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# ***BENEFIT CORPORATIONS & MANAGEMENT OF FAMILY FIRMS***

Supervisor prof. Paolo Gubitta

Candidate  
ID Number

Ennaji Fatimezzahra  
1166350

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*It is always incredible how at the end of every journey there is the impellent need to breath a moment and draw the conclusions and every time we tend to forget all the difficulties, the bad moments and the struggling that are part of the path.*

*But this time I would like to start in an opposing way, giving also importance to these moments that are the ones that we need to keep in mind in order to succeed and ameliorate in the future, considering that the ability to overcome all this step could not be managed alone. Therefore, I need to thank all the characters that I have played an important role during this path.*

*First of all My supervisor, Paolo Gubitta, for the guidance that was essential to realize the thesis and the ability to always show the optimistic side of the coin, in order to focus on what really matters and in order to develop the enthusiasm and passion on the topic studied.*

*Then, I need to thank my family for the support showed and for the ability to always let me take all the decisions freely, sometimes making mistakes, but without imposing a predefined path. My sisters, for the strong ties we have created despite the distances. Sara, even if it seems obvious, for her ability to never complaints that I have never encountered in other people before. And Mery, for your innate ability to guide people and for being my everlasting counterpart.*

*Finally, I would like to thank all of my friends, that despite their different and even opposing personalities, they all present characteristics in common, the ability to support me in case of need and the capacity to enjoy the life, that inspires me every day.*



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## INTRODUCTION & SUMMARY

THE REASON OF MY DISSERTATION – The purpose of my dissertation is to study the *Benefit Corporations* that have decided to involve their entrepreneurial principles to organise companies that are able to generate a positive return for their shareholders; creating alongside a positive change to overcome the most pressing social and environmental issues.

The *radical* innovation at the basis of this approach, is to put the environmental and social themes at the core of the company.

Therefore, the principal business activity becomes the necessary catalyst to create a benefit for the stakeholders, that do not merely include the shareholders' category. Indeed, the interest around this topic is connected to the *Benefit Companies'* capacity to give a social and environmental conscience to a corporation that is an artificial person, that has been seen for decades in isolation from the context in which it is embedded. Therefore, the valuable insight that could be captured from these types of organizations is that is possible to promote an ethic capitalism that goes against the Milton Friedman's view that considered the companies as the mean to generate as much profit as possible (Jahn & Bruhl, 2016).

As a result, the *Benefit Companies* represents the entrepreneurial willingness to capture the synergies that could be created by the combination of the generation of profit typical of a traditional firm and the achievement of valuable results on the behalf of the society and the environment, that come from the no-profit sector.

The result is a for-*Benefit Company* that is aware of the consequences of its decision and that is able to extrapolate the undervalued resources beyond the company's bounda-

ries promoting innovative solutions. Furthermore, the analysis take into consideration the Family's companies, that due to their nature, they have the impellent need to include in the business sphere the socioemotional values that are essential to guarantee the success of both the family and the business installed; becoming the most suitable character to achieve the Benefit ambitious objectives.

To conclude, a *Benefit Company* could represent an appealing model for the family firms, since in both cases the success is not merely measured at the business level, seeing the core activity of the firm as the mean to capture what is necessary for the sustaiment of more ambitious goals that refers to the *Familiness* on one side and to the need of becoming essential for the environment and the society, on the other side.

FIRST CHAPTER – DEFINING HYBRID ORGANIZATION – In the first chapter the new way of doing business is introduced, describing all the features and the implication for these companies. In particular it is possible to defined as a hybrid organization every company that intends to pursue a twofold objective: the financial and the environment/social goals. In this case, the business becomes instrumental, not only to respond to the interests of the company's shareholders but to also satisfy the needs of a broader category: the stakeholders, such as the suppliers, the clients, the community in which the company is embedded and the local environment. Thus, this propension towards a more meaningful company, rather than being merely caused by the willingness of the owners of the company, is also due to the company's duty to respond to the increasing demand of a more sustainable business from the costumers. Therefore, there is the need to completely redesign the business, in order to guarantee both the economic sustainment and the creation of values for people, communities and the environment. However, as the organization complexity exacerbates, the risk of mission drift increases, that arises whenever a hybrid company, starts to prioritize the financial goal, at the detriment of the social one.

To sum up, the complexity of this form of organization is represented by its nature, that implies the combination of opposites spheres, the commercial and the business ones, that differs in terms of time Horizon and priorities.

SECOND CHAPTER – *B-CERTIFICATION & BENEFIT CORPORATION*– After having defined the Hybrid’s scenario, in this chapter, two ways of achieving the financial and the non-commercial goals, are represented. On one hand, there is the *B-Certification*, that consists in an objective tool in order to promote the willingness to build meaningful companies. Its credibility is certified by the overcoming of a rigorous threshold represented by a third-party standard’s evaluation concerning the meeting of several requirements connected to the transparency, accountabilities, social and environmental performances. On the other hand, the *Benefit Corporations* are introduced, which require the overall modification of the company, pursuing a public benefit in addition to the responsibility to return the interests of the shareholders. Both options provide a viable way to create a Benefit for the stakeholders beyond the firm’s boundaries, with two difference approaches.

THIRD CHAPTER – WHAT *BENEFIT CORPORATIONS* REALLY DO – This chapter provides an empirical analysis of the Italian *Benefit Corporation* world. In particular, there is the willingness to access whether being a family firm represents the focal feature of this type of organizations. Firstly, it has been analysed the sample that has been taken into consideration, accessing the companies’ sector of belonging, the ownership structure and the geographical location. Then, as these companies have joined the Benefit incorporation procedure, the attention was driven towards the description of the activities that these companies engaged in order to drive the change, accessing the implications generated by the sector of belonging to the decision of the activities. Finally, after having divided the sample, basing on the presence or not of any familiar ties, the research focuses on the presence of any significant differences between the family and non-family *Benefit Companies*. The insight that could be extrapolated from the research is that in general the family companies that have embraced the benefit’s cause are able to perform better and the difference among the two sub-groups is significant taking into consideration the majority of the variables studied.

