In this analysis the ratio is not particularly high (68,5%), suggesting that increasing the number of clusters could give better results in terms of intra-cluster homogeneity and inter-cluster heterogeneity.

This intuition has been tested by setting K equal to ten, like the areas delimited inside the integrative sustainability triangle by F. Ludeke-Freund, *et al*. (2018); the new analysis led to the results shown below by Figure 4.15 and Figure 4.16.

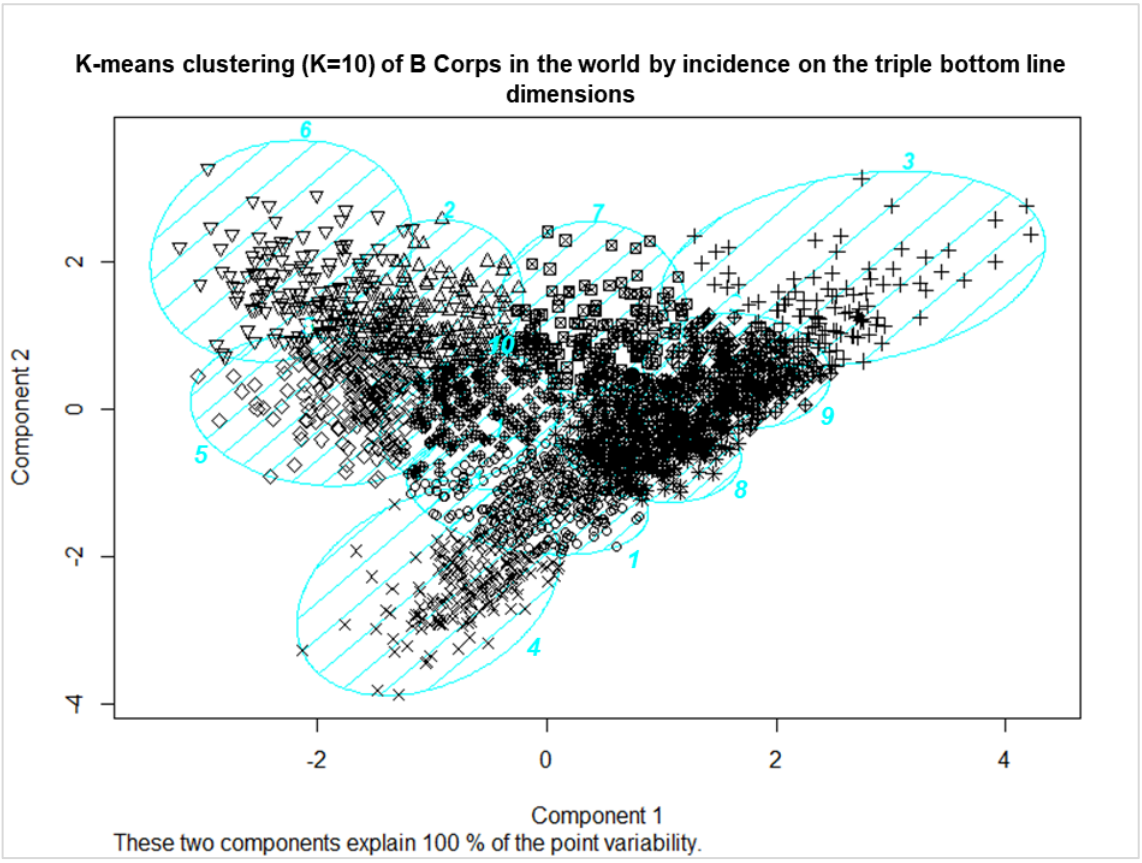


Figure 4.15 - 10-means clustering of B Corps in the world by incidence on the triple bottom line dimensions. Source: R Studio.

Figure 4.15 visualizes the clusters resulting from the partitioning of the global sample of B Corps in ten groups in a two-dimensional plot; the figure can be better understood by looking at Figure 4.16 below, showing the output data furnished by R Studio.

```
K-means clustering with 10 clusters of sizes 325, 183, 107, 164, 215,
149, 180, 387, 283, 215

Cluster means:
   INCIDENCE.SOCIAL  INCIDENCE.ECONOMIC  INCIDENCE.ENVIRONMENTAL
1        -0.2511002           1.0208271               -0.6223278
2        -0.5665362          -0.7396061                1.2502443
3         2.1432282          -1.7273644               -0.7821272
4        -0.9764742           2.1633381               -0.8442805
5        -1.2407411           0.2131511                1.1391718
6        -1.3009464          -0.8987513                2.1734219
7         0.4905468          -0.8856176                0.2486510
8         0.5641281           0.1643492               -0.7458560
9         1.3141990          -0.7114274               -0.7829613
10       -0.4736462           0.0876656                0.4293802

Within cluster sum of squares by cluster:
88.15699 49.09156 60.41029 54.67361 66.18292 60.11919 64.29013
79.98850 60.88912 54.58059
 (between_SS / total_SS =  90.4 %)
```

Figure 4.16 - R Studio output from the 10-means clustering of B Corps in the global sample. Source: R Studio.

Here, it has to be noted that sizes and shapes of clusters are slightly different across groups, and this could pose some limitations to the effectiveness of the K-means clustering method; however, the clustering process when K is set to ten leads to improved results in terms of the

between sum of squares on total sum of squares ratio, here equal to 90,4%. Therefore, the intuition is confirmed: as it could be reasonably expected, an increased number of subsets better capture the peculiarities which are present inside the macro-groups. Interestingly, based on the clusters' characteristics, as proxied by the clusters' means reported in Figure 4.16, the groups can be reconducted to the ten areas making up the integrative sustainability triangle. Specifically, clusters number three, six and four, at the vertices of the imaginary triangle, can be distinguished for their clear focus on, respectively, the social, the environmental and the economic dimensions. In turn, the imaginary hexagon within the triangle is formed by clusters number seven, two, five, one, eight and nine, whereas cluster number ten represents the central area, characterized by an integrated interests towards all the three aspects in similar measures. Among the groups in the hexagon, clusters number two, one and nine can be assumed to have, respectively, a main environmental, economic and social business model orientation, while clusters number seven, five and eight blend two different interests in their conduct, respectively adopting a socioenvironmental ("social-ecologic"), ecoenvironmental ("ecologic-economic") and socioeconomic ("social-economic") focus on value creation (Ludeke-Freund, *et al*., 2018).

Now that the statistics regarding the global sample of B Corps have been illustrated, Figure 4.17 and Figure 4.18 display the outcome of the 3-means analysis conducted at the Italian level.