FOURTH CHAPTER – FAMILY FIRMS AND THE MANAGEMENT OF *BENEFIT CORPORATIONS* – In the final chapter the focus is on family corporations, where the family is able to control the firm, owning the majority of the voting shares. In these companies, in order to maintain benevolent ties between the family members, the social

emotional wealth plays the role of the protagonist, assuring the prevention of any detriments of the emotional sphere. Therefore, the business is guided by a vision that include also a non-commercial sphere that is able to shape the firm, becoming the shadow of the family. In this context, the analysis that has been previously performed in the third chapter is taken into consideration in order to find any relevant points to verify the family businesses' superior ability to achieve environmental and social goals and in order to access the influence of being a family on the decision of the benefit activities performed. The results confirm their advanced capacity to manage a twofold objective, having to consider both the business activity and the family. Therefore, the overlapping between the family and the *Benefit Corporations* is represented by their long-term orientation, that characterize the family firms due to their ambition to pass the business to the next generation.

IMPLICATIONS: the dissertation that have studied the *Benefit Corporations*' word and the importance of familiar relationship between the firm's owners is useful to understand the power of this new way of doing business. Family firms represent, the majority of the companies installed, being able to combine two opposite spheres: the emotional and the commercial one. But, apart from their familiar implications, it has been accessed that these types of companies are also able to achieve another goal that goes beyond the firm's matter, that is intended to achieve results for the stakeholders beyond the company's boundaries. From a selfish point of view, it could be seen as a risky strategy to invest in activities that need the employment of resources that are not able to generate profit on the behalf of the company.

But, if instead the scenario is seen from another perspective, all the goals achieved in the environmental and social spheres, return back with additional synergies created during the process. In other words, the family companies that decide to embrace the for-benefit goals are able to compete in the market, addressing the needs of an ecosystem of stakeholders that will repay back the company, guaranteeing the family's reputation, enhancing the firm's image in the society where the family belongs, that is essential to achieve a positive generational succession process that guaranteeing the inheritance of the family's core values.

## DEFINING HYBRID ORGANIZATIONS

### 1.1 Introduction

In recent year, firms are increasingly showing a growing attention on environmental and social issues playing a proactive and innovative role in order to drive the change and follow the path enlightened by what sustainability really implies; that is:

«the development that meets the needs of the present generation without compromising the ability of future generations to meet their own needs”, as the Word commission on Environment and Development points out» (Yang and Bamford,2015).

Therefore, the willingness to go beyond the merely business results could be translated into the level of impact that a company engages. The traditional business model is focused on achieving the highest commercial value possible, but now the challenge is to consider different logics (Spietha *et al.*, 2019). In this context, a new approach of doing business is rising, unifying two apparently opposite spheres that are governed by opposing logics. The result is the spread of Hybrid organization that are able to respond to twofold goals, the one driven by the business sphere and the other governed by the environmental and social rules. The necessity to move towards a new way of doing business is not a merely trend flourished from a niche in the market, that have decided to differentiate. However, it is the result of the compelling evidence that the environment and all the macro areas around the business' boundaries are trying to demonstrate, through the social inequalities and the environment issues. It is the rational response in order to continue to both satisfy the needs of customers, that are demanding more meaningful way of doing business and the need to empower all the production process, from the entire life cycle of products to the provision of services, with social and environmental matters. This is need because the final output produced to the customers are the result of

many players, as a consequence is inaccurate to think that the actions of a firm are going to impact only the merely interests of its shareholders.

In this chapter, it is analysed at the beginning the trends towards a more sustainable way of doing business, then the floor is left to the examination of the hybrid organization, from their way to perform in the market field to their governance, from their typical features to the legal structure that could be used in order to be considered hybrid company. Finally, their main weakness, the risk of losing the twofold objectives is questioned and also the way of financing their mission, that requires the help of a wider range of characters in comparison to traditional firms.

The chapter is divided as following: in the second (2) paragraph it is introduced the new business model and the increase appealing of sustainable practices by the customers. In the third (3) paragraph the Hybrids organizations are introduced, explaining the issues that comes out from the merge of two opposing logics. Indeed, in the fourth (4) paragraph there are reported several typologies of hybrids organizations that present different features but with the same willingness to drive the change. In the fifth (5) paragraph there is the presentations of the various issues that could arise embracing this organization. One of them is their evident difficulty in the research of economic resources that is examined more actively in the sixth (6) paragraph. Finally, in the seventh (7) paragraph the various topics presented before are combined in order to provide an overall complete vision of this new business dimension.

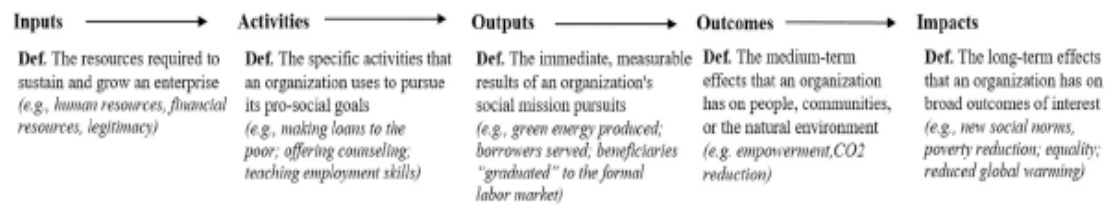
## **1.2 The new Business models**

### **1.2.1 The new logic**

In order to drive the change, the overall company must be redesigned, from the acquisition of resources, to the activities in order to create outputs that are finally able to impact society, as it is possible to see in the Figure 1 (Ebrahim & Rangan, 2014; McLaughlin and Jordan, 2005; van Tulder *et al.*, 2016).



Figure 1 The logic model of social impact



Source: Wrya and Haughtb ,(2018)

Consequently, this revolution requires a dual role, a passive one in looking for new solutions in the aim to minimize the footprint left by human activities on the environment and at the same time an active part enhancing the health of the society while generating profit (Ray and Grannis, 2015). Even if the focus of these types of enterprises is broader than before, the final goal is always the value creation that in this case is shared by a wider range of stakeholders that are not only represented by the investors and shareholders of the firm but incorporate also the environment and the society and all the characters involved in this macro view. Therefore, a traditional company that wants to solve the deterioration of the environment and the society could start the path towards this goal, deciding the most suitable strategy in order to achieve the defined scope. A possible path that could be undertake is represented by two main options. On one side, it could limit the engagement showing an interest on corporate social responsibility practices or on the other side, it could prefer to show an even more onerous commitment, adapting the overall business model of the firm, becoming a Hybrid organization in order to be able to personally drive the change. In this latter case, the welfare that the firm aims to achieve is defined as “shared value”, that will be destined to a broad group of players that included all the communities and environment around the company (Paredo *et al*, 2018).

Figure 2 The path toward sustainability



Source: Battistella, De toni and Pillon, (2015)

In this scenario the Hybrid organization offers a sustainable light in a word governed by capitalism, in order to reformulate what the business really implies, underling the unifi-

cation of two apparently antagonist words that need to be combined in order to fight the inequalities that govern the society and the environment (Battilana *et al* ,2012).

### **1.2.2 The increase customers' attention**

This movement towards sustainability comes out from a new and growing group of consumers who give priority to the environment they lived in, the impact of the products and the services they buy, the companies in which they invest and the lifestyles they lead. So, their purchasing decision process includes also other factors, that are not only considered additional attributes, but their weight is essential in order to decide whether to buy something or not (Haigh & Hoffman 2012).

Therefore, their behaviours are influenced by the idea that the products and services must be designed to be environmentally conscious, sustainable, socially responsible both for people and the planet (Haigh & Hoffman 2012). This type of consumers is recognized with the acronym “LOHAS” that stands for Lifestyles of Health and Sustainability. This breed of consumers is concerned about human rights, fair trade, environment and sustainable practices, as well as personal development. They also tend to focus not only on the value obtained with the purchasing, but they also consider the community and planetary outcomes (Pícha & Navratil,2019). This term was introduced by the Natural Marketing institute in order to designate a group of people who make behavioural decisions based on the concern beyond their immediate satisfaction. Those type of consumers have changed the market, shifting the attention from the most attractive products in terms of characteristics to goods that are able to achieve a broader purpose (Haigh & Hoffman ,2012).

Clearly the engagement showed by those firms has a cost, because the interest in a broader scope has effects on all the value chain and the characters involved. Therefore, there might be the necessity to increase the price in order to amortize the additional costs. Luckily this category of consumers is more inclined to purchase more, so they are usually less price sensitive, paying more attention on the overall value. So, the incremental work required is repaid back with a higher willingness to pay that is less influenced by the premium price (Choi & Feinberg,2018). To sum up, the movement toward a more sustainable business is appreciated by a growing group of consumers, that with

their support toward this trend have given the chance to make the impact and the sustainability a vitally business goal to fight competition (Huan *et al* ,2014) .

### **1.2.3 Corporate social responsibility, the first step toward the hybridization**

The Inclusion of the sustainable development goals (SDGs) for Agenda 2030 has encouraged the Organizations, both profits and no-profits to implement by the 2030 the social, economic, environmental strategy in favour of a range of social needs like education, social protection and job opportunities that must be addressed (D'Eusanio *et al*.,2019). Therefore, it is not enough for an organisation to develop innovative and sustainable products, but further interventions must concern the whole way of doing business (Zhan *et al* .,2019). In this scenario, the incorporation of corporate social responsibility (CSR) initiatives is seen as a strategic way to achieve the engagement toward the social and environmental context required by the society at all. So, as the traditional way of doing business is going towards an exacerbation of the resources available, CSR is not merely an act of philanthropy, showing instead the ability of a corporation to run a profitable business, avoiding to destroy all the value beyond the firm, promoting practices that take into account all the effects of its work on the environment and the society. In order to clarify the concept, the corporate social responsibility could be defined as:

«the responsibility of enterprises for their impacts on society such that firms should 'integrate social, environmental, ethical, human rights and consumer concerns into their business operations and core strategy in close collaboration with their stakeholders » (European commission, 2012; Nancy *et al*, 2012).

Therefore, it consists in a different way of doing business, serving not only the customers in order to obtain a positive economic return but also the society, realizing that the firm's actions have consequences, imposing an uncompensated cost on the society that must be overcome (Nancy *et al*, 2012). In other words, it consists on addressing responsibilities such as the human rights protection, the education, the pollution, that until the spread of this movement, were controlled by the government. Furthermore, the level of CSR that a company decides to achieve could fill into three different categories that differ in the efforts required.

The instrumental level concerns the ability of the firm to deliver high quality products satisfying the demand of its customers. Then, there is the transactional level that refers to its integrity and its duty to comply with the rules of morality imposed by the society in which it is embedded. The transparency and the fairness are the tools in order to achieve this result.

Finally, the floor is left to the transformational level, which requires a bigger quantities of effort in comparison to the others and it is achievable only if the company is able to show the ability to go beyond its self-interest and demonstrating also a positive contribution for the wealth of the society.

Finally, the CSR practices represent an useful tool in order to advance the company towards the hybridization process, gaining public commitment and legitimacy, obtaining as a result a win-win situation in which both the company and the society gain a positive outcome (Palazzo & Richter, 2005).

### **1.3 The Hybrids organization**

Hybrid refers to:

« the activities, structures, processes and meanings by which organizations combine aspects of multiple organizational forms pursuing a challenging goal: they aspire to create value for people, communities and the natural environment while remaining economically sustainable» (Ismail A. and B. Jonshon, 2019).

In order to identify even better this type of organization, Alezius and Furusten (2018) explained that are characterized by three types of characteristics: the variety of stakeholders, the pursuing of conflicting goals and the engagement in diverse or inconsistent activities. There are mainly two types of Hybrid organizations: differentiated and integrated hybrids. The Latter one pursues social and economic goals simultaneously through a single activity which is target to both the beneficiaries and the customers (Mair *et al.* 2015) while the differentiated enterprise operates simultaneously along two activities that have different goals (Smith *et al.* 2013). Furthermore, in those types of organization the key word is “Trade off” infact they are market oriented but also mission focused (Wolf & Mair 2019). The business model employed by those types of organization blur the boundary between for-profit and non-profit firms; generating income as for-profits but employing this outcome in order to achieve social and environmental missions like non-profits (Haigh N., Hoffman J.A., 2012). Infact their way of behaving

comes out from the necessity to address social and environmental problems, creating a viable way to find a solution to issues that are beyond the firm's personal boundaries. This dual orientation: towards the commercial and the social word, has strengths such as the ability to attract players, like impact investors, interested in solving social problems while achieving certain objectives. But on the other hand, their weak commercial orientation could intensify the efforts employed to attract capital from traditional investors, that are solely focused on the return of the investment (Vinogradova, Shatsky and Kuljamina ,2019).