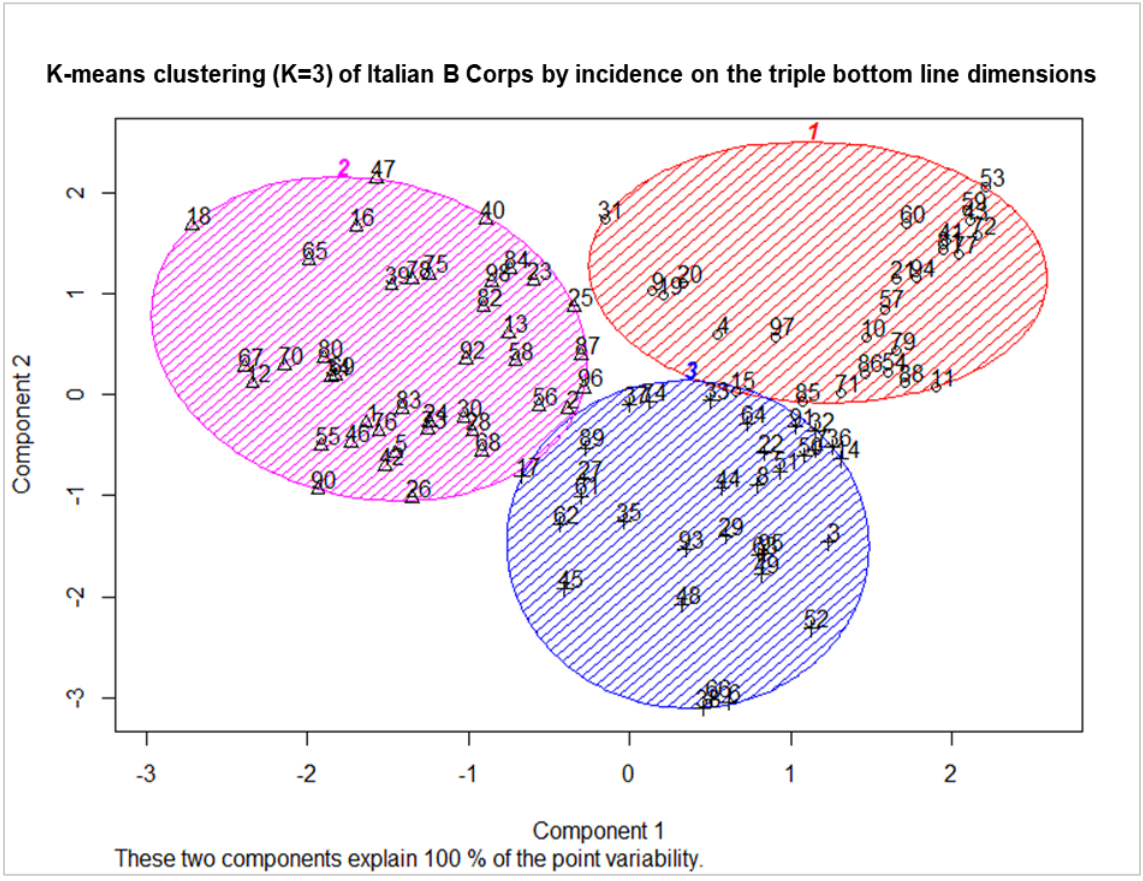


Figure 4.17 - 3-means clustering of Italian B Corps by incidence on the triple bottom line dimensions. Source: R Studio.

Figure 4.17 shows the 98 Italian B Corps grouped into three clusters, different for their combined orientation to the triple bottom line. As in the case of the global sample, the clusters form an imaginary triangle; however, in this case, they are coloured differently from Figure 4.13, since colours in the visual analysis indicate the clusters' density. Nevertheless, the position of the clusters by prevalent focus is unchanged, as revealed by Figure 4.18 below.

```
K-means clustering with 3 clusters of sizes 26, 40, 32

Cluster means:
  INCIDENCE.SOCIAL INCIDENCE.ECONOMIC INCIDENCE.ENVIRONMENTAL
1        1.3281274         -0.5195765               -0.8430190
2       -0.6760612         -0.5224124                1.0500443
3       -0.2340271          1.0751714               -0.6276024

Within cluster sum of squares by cluster:
[1] 22.94667 39.48233 32.56099
 (between_SS / total_SS =  67.4 %)
```

Figure 4.18 - R Studio output from the 3-means clustering of Italian B Corps. Source: R Studio.

As for the global sample, cluster number one is characterized by a social orientation, and cluster number two and three by an environmental and an economic focus respectively; the groups are similar in size and shape, and the ratio of between sum of squares on total sum of squares is not particularly elevated, being equal to 67,4%; this could suggest that there is a degree of variation and dispersion inside the clusters identified, which could be lowered by setting a different K. Accordingly, the output of the 10-means clustering is reported below.

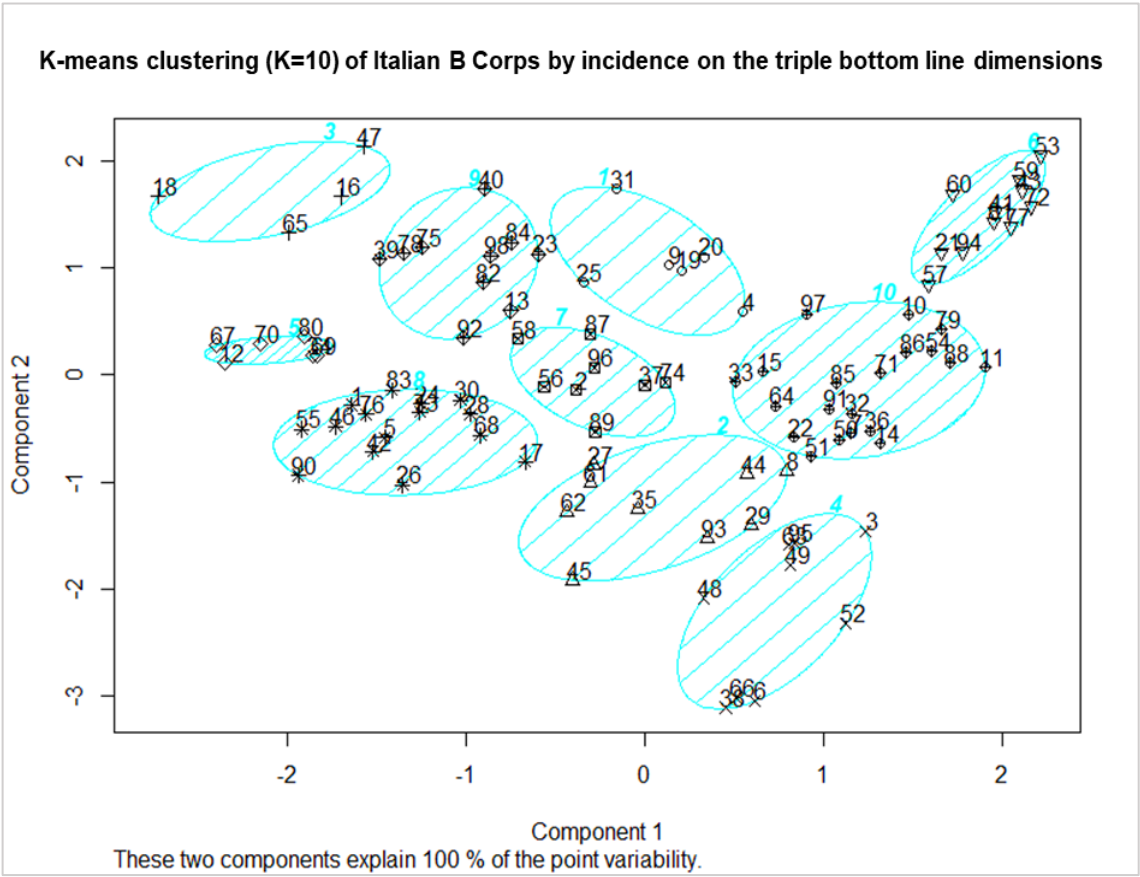


Figure 4.19 - 10-means clustering of Italian B Corps by incidence on the triple bottom line dimensions. Source: R Studio.

Figure 4.19 shows the clusters resulting from the partitioning of the Italian B Corps in ten groups, while Figure 4.20 below contains the data on the clusters' size, means and an indication of the model's goodness.

```
K-means clustering with 10 clusters of sizes 6, 9, 4, 9, 6, 11, 8, 15,
10, 20

Cluster means:
   INCIDENCE.SOCIAL INCIDENCE.ECONOMIC INCIDENCE.ENVIRONMENTAL
1         0.5879242         -0.86223784               0.1257020
2        -0.5388533          1.05168799              -0.3214879
3        -0.4370364         -1.80087784               1.8333462
4        -0.6056259          2.00549986              -1.0111224
5        -1.2037066         -0.57961788               1.5929840
6         1.9482908         -0.89420417              -1.1324942
7        -0.2004587         -0.03837636               0.2194020
8        -1.1182529          0.17413954               0.9175918
9        -0.1151245         -1.06170420               0.9463783
10        0.6920331          0.32440803              -0.9088723
Within cluster sum of squares by cluster:
1.2450759 2.8500343 1.1043257 4.4040516 0.3538512 1.6360268 1.0862612
2.8271271 1.9901125 5.7761153
 (between_SS / total_SS =  92.0 %)
```

Figure 4.20 - R Studio output from the 10-means clustering of Italian B Corps. Source: R Studio.