Moreover, in this type of organization, the social/environmental issue matters, indeed rather than being marginalized, they represent the core value of the firm as it is evident in the business model that is designed to achieve such commitments. Indeed, this engagement towards a social outcome has consequences on the relationship with suppliers, employees and customers that is based on a mutual benefit and sustainable outcomes, creating the necessity to install a long-term tie. The extended time horizon is caused by the mission itself that demands the creation of a slow and an autonomous business development while remaining coherent to the initial objectives.

Moreover, the relationship with stakeholders is quite paradoxical because on one hand they prefer to achieve a financial and managerial autonomy in order to prevent the risk of mission drift, on the other hand they tend to be embedded within the social and environmental system in which they operate. Therefore, they are more inclined to create close relationships with the communities around them, employing local workers, trying to train new people to improve their skills. This mechanism is essential for their resilience because these close relationships help them to adapt to the social and environmental system in which they are embedded while at the same time providing high quality goods in order to meet market expectations and to remain economically viable to respond to the needs of the social mission. Overall, being an Hybrid organization does not mean to show an interest in philanthropic activities or showing an engagement in corporate social responsible activities but the real power is to actively address sustainable issues, driving all the recourses of the company to solve social and environmental problems and configuring the business model to do so (Hoffman, 2012). Even more, the innovative idea behind this type of organization is also represented by the fact that they decided to solve complex social and environmental problems avoiding to be supported

by donations or public funding, relying instead on the profits they are able to generate, remaining self-sustainable without the need to be governed by other entities.(Ramus & Vaccaro, 2017). To conclude, the business becomes functional to recover the needs, especially the costs required by the social or environmental goals (Spietha *et al*,2019).

### **1.3.1 The challenges**

Unifying two apparently contradictive world is never easy infact one of their obstacles is represented by “the strategy challenge”, because there is the need to integrate the public and private domain in order to maximize the efficiency and being able to effectively delivery social and environmental results. But the critical factor that these organizations should control relates to the legitimacy problem. The legitimacy is as Sparviero (2019) defined:

« the general agreement that the actions of an organization are desirable, proper and appropriate in the eyes of the stakeholders involved».

In general, each firm is analysed comparing it with a set of standards and norms that are suitable and well known for that specific category. But in this case, the Hybrid organization due to its mixed nature could not be categorised in a certain manner, because they tend to span across existing rules and norms. Therefore, without any conventional standards, the categorization process becomes demanding. As a result, the problem connected with legitimacy is the fact that what is considered right and wrong is not subjected to personal judges but it is stated respectively by the norms of the market considering the business and by the norms of the society for the other dimension. Consequently, the question that arises immediately, evaluating the outcomes and the performance of this class of firm, is if it is more important to look at the logic of the market based on the generation of positive returns or at the logic of the social and environmental impact that depends on the ability to solve some relevant issues. As a result, the unique way to be contemplated as credible on the eyes of the audiences is to justify the strategy and the results achieved, communicating in a persuasive and clear manner, highlighting the equivalence of their expectations and the actions undertaken by the firm (Sparviero,2019).

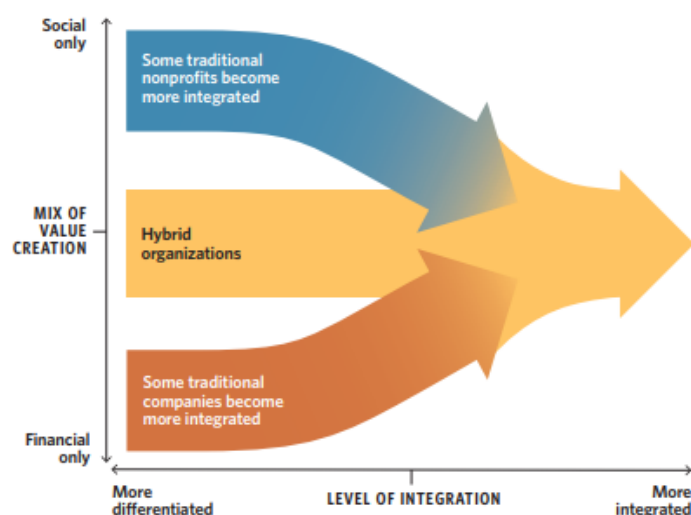
### 1.3.2 The legal structure

Hybrid company could have the possibility to choose among two distinct categories: the for profit and no profit organization, taking into consideration the weaknesses and the strength of each options. In general, for-profit companies obtain revenues from the activities performed by the firms and they are able to distribute the earnings realized to their investors. While the no profit are entities that dedicate all the effort to achieve an objective beyond the company's borders, avoiding to distribute the surplus to their shareholders, obtaining as an exchange an appealing tax benefits from the government and a strong legitimacy by the entire category of stakeholders. Giving this, a hybrid entrepreneur has to pay attention on the most appealing legal structure. Considering the possibility of becoming a no profit hybrid company, the company could have the duty to pay some taxes and could miss some of its legal benefits if the interconnections between the activities and the social/environmental purpose are too weak. Indeed, being registered as a no-profit the financial resources gap could become even wider taking into consideration the impossibility to access the equity capital, due to the inability to sell shares to investors. While if the for-profit path is undertaken, the market forces could become too heavy to sustain and the risk of ignoring the social impact could dramatically increase. Indeed, its appealing from the donors' point of view, that aspires to achieve a thinner tax shield, could decrease knowing that for-profit firm cannot achieve the same tax benefit of the no profit ones. Considering this background, the clue comes out focusing on the most important feature of this type of organizations: the hybridity. As its nature dictates, the solution of the legal structure issue is the adoption of both legal structure in order to capture the overall benefits generated. But unfortunately, this solution has also some negative points, because the decision of avoiding any choices entails an increase of complexity that derived from the design requirements. So, at the end the real feasible scenario is portrayed by three legal structures that have born to solve this dilemma: the low-profit limited liability company, the community interest company and the *Benefit Corporation* (Battilana *et al*, 2012).