As in the global analysis, the ten clusters slightly differ in size; however, since the ratio of the between sum of squares on the total sum of squares is very close to one, specifically 92,0%, it is clear that setting K equal to ten improved the clustering. With respect to the 3-means analysis, intra-cluster distances (thus variation within clusters) are reduced, and inter-cluster distances are improved; homogeneity within groups has increased and heterogeneity between groups has increased consequently.

Moreover, by looking at the clusters' means and at the clusters' position in the plot, it is again possible to characterize the represented groups for their combined incidence of the three dimensions' scores, taking Figure 2.2, hence the integrative sustainability triangle, as a reference. In particular, entities in clusters number six, three and four, at the vertices of the imaginary triangle, have a clear focus on the social, environmental and economic dimension respectively; in turn, clusters number one, nine, five, eight, two and ten form the hexagon withing the triangle and group the B Corps which blend the dimensions in varying proportions, whereas cluster number seven represents the centre of the triangle, corresponding to the "integrative" area, containing the entities equally oriented to all the three dimensions. As for the subsets forming the hexagon, cluster number one, five and two isolate B Corps mainly focused on the social, environmental and economic aspects of sustainability respectively; entities in clusters number nine, eight and ten have a double or mixed orientation, respectively on socioenvironmental ("social-ecologic"), ecoenvironmental ("ecologic-economic") and socioeconomic ("social-economic") issues (Ludeke-Freund, *et al*., 2018). The detailed identifiers of B Corps in the clusters are reported in the Appendix.

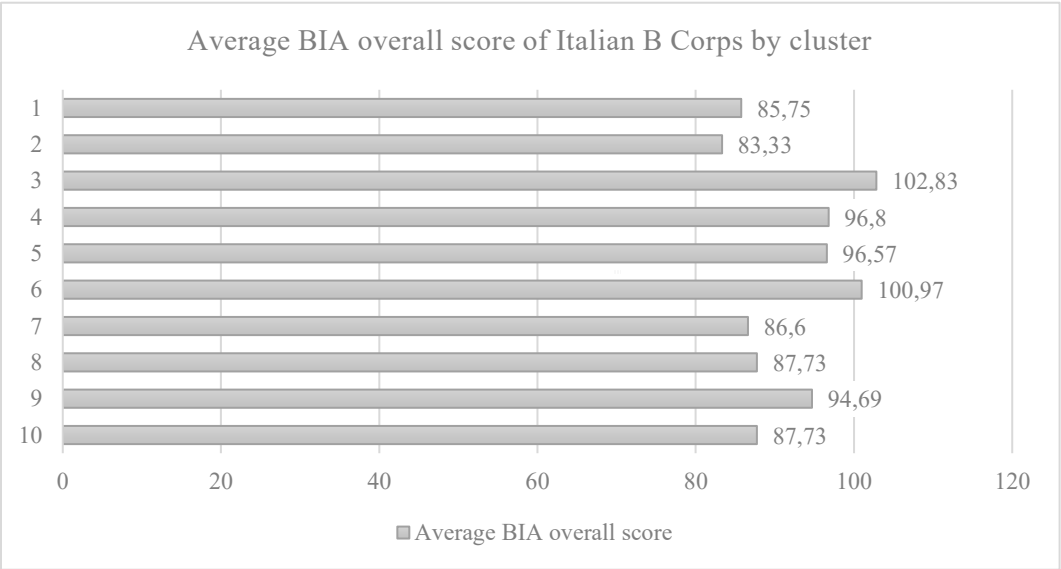
Ultimately, what emerges from these analyses is that grouping B Corps in three clusters offers a preliminary distinction of their business model orientation towards one or more of the triple bottom line dimensions, useful to categorize them in socially, environmentally and economically polarized macro-classes; however, by looking at the results obtained by augmenting the number of clusters to ten, it is possible to affirm that B Corps inside the macro-classes are heterogeneous to some degree, and, thus, that they can be further subdivided. Interestingly, the 10-means clustering process, both at the Italian and at the international levels, leads to a groupings' representation which can be easily associated to the integrative sustainability triangle, since single clusters can be matched to the areas of the triangle. Therefore, as it could be reasonably expected, acknowledged that the business models adopted by B Corps are all oriented to sustainability, each certified entity also has a set of distinctive features, represented in the focus adopted in the context of value creation. Consequently, within the group of companies with a predominant concern towards the planet and the ecosystem there will be some of them also interested in social issues or in the development of innovative revenue-generating models; analogously, among the socially oriented B Corps, some will be likely to also embrace the environmental cause or to implement a more inclusive governance; in turn, some of the entities with an economic focus will experience a sense of urgency in tackling selected socioenvironmental problems affecting the world, such as resource scarcity or poverty. Last, companies located in the central area of the triangle will be able to create value at the benefit of all the dimensions of the triple bottom line.

Notably, as it can be also understood by looking at Figure 4.13, 4.15, 4.17, and 4.19, summarizing the results of the analyses conducted, B Corps at the pure extremes of the triangle are a minority of the population studied, whereas the inner areas are denser, testifying that B Corps tend to adopt a holistic perspective on value creation. This integrated approach in the context of businesses is a distinctive feature of sustainable business models, B Corps and Benefit Corporations.

4.5.3. Insights on the performance of Italian B Corps

At this point, the limited number of Italian B Corps made it possible to identify firms in the plot; as a result, some interesting relationships have been explored, linking the descriptive analyses on sectors of operation and size, presented in the initial part of the Chapter, with the findings on business models arising from the cluster analysis just illustrated. In particular, the clustering results will be complemented by data regarding B Corps' BIA overall score, size, sector of operation and financial performance.

First, Graphic 4.21 below illustrates the BIA overall score obtained, on average, by Italian B Corps in each cluster.



Graphic 4.21 - Average BIA overall score of Italian B Corps by cluster. Source: personal elaboration from B Lab (2020).

Interestingly, when looking at the average BIA overall scores by group, it emerges that clusters number three, six and four, hence the groups at the vertices of the triangle, have the highest overall scores; in turn, clusters number one, two and seven, in more central areas of the triangle, are characterized by the lowest BIA overall scores. This insight could suggest the existence of a possible relationship between the BIA score and the focus, as if concentrating the efforts towards a single dimension of the triple bottom line could be linked to the achievement of a superior score. Indeed, the average scores reported in the graphic reveal that best impact performers, at least in Italy, are currently adopting a clear orientation towards one of the dimensions of the triple bottom line; therefore, the analyses' results suggest the presence of a positive relationship between the business performance as captured by the BIA and the breadth of the focus adopted on the different forms of value creation. The last part of the Chapter will investigate if the same holds true for financial performance as well, by combining the clustering results with data on B Corps' size, industry sectors, and operating results.

As explained in the descriptive analysis at the beginning of the Chapter, size is proxied by the number of workers forming the staff of B Corps; although the number of employees is likely to constitute an imperfect or partial indicator of companies' size, yet it seems useful to offer an overview of the Italian B Corps' dimensions and organizational complexity. Figure 4.22 below shows the dimension of Italian B Corps, building on their categorization in groups resulting from the clustering analyses.

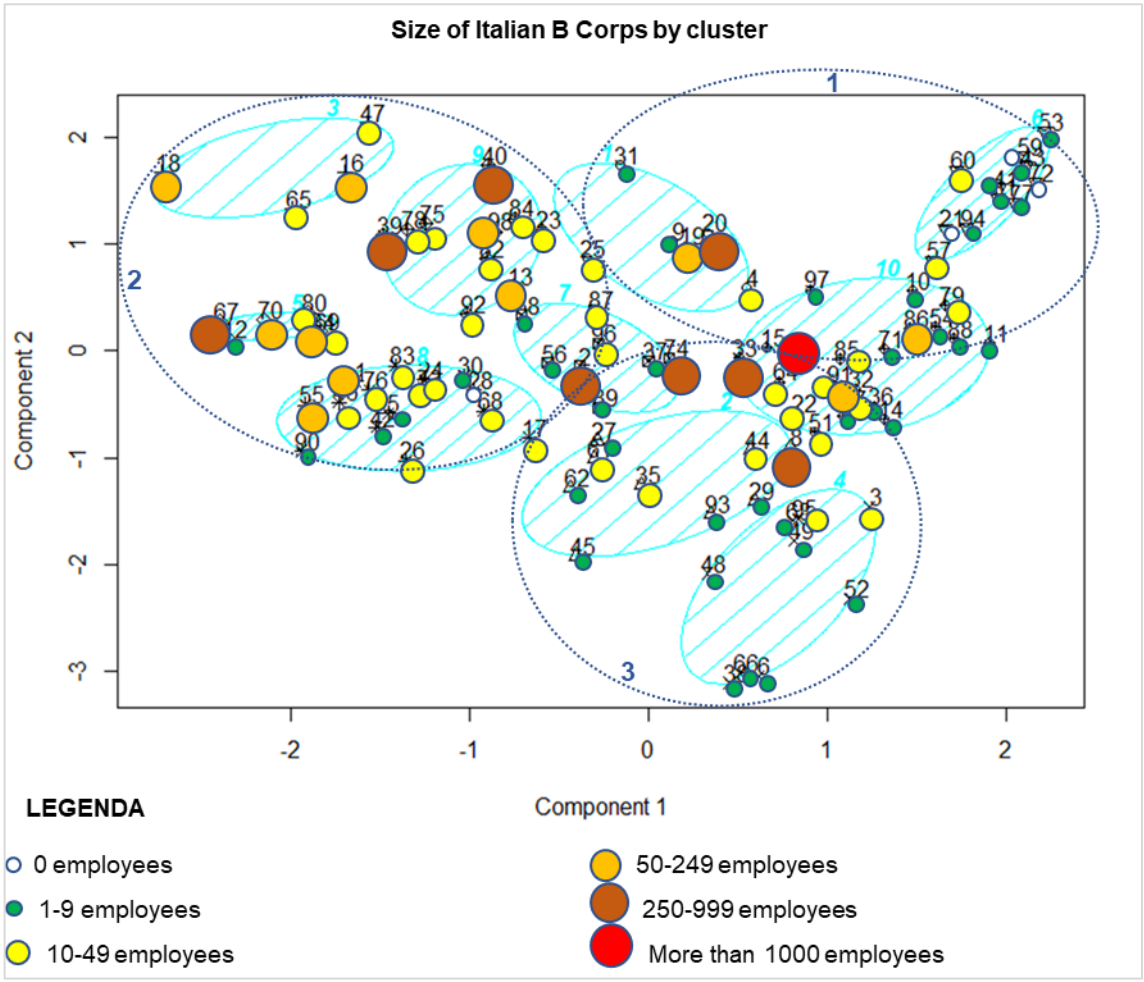


Figure 4.22 - Size of Italian B Corps by cluster. Source: personal elaboration from B Lab (2020).

Overall, as anticipated in the descriptive analysis, B Corps in Italy are mainly SME (less than 250 workers), although exceptions are present; Figure 4.22 reveals interesting insights on the groups' composition. Specifically, when looking at the three macro-classes, it emerges that the majority of B Corps in cluster number one and three has a small dimension, whereas firms in cluster number two on average employ a bigger staff. In turn, focusing on the ten subsets, it is evident that clusters number six, four and two contain most of the smallest companies (micro and small enterprises, with less than 50 employees), while clusters number nine, three and five group the majority of medium enterprises (having between 50 and 249 workers); the remaining clusters (number one, seven, eight and ten) contain B Corps of different sizes.

At this point, to better interpret results related to size, a similar analysis distinguishing certified entities by the industry sector in which they operate has been performed, and it is presented in Figure 4.23 below. As already mentioned, B Lab distributes B Corps in the sectors of agriculture, manufacturing, non-physical services, services with major environmental footprint and wholesale or retail. The detailed information regarding the size and the sector of single certified entities is reported in the Appendix.

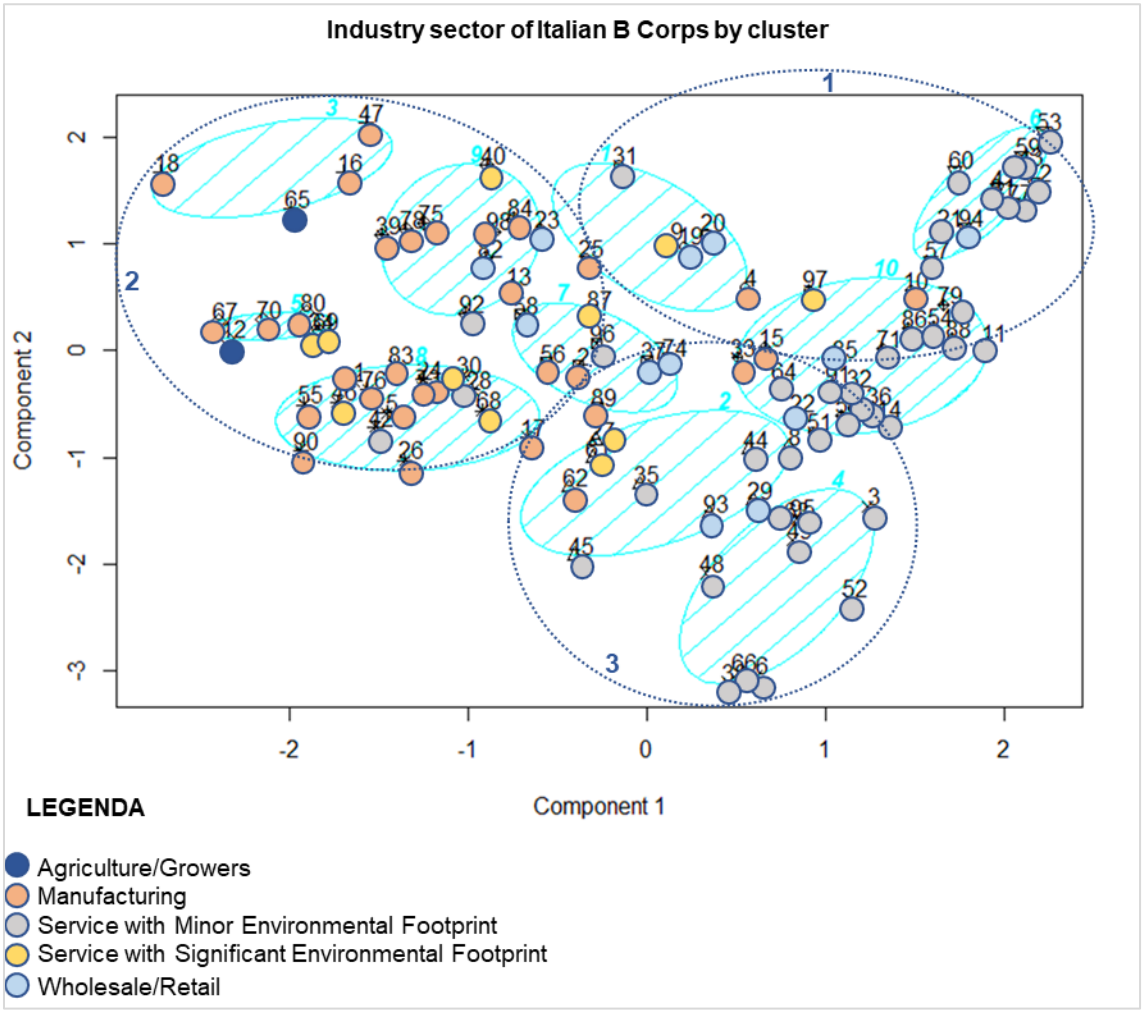
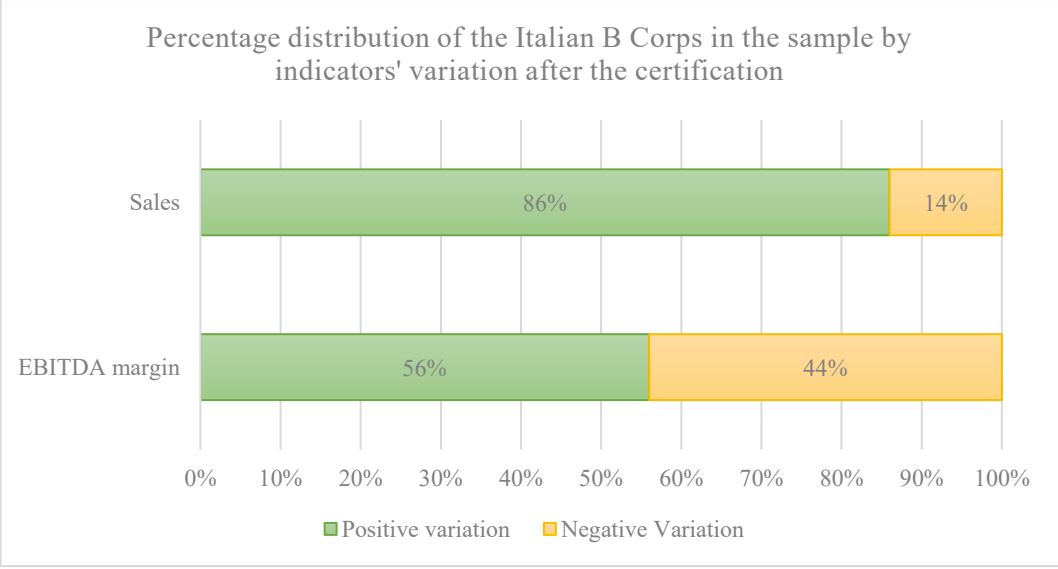