## 1.4 Typology of Hybrid organization

Hybrid organizations represent the mixture of 2 established categories, the profit and no-profit ones, resulting in an endorsement of multiple and different institutional logics (Ebrahim *et al*,2014).

Figure 3 The Hybridization movement



Source: Julie Battilana *et al* (2012)

One of the main important categories in the Hybrid domain is represented by “Social enterprises” that as Battilana and Lee state:

«are organizations that combine aspects of non-profit and for-profit by primarily pursuing a social mission relying substantially on commercial revenues to sustain operations» (Battilana & Lee,2012).

Therefore, they are stuck in the middle as the Hybrid organization, but their focus is exclusively on the beneficiaries of their social mission, using the revenues generated by their business. As a result, their final aim is the wealth generation through profit in order to sustain the social value creation, avoiding any kind of donations and grants. So, the success is measured at the society level, analysing the impact generated. There are mainly two types of social enterprises that are characterized by a different degree of integration between the two activities that these firms perform: the social mission and the commercial mission. The Integrated Hybrids are characterized by the juxtaposition of the activities targeted for the social and economic mission and the beneficiaries and the customers’ class coincide. In this case, the difficulty is connected to the recognition of the distinct value and role of each logic that could have as a reaction the predominance



of only one aspect. While in the differentiated ones, the two subgroups are well distinguished because the commercial activities are instrumental to finance the social mission, creating two separate groups: the beneficiaries' categories and the customers' category. In this case, the divergent logic enforces each other in order to sustain and create synergies among them. Therefore, considering the twofold goals, the governance represents an effective tool in order to assure the necessary organisational resources, in order to monitor and control all the different functions, to manage the relationships between various stakeholders and finally to achieve the financial and social performances (Ebrahim *et al*, 2014). However, considering the hybridity that represents their nature, there are not precise rules and legal forms established for them. But through the years, there have been the spread of new forms of business in the aim of facilitate the balance between the dual objectives. Ebrahim *et al* (2014) showed that there are mainly three typologies of legal forms: the low-profit limited liability company (L3C), the community interest company (CIC) and the *Benefit Corporation*.

#### **1.4.1 The low-profit limited liability company**

In favour of a better explanation, the L3C, that finds its flour in the United States is like the traditional limited liability company (LLC) for the flexibility, but it differs thanks to the hybrid elements added (Ebrahim *et al*,2014). The focal point of this type of organization is the social interest, consequently the investor gains do not play a significant role. The main characteristics of this type of corporation are:

- A charitable or an educational purpose in order to address the social mission (Artz1, *et al*,2012).
- The exclusion of the generation of income from the main purpose (Artz1 *et al* 2012).
- The refraining from any types of political and lobbying activities that are prohibited also to no profit organization (Artz1 *et al*,2012).

Its weakness is represented by the absence of a formal structure in order to assure the balance of the financial and social logics. As a result, even if the L3C's prescription requires to give a priority to the social mission, as mentioned before, the way to achieve this scope is left in the hand of each governing board. Consequently, the final purpose remains unprotected because this legal form leaves the freedom to subjectively perform

it. In this specific case, the risk of failure is represented by the conversion of this company into a standard limited liability company (Ebrahim *et al*).

#### **1.4.2 The community interest company (CIC)**

This form is identified by less regulatory requirements that caused a minor possibility to give back assets and earnings. This was introduced in United Kingdom in 2005, through the Companies act (Blasi & Sedita,2019). The principal characteristic that distinguishes it from a traditional enterprise is the duty of the directors of the company to assure the social purpose of the company and the possibility to transfer the assets only to organizations with a social purpose like another community interest company or to a charity association. The dividend can be distributed until a maximum of thirty-five percent of the distributable profit. The restrictions presented before, are used as a safeguard of the social mission, even if they threaten the investors' interest in the firm considering the little possibility of receiving an attractive return (Ebrahim *et al*,2014).

#### **1.4.3 The *Benefit Corporation***

This type of entity was born in the United States in 2010 with the aim of creating a company in which the directors must consider not only the interests of the shareholders involved, but also the ones connected to their employees, to the community, to the environment and finally also to the shareholders involved. Therefore, directors are liable if they ignore the duty of making an impact on society. So, the inclusion of the corporate social responsibility practices in the firm is exacerbated by the B Lab that is a no profit organization that helps the firm to raise capital from investors without losing the social mission (Artz1 *et al* ,2012). Indeed, the *Benefit Corporation* has also to write an annual benefit report which shows their social and environmental performances (Ebrahim *et al*,2014). Overall the three types of organization give the possibility to achieve the social and commercial goals, trying to minimize the tensions that characterized two opposite logics.

#### **1.4.4 The Governance**

The governance is one of the main tools in order to assure the two objectives, monitoring the social and business activities, trying to access the performances of the two activities and the behaviours of the shareholders involved. The main issue is represented by

the subjectivity that is typical of the social part due to the absence of common standards to evaluate it and so the impossibility to make any comparisons between several social enterprises. The main causes of this inability to access the social impact derived first from the impossibility to specify the connection between the activities and the social outcomes that is connected to the communities involved and the overall environment outside the corporation. Secondly, it comes out from the problem mentioned before, the inability to compare the firms because of the differences between the context in which they are embedded and the specific social goals that they would like to achieve. The way to fight these issues is represented by the monitoring function embedded in the governance structure. This action is performed differently considering the differentiated and integrated hybrids respectively. In the first case, the division of the two activities make the control more feasible, enabling the boards to focus only on one objective each time, even if the risks persist due to the fact that the commercial activities could drive against the social mission or to the fact that the managers of the commercial part could opportunistically harm the resources destined to the social goal. So, the division helps the monitoring function in terms of clarity, but the division also causes the inability to access the interconnections between the commercial and the social parts. The risk connected with this is called by the authors, Battilana *et al* (2014), as the “policy-practicing decoupling”, that is represented by the behaviours that should have the aim to increase the social value but in reality they have the final scope to enrich the commercial part. On the other hand, in hybrid organization, where there is a unique activity in order to serve the overlapping beneficiaries-customers category, the risk stands behind the fact that the commercial objectives become the unique ones that are relevant to be achieved. So, the monitoring function should be focus on the “means-end decoupling”, so on the evaluation of whether the desired social outcome is achieved, and the revenues generated are used in order to increase the social wealth (Ebrahim *et al*,2014).

#### **1.4.5 Customers vs Beneficiaries**

Firms in the market produce services and products to a target group. In the case of traditional businesses this is represented by customers who exchange money or another valuable consideration in order to obtain the ended product of a company. While in the case of no-profit companies, the role of consumers is embedded by the beneficiaries that

obtain the outcomes of the firms because of their situation of need. In this scenario, hybrid organization breaks the rule producing a service or a product in order to gain a profit with the final aim of achieving a positive social or environmental result. In this context two scenarios are possible, on one hand there could be the overlapping of the customers' and the beneficiaries' category or on the other hand the two groups could remain separate. In the first case, the beneficiaries are clients that pay for a social service, giving to the hybrid entrepreneur the possibility to focus on a unique activity in order to achieve the profit mission and the fulfilment of the social standards. In this case, the difficulty stands in the ability to achieve an effective integration of the social and economic value, without prioritizing one of the two objectives, considering that the beneficiaries could find some difficulties in order to sustain the payment in favour of the company. On the other hand, beneficiaries and client are different categories and the main business activities which generate the revenues are designated to create value for beneficiaries. But in this case, the challenge derived by the trade-off could have as a result the transformation of the firm into two disconnected firms (Battilana *et al* 2012).

### **1.5 Tensions in the hybrid world**

In Hybrid firms, as mentioned before there are two main elements: the generation of revenues from a commercial activity and the pursuance of a scope beyond the economic sphere. Obviously, these apparently paradoxical activities could create some tensions that could come from: the organizational identities, the allocation of resources, the market positioning into consumers' mind, the hiring, the socialization and finally the stakeholder management (Ismail & Johnson, 2019). A typical paradox is the presence of contradictory elements that are interrelated and in conflict. So, the two side of the same coin are logical when are considered in isolation, but they become irrational and inconsistent when they are juxtaposed. Therefore, there are many possible solutions in order to resolve this challenging situation. A common default reaction is to choose one of the sides and focus on it, so to allocate resources in order to achieve one of the activities, the financial, the environmental or the social one. Another possibility to overcome this problem is the compartmentalization of these tensions, creating subunits inside the firms that operate separately in order to avoid the problem and reducing the possibility to create the tensions. In the context analysed, the trade-off involves the choice between social and financial goals. So, they could reduce the social impact prioritizing the financial

gain or they could only focus on the needs of customers instead of beneficiaries. But this goes against the organization itself that is created to accomplish both goals. Infact the willingness to resolve it could emphasize conflict and stagnation, leading to internal decision-making paralysis. On the other hand, the idea of simply ignoring the problem is also not available because it could cause the stifling of the organization creating a block. As a result, the ideal solution is to manage paradoxes, balancing the tensions and empowering the positive potential of both sides. In particular, the idea is to allow the simultaneous presence of these two inconsistent states, in a way to empower innovation and synergies, turning conflict into productive outcomes and safeguarding the legitimacy of the organization, in order to maintain its hybrid nature (Ismail & Johnson,2019) .

There are three main types of tensions:

- Performing tension underlines the contraposition of conflicting goals and the difficulty to respond to different demands derived by multiple stakeholders. Indeed, considering the social part, the success is based on the capacity to address the needs of a broad number of stakeholders and the goal is centred to make a difference. While considering the commercial dimension the profitability is estimated based on the capacity to address the needs of a narrow numbers of stakeholders, especially of the shareholders (Wendy *et al*,2013).
- Belonging tensions enlightens the identity problem, that is exacerbated in the questions of “who we are” and “what we do” that are asked by the subgroups created. Obviously analysing the social dimension employees will identify themselves with the social mission while the business dimension will force the workforce to be represented by the business objectives (Wendy *et al*,2013).
- Organizing tension comes out from the raised organizational complexity, deriving from the structures, cultures, practices and the processes. This emerge in the hiring process, where different and opposing skills are required to the ideal worker of the firm.

Indeed, also the two dimensions required a different time horizon that could has consequences on the organizational structure. More deeply, the environmental/social part requires a long-term orientation in which the growth is seen as something that could threaten the social impact while the commercial part is characterized by a business success that comes from short term gain. However, the most delicate part is the decision of

the legal form. Hybrid organization could decide to adopt a for-profit or not-for profit legal form. Obviously, the business dimension will tend to prefer the for-profit part while the social dimension will prefer the non-profit one (Wendy *et al*, 2013).

### **1.5.1 The Mission drift**

The ambitious goal of the hybrid organization is to achieve two objectives that imply to opposing paths, but whenever the firm prioritizes the financial and economic ones at the expense of the social value, the company is stuck in the situation of mission drift. As mentioned before, the typology of company analysed is characterized by two opposed tensions that must be balanced in order to keep on being a hybrid company. The problem arises due to the two different classes that composed these enterprises that are characterized by different mission, objectives and impact measurements. In particular, the disconnection comes out from the fact that the analysis of the social and environmental dimension tends to be adapted to the specific goal that the firm wants to pursue, resulting complex to be understood, while the measurements of the economic results are subjected to an universal business. So, when the firm lives a difficult situation, the time spread created by the twofold dimensions is solved monetizing the social and environmental mission, giving a priority to the commercial needs. Typical examples are characterized by the giving up of the social purpose, or the instrumentalization of the social mission in order to achieve the commercial objectives or the change of the target beneficiaries. As a result, the economic tension prevails and the trade-off that is typical of the Hybrid firm disappeared (Sparviero,2019). This drift may disrupt the social mission, creating internal tensions among the subgroups and neglecting any supports from critical stakeholders, especially impact investors, that entrust the company giving the resources necessary only because of the social purpose (Ramus & Vaccaro,2017).