Figure 4.23 - Industry sector of Italian B Corps by cluster. Source: personal elaboration from B Lab (2020).

By looking at Figure 4.23, it is possible to confirm that, as anticipated in the descriptive analysis, Italian B Corps mainly operate in the Service with Minor Environmental Footprint sector and in Manufacturing industries. Notably, looking at the macro-classes, almost all the companies operating in the provision of non-physical services are located in clusters number one and three (the social and the economically oriented groups, respectively), while almost all the manufacturing firms are contained in cluster number two (the environmentally focused class). Here, it is possible to evince that B Corps which are more likely to have a consistent environmental footprint, in manufacturing and polluting services sectors, are also those more concerned with the preservation of the ecosystem; differently, firms characterized by a lighter impact on the environment are more likely to adopt social or economically oriented business models. This confirms what has been evidenced in Graphic 4.10, and it seems to be in line with the theory by M. E. Porter & M. R. Kramer (2011), exposed in the third Chapter, according to which it is more fruitful to contribute to the impact areas connected to the core business. Looking at the ten groups, clusters number six, ten and four almost exclusively include B Corps in the sector of services with a light environmental impact, while the remaining clusters group

certified entities spanning the other four sectors. Interestingly, a visual comparison of Figure 4.23 with Figure 4.22 suggests that companies' size and industry sector are related to some extent, with service companies employing, on average, a smaller staff than manufacturing companies. Overall, the industry sector seems to be a stronger determinant of B Corps' business model focus than size.

The last aspect explored in this section relates to the financial performance obtained by B Corps before and after the certification; specifically, the objective is to identify how the performance of certified entities changed with respect to the results they reported before achieving the B Corp label. Based on the subdivision of B Corps by year of first certification, the study focuses on those entities certified until 2017 for which data referring to the two years before and after the certification are available and complete; at the end, the group under study is made of 36 B Corps, whose data on sales and on the EBITDA margin have been retrieved through a search in AIDA database (AIDA, 2020). Sales, as the total revenue of the company, and the EBITDA margin (EBITDA/sales), furnishing a comprehensive information of the company's operating performance, are taken as indicators for examining the financial performance of the selected group of firms, and especially their operations' efficiency. To find how the above listed indicators have changed in each entity, their average value in the two years before the certification has been confronted with their average value in the couple of years following the certification. Aggregate results are reported in Graphic 4.24 below.



Graphic 4.24 - Percentage distribution of the Italian B Corps in the sample under study by indicators' variation after the certification. Source: personal elaboration through AIDA database.

The graphic above indicates that, when looking at the aggregate sample, with respect to pre-certification data, 86% of B Corps has increased the level of sales; also, a majority of the sample, specifically 56% of the total, has improved the EBITDA margin, a proxy for the

operating performance. As for the percentage of growth, on average, B Corps in the sample increased their sales by 69% in the timeframe of five years, and their EBITDA margin by 50% along the same interval; the high sales growth experienced by B Corps is also confirmed by B The Change (2018), reporting that the sample of 306 B Corps they analysed experienced a 49% increase in sales over a time interval of five years.

At this point, in the attempt to understand if there is a relationship linking financial and impact performance, data on sales and EBITDA margin growth obtained for the sample of B Corps will be complemented by the clustering outcomes. Here, it has to be noted that there is a time inconsistency, in that financials refer to the years around the first certification, while input data for the clustering of business models refer to the year of last certification. Consequently, although the business model orientation is expected not to have consistently changed over time, a check has been performed; as a result, 28 out of the 36 companies in the sample have been considered valid for the following analysis, since they have shown an unaltered business model orientation during the years (in terms of the combined incidence of economic, social and environmental scores). Figure 4.25 and 4.26 show the results of the analysis.

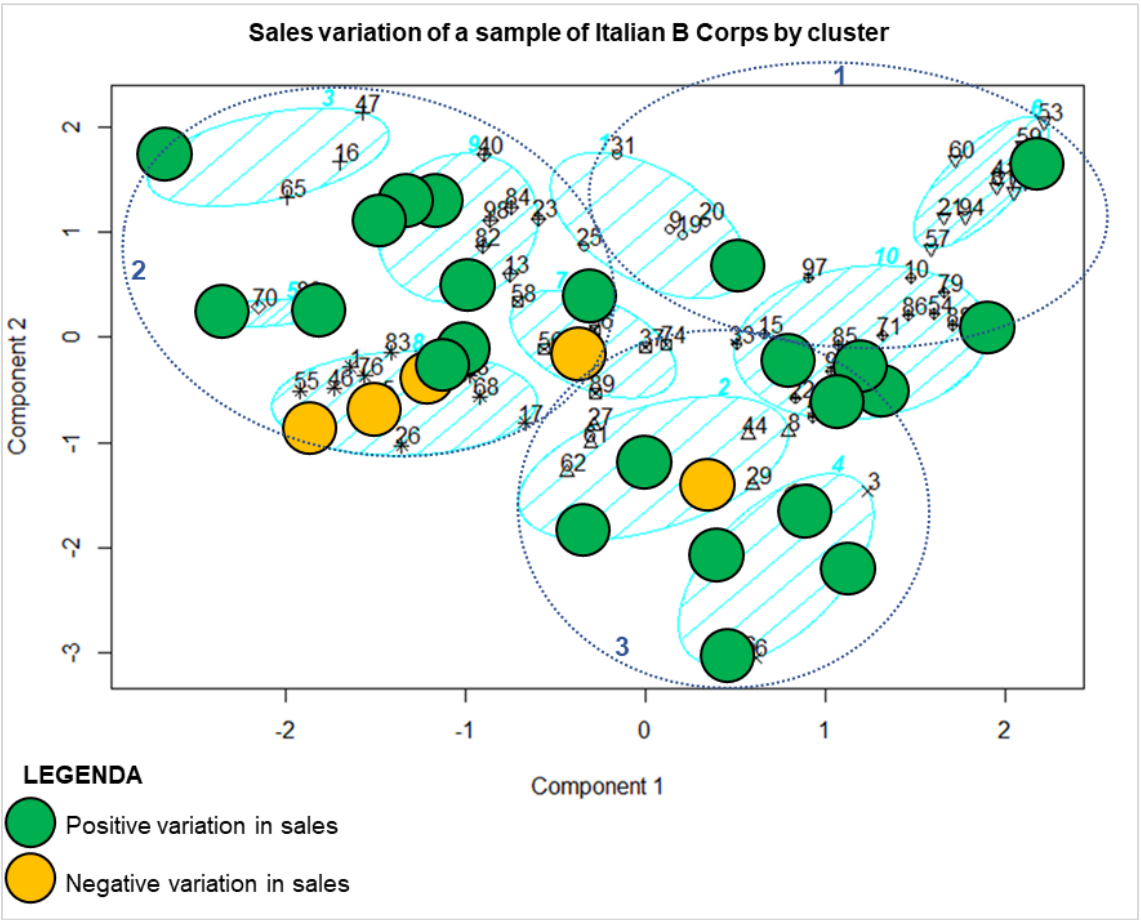


Figure 4.25 - Sales variation of a sample of Italian B Corps by cluster. Source: personal elaboration through AIDA database.