In particular, there are mainly three causes of mission drift:

- The institutional plurality: Considering that they are pursuing different and competing logic, over time they could start to prioritize one logic due to the pressure received by the institutional environment (Wolf & Mair 2019);
- Resource dependence: the high reliance on a resource could make social enterprises unstable and susceptible to respond quickly to the investors' needs at the detriment of beneficiaries (Wolf & Mair 2019);

- Organizational development: they could have difficulties to maintain a balance between the social and commercial goals (Wolf & Mair 2019).

A way to decrease the risk of mission drift is to carefully analyse the social purpose with the help of the “The Social Enterprise Model Canvas” explained by Sparviero (2019). in order to deeply understand the point of strengths to focus on and the weaknesses that need to be monitored. Even if this tool focused on social enterprise that are, according to Galera and Borzaga (2009):

«All the firms that explicitly pursue a social goals, relations and practices that yield social benefits» (Galera & Borzaga, 2019)

The model could be easily applied to all the hybrid firms, because the social enterprises represent a subgroup of this wider area. The Model considers seven different dimensions that investigate different areas of the firm and different phases of the supply chain. First, the attention is captured by the “Inputs”. This step is important to assure the ability of the firm to obtain financial and nonfinancial resources to overcome difficulties and achieve resilience. This phase represents the roots of the social mission that without this consideration is not able to assure the long-term sustainability. Then the “Organizational capacity” is questioned. In this case, the production process is discussed, and the firm should express in detail what are the activities that the firm needs to do in order to achieve the organizational mission. Furthermore the “Outcome” is examined, on one hand, paying attention to the changes made by the firm activities, in other words is estimated the impact of what the company’s products and services are able to create, measuring the state of the target population. On the other hand, the outcome is investigated, but this time scrutinizing the client and the beneficiary’s satisfaction, because it is crucial the positive feedback of the target population to guarantee the legitimacy of the community and the overall society. In favour of this latter step, then the public accomplishment is analysed that covers the overall impact that the firm have promised to create to the environment around it. Finally, considering the interconnection between the firm and the environment the network/institutional legitimacy is judged, knowing that the reputation and the relationship with the players of the market represent a focal point that must be guaranteed in order to avoid the mission drift situation. This solution will help to quantify the resources that the social mission needs, building an objective performance measurement (Sparviero, 2019). While considering the risk of mission drift,

for each type of organization examined, is differently experienced considering the presence of differentiated and integrated hybrids. In differentiated organization, the beneficiaries and clients are different groups and the firm is organized to create value for both categories. But the problem comes out when the value for customers, that is usually more remunerative, is prioritized damaging the beneficiaries. While in integrated organization, the beneficiaries are clients that pay for a social services so the risk comes out in a different manner: giving priority to high remunerative activities, such as: the increase of prices, to offering additional products or services with the scope of increase the revenues, or changing the target group, moving towards higher willingness to buy (Ebrahim *et al*,2014). To conclude, the mission drift problem is as mentioned before, the tendency to make the company more “business-like”, creating a situation of conflict between the two logics that characterized the Hybrid company. This happens because, given their need of revenues, they tend to forget the social activities that are essential to their mission. To conclude, the relationship between the social and economic mission needs to be monitored in order to assure the continuity of the path that the firm has decided to undertake in favour of the social and environmental goals addressed (Cetindamar & Ozkazanc-Pan,2017).

## **1.6 The Financing**

How to find the necessary resources for a firm that accounts different objectives? The question that arises for the legal structure finds the same solution in terms of financing options. Taking into consideration the for-profit sector, traditional organization can be sustained by equity and debt while the no-profit category could be supported by donors and venture philanthropists. So, the Hybrid firm could decide to finance each activity with the funds that characterized that specific category, choosing a differentiated funding option. But doing so, the differences between the commercial part and the social/environmental one could be exacerbated; therefore, another possibility is to decide to rely on one of the two sources, both the for profit and no-profit. However, it is evident especially, focusing on the financing typically of the for-profit firms, the difficulty faces by a traditional investor to access the risk in terms of return of the investment in a hybrid organization. As a result, the ideal solution is to find an investor who embrace the twofold objectives: the impact investor (Battilana *et al*, 2012).



The social/environmental value provided by the Hybrid organization is fundamental to drive the change, but the gap between this goal and the firm is covered by the necessity to find financing. Hybrid organization are created with the aim to drive a positive change in the society and the environments that surrounds the firm. But this ambitious scope is achievable only with the help of critical resources provided by the financing option offered by the market. Indeed, even if considering the Hybrid organization as a niche in the market that could be able to sell goods and services at a premium price, it is hard to fund the firm entirely through the merely sales' activity, as a result the financial-social/environment return gap arises (Bugg-Levine *et al*, 2012). So, since capital represents the essential "brick" to accomplish the goals, in this field the Impact investors represents a financial institution that is able to support and sustain the firm (Cetindamar & Ozkazanc-Pan, 2017). As the Global impact investors network affirms, the impact investment is:

«the activity made with the intention to generate positive, measurable social and environmental impact alongside a financial return »

So this term, coined in 2007, represents the use of financing to achieve social and environmental goals alongside the positive return of the investment and imply also the fact that in order to become the target of the impact investors, the business model should be designed taking into consideration the impact, that must be explicit and must represent the final goal addressed by the firm. Moreover, this type of investment represents the answer of the increased need of a more ethical and socially inclusive capital that is demanding in the investment sector (Cetindamar and Ozkazanc-Pan, 2017). Furthermore, concerning the characteristics of this type of investment, that is starting to sharply increase its presence with an estimation of one trillion dollars in 2020, the GIIN, the Global impact investors network, have defined the typical features that describes it, that are:

- **Intentionality:** there is the willingness to drive the change and their investments in the company is seen as a tool to achieve the social and environmental change;
- **Financial returns:** the expected positive financial return retains a relevant role and this characteristic distinguishes them from philanthropy and donations;
- **Range of assets classes:** the investment is not only limited on cash equivalents but it includes fixed income, venture capital and private equity;

- **Impact Measurement:** As the traditional investors that gives importance on the rate of return, in this case the impact investors have also to measure the environmental and social performance of the firm in order to capture the value of the investment and the risk that it implies;

Additionally, it is possible to distinguish two different categories that composed the Impact investing class: the financial-first investors and the impact-first investors.