Figure 4.25 shows which of the B Corps in the sample experienced a growth in the sales level (in green) and those reporting decreasing revenues (in yellow). Analogously, Figure 4.26 below displays which of the firms analysed improved their operating efficiency (in green), measured by the EBITDA margin, in contrast to those which experienced a declining margin (in yellow).

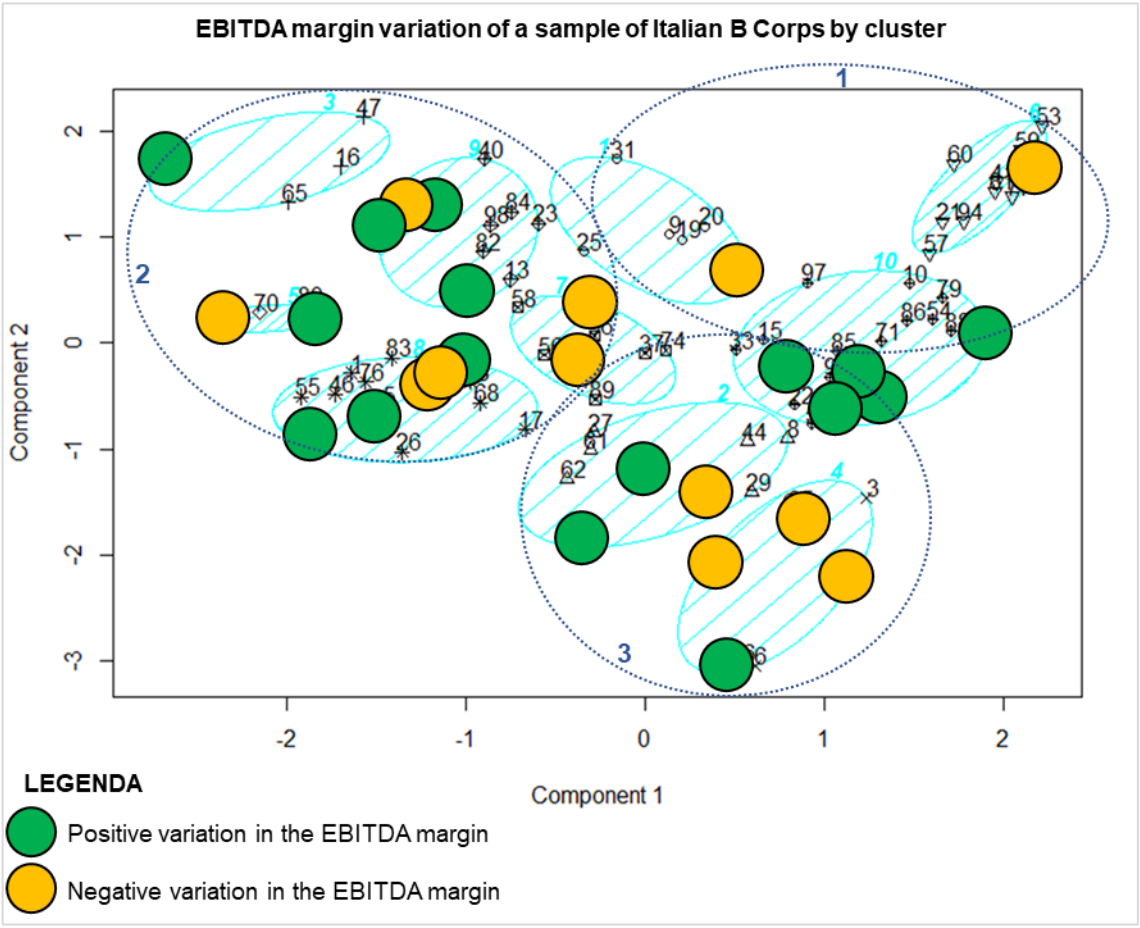


Figure 4.26 - EBITDA margin variation of a sample of Italian B Corps by cluster. Source: personal elaboration through AIDA database.

Overall, as anticipated by Graphic 4.24, it clearly emerges that the large majority of the B Corps under study has improved sales in the five years interval around the certification; in turn, the variation in the EBITDA margin over the same timeframe is more variable, yet it is positive for the majority of the represented entities. At the level of macro-classes, performance varies widely across firms, and it seems not to be related to their size or sector. Looking at the subdivision in ten groups, Figure 4.25 displays that the few entities with declining sales are contained in clusters number eight, seven and two. In turn, when referring to the EBITDA margin, represented in Figure 4.26, clusters number ten and nine contain the best performing entities, and clusters number two, eight and five enclose B Corps with different but, on average, positive results; instead, cluster number four and seven mainly group certified entities with a negative EBITDA margin variation, while the low number of firms in the remaining clusters (one, three, six) makes it not wise to generalize.

Overall, when comparing, among the ten clusters, the average BIA overall score, as the proxy of impact performance, with the available data on sales and EBITDA margin variations, taken as a proxy of financial performance, it emerges that companies in clusters number nine obtained both an improvement in financials and a BIA overall score among the highest. The same relation holds true only partially for cluster number four, where the high BIA overall score is accompanied by a sustained growth in sales, but also by a decrease in the EBITDA margin. The correlation is not evident in clusters number eight, ten and two, with good financials, but a relatively low BIA score. Therefore, overall, at least for the entities analysed, impact performance seems not to be linked to the economic performance as measured in the analysis; in line with these results, the study conducted by P. Gazzola, *et al*. (2019) on 71 certified entities cannot confirm the hypothesis of the existence of a link between BIA scores and the economic performance achieved by the B Corps in the sample. Moreover, here the findings cannot corroborate the intuition about the existence of a relationship between B Corps' financial performance and the breadth of the focus adopted towards the triple bottom line: indeed, clusters number six and three, respectively at the social and environmental corners of the triangle, only contain one firm, rendering it inappropriate to make generalizations for the entire cluster, while entities in cluster number four, holding the economic vertex, have not obtained positive results in terms of their EBITDA margin. The detailed results for the single entities analysed are reported in the Appendix.

Clearly, using only the two listed indicators gives a partial perspective on a company's overall financial performance; moreover, performance varies widely across firms, and the sample which has been possible to study is limited in size. However, almost all the entities examined experienced a consistent sales growth after the certification, and a majority of them made progresses in the efficiency of operations. Hence, it seems reasonable to affirm that undertaking the BIA for the achievement of the certification actively supports, on average, the achievement of increased revenues and operational efficiency, in that it requires B Corps to reach and maintain elevated performance standards, spurring innovation and improvement over time.

4.6. Conclusions

As a tool for evaluating impact and for supporting the communication of performance from a holistic perspective, the B Impact Assessment furnishes a comprehensive information on the value generated by certified entities; BIA scores have been used as input data for the descriptive analysis presented in the initial part of this Chapter, performed in order to offer an overview of B Corps' performance and diffusion at the global and at the Italian level. B Corps, as a group of entities representing companies with a sustainable business model, have also been taken as

references for the empirical analysis presented in the final part of the Chapter, since data regarding their impact performance is publicly available, in the form of BIA scores; the empirical analysis on B Corps' business models constituted an attempt to explore the existing typologies of sustainable business models, based on the theoretical references exposed in the second Chapter. Specifically, the partial scores obtained by certified entities in the impact topics across the five areas of the BIA have been matched to the dimensions of the triple bottom line, to construct an indicator of their business model orientation; on the basis of this indicator, B Corps, at the global and at the Italian level, have been partitioned by using the K-means clustering algorithm, first into three clusters, polarized on the social, environmental and economic dimensions, then into ten clusters, the representation of which resembled the integrative sustainability triangle found in the literature. The analysis revealed that the preliminary subdivision in three macro-classes offers a useful starting point for characterizing B Corps' sustainable business models; for example, it was possible to evince that the entities operating in industry sectors with a greater environmental footprint also share a deeper commitment towards the preservation of the ecosystem. In turn, the subdivision of certified entities into ten clusters better explained the variation of their scores' combined incidence on the three dimensions, thus their identity and priorities; for example, it allowed to perceive the existence of a relationship linking impact performance to the breadth of the focus adopted towards the triple bottom line. Instead, financial performance, as measured in the analysis, did not show clear relationships with the impact score, the firm's characteristics in terms of size and sector, and the breadth of the orientation towards the triple bottom line.

Clearly, the study has some limitations. First, although it has been guided by theoretical references, the matching process could be affected by some degree of subjectivity in the association of the impact topics to the three dimensions. Furthermore, BIA scores are still not perfectly comparable across firms, since the score weighting in operational impact topics slightly changes based on companies' sector; however, the matching process resulting in the combination of impact topics across the five areas, the concentration on relative rather than absolute values, and the consideration of both operational and structural impact topics, are considered to have limited potential biases in the analyses. Last, the small size of the sample of B Corps having complete data on which to base the analysis on financials poses a limit to the generalizability of findings; the increasing availability of B Corps' impact and financial data in the next years could make these results more consistent. Nevertheless, overall conclusions regarding financial performance before and after the attainment of the B Corp label, and the findings on the distribution of certified entities based on their orientation to Planet, People and

Profit dimensions can be considered valid with a reasonable degree of confidence. Also, note that the analysis conducted here is only based on the population of B Corps, since data regarding their performance are easily retrievable and the Assessment furnishing the score is comprehensive, rigorous, and transparent (Network Italiano Business Reporting, 2019); on this basis, it seems reasonable to affirm that the certification process undergone by B Corps has the potential to support the improvement of a company's results, both in terms of operating and impact performance.

CONCLUSIVE REMARKS

Benefit Corporations, certified or not, represent a category of businesses which have made the choice of enlarging and hybridizing their value creation perspective, recognizing that the world of businesses has the potential and the responsibility for mitigating the problematic social and environmental situations the world is experiencing. Accordingly, they can be assumed to embrace the dual mission of profitability and sustainability, the fulfilment of which ultimately requires to develop a supportive organizational architecture. Indeed, innovative and sustainable business models proactively and concretely integrate socioenvironmental considerations with the more traditional economic concerns; as a consequence, the context of sustainable business models is characterized by the simultaneous presence of multiple interests to satisfy, not limited to shareholders, but comprehending an expanded group of stakeholders. The resulting multiplicity of viewpoints, beside potentially leading to innovation and enhanced performance, is often accompanied by rigidities on value creation, culture and timeframes: to deal with complexity, it is important that the leaders of sustainable enterprises adequately manage the change processes and transparently communicate their objectives and achievements. The communication effort has to be implemented both inside and outside the company, to strengthen the organizational culture and build motivation, and to attract the right type of financial resources. Regarding this, if it is acknowledged that the capital market constituencies increasingly adopt sustainable investment strategies, they also call for enhanced reliability and comparability of data on businesses' ESG achievements. An effective performance communication is clearly dependent on the development of a robust system of performance measurement, not only referring to financials, but also to the impact generated; the evaluation of the impact created and the representation and measurement of the value produced are, indeed, two strictly interrelated aspects. Ultimately, assessing and disclosing performance along the multiple value dimensions contributes to define the organizational identity and the related priorities, and to align strategy and actions. The first three Chapters of the thesis respectively explored the aspects related to the enhanced responsibility, sustainability and transparency characterizing Benefit Corporations and B Corps.

Building on these theoretical bases and on updated information about the scores obtained by B Corps in the B Impact Assessment, the fourth Chapter offered an overview of the impact performance of certified entities at the international level and tried to reconduct them to the business model typologies found in the literature. More specifically, the initial part of the Chapter described the diffusion and the impact performance of B Corps over years, by country, and across company size and sector; these descriptive statistics revealed that the certification

trend has been growing globally over years, that the United States host the largest population of certified entities, and that B Corps are mainly micro and small enterprises operating in the provision of non-physical services. Then, the second aim of the Chapter was to draw an original classification of B Corps' sustainable business models on the basis of the scores they obtained in the B Impact Assessment; in this context, it has been assumed that BIA scores provide a reliable representation of B Corps' business model orientation to the triple bottom line. As a first step, the most recent BIA scores, disaggregated by topic, have been matched to the dimensions of the triple bottom line, to obtain an indicator of the business model orientation to social, environmental and economic aspects; secondly, the resulting proxy of the business model focus was used as input for the K-means clustering process, with the objective of dividing B Corps into three and ten groups, respectively building on the classifications developed by P. Ritala, *et al*. (2018) and F. Ludeke-Freund, *et al*. (2018). Interestingly, this empirical analysis revealed that, while the division into economic, environmental and socially oriented clusters offers a preliminary idea of a business focus towards the triple bottom line, the diverse value creation perspectives adopted by B Corps seem to be better described by partitioning them in ten groups. In the final part of the Chapter, the limited size of the Italian population of certified entities made it also possible to combine the findings on business model orientation with data on impact and financial performance. This last analysis suggested the existence of a positive relationship linking a superior impact performance with a narrow focus towards the triple bottom line, and confirmed that firms operating in sectors with a greater impact on the planet are likely to adopt an environmentally friendly business model; ultimately, based on the data retrieved about sales and EBITDA margin growth of a sample of Italian B Corps, it was possible to explore the existence of relationships between financial and impact performance and the value creation focus. Overall, the certification seems to support a consistent growth in sales, while the variation of the EBITDA margin differs across entities. However, the small size of the sample which has been possible to study made it difficult to find clear links among operating and impact achievements, and between financial performance and the business model orientation; in the next years, the increasing amount of data available will likely clarify the existence and the strength of these relationships.

In short, the present study on B Corps conducted an extensive literature review on the enhanced standards of responsibility, sustainability and transparency distinguishing Benefit Corporations and B Corps from ordinary businesses; moreover, it offered an overview of B Corps' diffusion and impact performance, and employed an innovative methodology for the classification of certified entities' business models based on BIA scores.

"*Humans are neither purely economic creatures nor purely social beings. By extension, all of our organizations have elements of financial, social, and environmental performance embedded in them*"

Antony Bugg-Levine & Jed Emerson, 2011

APPENDIX

Table A shows the Italian B Corps analysed in the fourth Chapter, detailing data about their identifier number, the clusters to which they have been assigned, their BIA overall score, size and sector (A/G stands for Agriculture/Growers, M for Manufacturing, SMEF for Service with Minor Environmental Footprint, SSEF for Service with Significant Environmental Footprint, and W/R for Wholesale/Retail); moreover, the financial information available for a sample of B Corps is reported in the last two columns. Data in Table A are related to Figure 4.17, 4.19, 4.22, 4.23, 4.25 and 4.26, and to Graphic 4.21 and 4.24.

Table A - Italian B Corps by cluster, BIA overall score, size, sector and financials. Source: personal elaboration through R Studio and AIDA database.

	CLUSTER 1: SOCIAL						
#	**Company name**	**Cluster (K=10)**	**BIA score**	**Size**	**Sector**	**Delta Sales**	**Delta EBITDA margin**
4	Antica Erboristeria SpA SB	1	100,4	50-249	M	29%	-4%
9	BioClean Pulizie Ecosostenibili Srl SB	1	81,5	1-9	SSEF		
10	Boboto s.r.l. SB	10	82,4	1-9	M		
11	Bottega Filosofica SB	10	82,1	1-9	SMEF	210%	163%
15	Chiesi Group SB	10	87,5	1000+	M		
19	Danone SpA SB	1	82	50-249	W/R		
20	Danone Specialized Nutrition SB	1	83	250-999	W/R		
21	DLM partners	6	86,4	0	SMEF		
31	ESPERTA Srl SB	1	85,4	1-9	SMEF		
41	Generativa SB a Resp. Limitata	6	80	1-9	SMEF		
43	Goodpoint SB	6	138,1	1-9	SMEF		
53	Kudu Srl SB	6	84,4	1-9	SMEF		
54	LAM Consulting SB	10	82,5	1-9	SMEF		
57	Little Genius International SpA SB	6	147,6	10-49	SMEF		
59	LORF S.B. SRL	6	99,2	0	SMEF		
60	LUZ S.r.l. SB	6	83,8	10-49	SMEF		
71	Onde Alte Srl - SB	10	80,1	1-9	SMEF		
72	Organizzare Italia S.R.L. S.B.	6	105,7	0	SMEF		
77	People Management Lab - SB SRL	6	86,2	1-9	SMEF	158%	-99%
79	Raiffeisen Servizi Assicurativi Srl	10	83,7	10-49	SMEF		
81	Santa Francesca Cabrini srl - SB	6	102,5	1-9	SMEF		
85	Service Vending srl SB	10	86,3	10-49	W/R		
86	Slow Food Promozione S.r.l. S.B.	10	82,7	50-249	SMEF		
88	Spazio Noprofit s.r.l. SB	10	93	1-9	SMEF		
94	WAMI Srl SB	6	96,8	1-9	W/R		
97	Yoroom (First Floor) SB	10	83,5	1-9	SSEF		

	CLUSTER 2: ENVIRONMENTAL						
#	**Company name**	**Cluster (K=10)**	**BIA score**	**Size**	**Sector**	**Delta Sales**	**Delta EBITDA margin**
1	Abafoods	8	80,4	50-249	M		
2	Alessi s.p.a. SB	7	82,3	250-999	M	-17%	-267%
5	Arbos Srl	8	82,7	1-9	M		
12	C.V.L.T coop.agr Zanolari	5	87,8	1-9	A/G	43%	-62%
13	Cavalieri & Amoretti SB	9	80,2	50-249	M		
16	CIELO E TERRA	3	87,3	50-249	M		
18	Damiano Spa SB	3	104,6	50-249	M	2%	19%
23	Design 24 Srl SB	9	81,1	10-49	W/R		
24	DIASEN SRL	8	80,9	10-49	M	13%	-9%
25	D-Orbit spa SB	1	82,2	10-49	M		
26	D'orica Srl SB	8	88,1	10-49	M		
28	Edizioni Green Planner	8	82,1	0	SMEF		
30	Emmerre Srl SB	8	82,2	1-9	SSEF	161%	106%
34	Evolvere S.p.A. SB	5	85,5	50-249	SSEF		
39	Fratelli Carli SpA SB	9	98,3	250-999	M	10%	16%
40	Garc SpA	9	90,4	250-999	SSEF		
42	Goldmann & Partners Srl SB	8	126,2	1-9	SMEF	-50%	764%
46	Habitech Energy and Environment District	8	85,4	10-49	SSEF		
47	Icma Srl	3	84,6	10-49	M		
55	Lampa S.r.l. S.B.	8	97,5	50-249	M		
56	LITOGRAFIA REVERBERI	7	87,1	1-9	M		
58	Local To You	7	104,6	1-9	W/R		
65	N&B Srl SB	3	134,8	10-49	A/G		
67	Novamont SB	5	104	250-999	M		
68	NWG Energia Società Benefit SB	8	90,1	10-49	SSEF		
69	NWG spa SB	5	104,1	10-49	SSEF	86%	49%
70	OMAL S.p.A	5	106,7	50-249	M		
73	PALM SPA	8	83,5	10-49	M	-12%	-12%
75	PARADISI SRL SB	9	104,1	10-49	M	37%	67%
76	Pasticceria Filippi Srl SB	8	90,3	10-49	M		
78	Perlage winery SB	9	91,7	10-49	M	35%	-31%
80	Sales Srl SB	5	91,3	10-49	M		
82	SAVE THE DUCK S.p.A.	9	95	10-49	W/R		
83	SCADIF spa	8	84,5	10-49	M		
84	Scatolificio Giampietri srl	9	92,5	10-49	M		
87	Sorriso e Salute Srl	7	80	10-49	SSEF	1%	-179%
90	tek srl	8	80,8	1-9	M	-0,4%	55%
92	Treedom	9	107,1	10-49	SMEF	92%	107%
96	Wekiwi Srl	7	82,9	10-49	SMEF		
98	Zordan S.r.l. SB	9	106,5	50-249	M		

	CLUSTER 3: ECONOMIC						
#	**Company name**	**Cluster (K=10)**	**BIA score**	**Size**	**Sector**	**Delta Sales**	**Delta EBITDA margin**
3	Ambienta SGR S.p.A.	4	112,8	10-49	SMEF		
6	ARS s.r.l. SB	4	82,3	1-9	SMEF		
7	Artattack Group S.r.l. (Arkage)	10	81,2	10-49	SMEF	118%	602%
8	Assimoco S.p.A. SB	2	80,6	250-999	SMEF		
14	CEF Publishing S.P.A. SB	10	90,7	1-9	SMEF		
17	Cle. Pr. In. srl	8	81,2	10-49	M		
22	Dermophisiologique Srl SB	10	83,8	10-49	W/R		
27	E. di C. S.p.A. SB	2	84	1-9	SSEF		
29	Elidria Srl SB	2	81,4	1-9	W/R		
32	ETT spa	10	80,2	50-249	SMEF	22%	102%
33	Eurocompany Srl SB	10	107,3	250-999	M		
35	EXE.IT Srl (Executive service) SB	2	81,4	10-49	SMEF	1%	94%
36	Facile Aiuto	10	81,8	1-9	SMEF	373%	110%
37	FARMACIA A. COLUTTA SB	7	86,5	1-9	W/R		
38	Focus Lab srl SB	4	110,6	1-9	SMEF	26%	66%
44	Green Media Lab Srl SB	2	80,1	10-49	SMEF		
45	GreenApes SB	2	83,8	1-9	SMEF	64%	113%
48	Impact Hub srl	4	80,3	1-9	SMEF	92%	-94%
49	Insieme Società Cooperativa SB	4	90,5	1-9	SMEF	242%	-28%
50	International Napoli Network	10	96	1-9	SMEF		
51	Intexo S.r.l. SB	10	81,6	10-49	SMEF		
52	InVento Innovation Lab impresa sociale srl	4	109,9	1-9	SMEF	66%	-32%
61	Maganetti Spedizioni spa SB	2	85,6	10-49	SSEF		
62	Maker srl SB	2	90,7	1-9	M		
63	Metalli Lindberg srl	4	86,5	1-9	SMEF		
64	Mondora SB	10	122,8	10-49	SMEF	257%	78%
66	NATIVA Srl SB	4	111,7	1-9	SMEF		
74	Panino Giusto SpA SB	7	87,1	250-999	W/R		
89	TEANATURA SRL SB	7	82,3	1-9	M		
91	Tirelli & Partners srl SB	10	85,3	10-49	SMEF		
93	Valli del Bitto Trading spa SB	2	82,4	1-9	W/R	-2%	-26%
95	Way2Global Srl SB	4	86,6	10-49	SMEF		

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