Taking into consideration the financial-first investors: the focus is on the return on the investment, so the profitability represented by the target company becomes a focal point. While the Impact- first investors are mainly driven by the social return and so they also tend to accept return below the market because of their attitude to identify the needs in the environment (Bugg-Levine *et al*,2012). To conclude the Hybrids, tend to find some difficulties in order to access conventional forms of finance from banks that usually prefer to invest in traditional businesses. So, they prefer to focus on impact investors that they do not merely considered the business goals, adapting to the requests of the social and environmental counterparts (Muñozac and Kimmittb,2019).

## 1.7 Conclusion

To summarize, the hybrid organization represents a “ray of hope” embedded in a background characterized by environmental degradation and social inequalities. In order to do so, they have created an innovative business model that captures the efficiency and the resources’ organization typical of a traditional for-profit firm and the mission and the ability to satisfy the needs of a not-for profit organization (Smith *et al*, 2013). Obviously, this combination of different logics, comes out with some trouble embedded in the hybridization problems, because the unification of the social and commercial hemispheres, create an unfamiliar “bundling” that does not have the necessary support from the governance or from the legal structure, that are inclined to solve the tensions but still not able to do so. Therefore, the problem of mission drift, so the prioritization of one logic arises at the detriment of the social part (Battilana *et al*, 2012). Overall, the business is influenced by the hybridization process, beginning with the business model itself that is explicitly tailored according to the needs of the social and environmental issues. Therefore, passing through the relationships with the characters involved in the process such as: suppliers, employees and customers, that are installed underlying the mutual benefit achieved and finally coming to the network created with the market, in particular

with the institutions and competitors, modifying the overall rules of the game, they give importance to factors that in the past were considered merely peripheral, adapting the context in which they operate to the social and environmental goals that the firm would like to pursue (Haigh & Hoffman, 2012 ). To conclude, becoming a Hybrid organization is difficult, because it requires the constant legitimacy of the society that must consider these type of organization as a break in the common market, being able to generate a win-win solutions considering two opposite activities that has been traditional seen as incompatible and impossible to stay together. As a result, they are successfully able to install a block against the detriment of the society and the environment, enlarging the horizon beyond the traditional way of doing business.



## **CERTIFIED B-CORP & *BENEFIT CORPORATION***

### **2.1 Introduction**

Nowadays the boundaries that characterize the traditional market are becoming liable, as a result for profit firms are more and more inclined to address issues that stand beyond the firm's limits, while the no-profits are starting to use commercial tools in order to develop sustainable business model. In this context the for-benefit firms spread. This way of conceiving a firm is based on the idea that a company that has always been as the mean to generate profits for its shareholders, could start to endorse a bigger scope, that consists in the generation of a positive return in order to address not only the traditional characters that are the focus of the traditional firm but also all the issues that concerned a wider range of stakeholders. Obviously, in order to gain legitimacy, the merely concept of this "innovation" is not enough, there is the need to formalize this new structure, obtaining the necessary support from the institutions, providing the accounting standards to evaluate it, the suitable governance and the support of the financial markets. The architecture decisions count in terms of the supportive role generated and in order to achieve a legal status instead of remaining always a hybrid without a suitable classification. In this field, after having established the intended value to be pursued, the viable way for the for- Benefit organization should be to address its stakeholders, understanding their needs and employing the synergies that the firm could install engaging them in the social and environmental mission.

Therefore, choosing between a for-profit or no-profit firm is not enough, considering that even if a Social's or Environmental's interest is shown, these two options are not designed to the simultaneous achievement of both financial and social goals. As a result,

there have is the necessity of the idealization of the B certificated corporation and the *Benefit Company*, to advance the market towards more-sustained organizational forms and to perform and satisfy the needs of these typologies of enterprises (Sabeti, 2009).

Following this need, the chapter focuses on the presentation of the *B-Certification* and the Benefit enterprises, analysing in detail their characteristics, the instalment procedures, the opportunities and the differences between the two different options. In the second (2) paragraph the fourth sector is described, underlining the impelling need of a new way of doing business, due to the customers' attention on the overall companies and not only on the final output. In the third (3) paragraph the *B-Certification* procedure is explained in detailed. It consists in a tool to publicly show the company's engagement, after the verification of its social and environmental performances, its level of transparency and its ability to balance the profit and the benefit purpose. Then, in the fourth (4) paragraph the legal requirements in order to obtain the certification are enucleated. Infact, it not possible to obtain it merely showing an interest on environmental and social practices, instead there is the need to overcome an ambitious threshold. Moreover, the certification is promoted describing the advantages that could be obtained through the adoption of this tool. Moreover, in the fifth (5) paragraph the *Benefit Corporation* form is introduced. This not only imply the voluntarily obtainment of a certification. In the sixth (6) paragraph the different requirements that need to be fulfilled in order to be incorporated as a Benefit are analysed. It is important to underline that these standards differ between the American and Italian corporate law. Indeed, the Pros and cons of the embracement of the social and environmental practises are discussed. In the seventh (7) paragraph the discussion points out the differences between the two options that the corporation could embrace in order to employ the social and environmental matters. Since, that both options would like to achieve the same goals, demanding different companies' requirements. Finally, in the conclusive paragraph, the eight (8), the overall themes discussed before are summarized highlighting the importance of the phenomenon in the business context.

## **2.2 From the traditional organization to the introduction of the *fourth sector***

Organizations reflect the way the society evolves as they are designed to produce something that is able to satisfy the population outside the enterprise's boundaries.

Consequently, as people are starting to bundle the values and mission of the company with the product they acquire and taking also into consideration the augmented interest in the environmental and social problems, the traditional firm cannot sustain anymore these new standards and expectations imposed by the community, therefore there is the need to converge into something that is able to capture the new trend. In this setting, there is the evidence of the abolition of the traditional limits imposed by the classic way of perceiving the business, thus for profit organizations are starting to become more social oriented showing an interest on corporate social responsible initiatives or addressing social and environmental problems using resources that in the past were exclusively used for the merely generation of profit; While on the other hand, no-profit organizations and the government are trying to capture the profit through the privatization or strategies that are more "Business-like".

Therefore, it becomes difficult to distinguish the traditional boundaries, giving as a result a mixture of them. From this scenario, the fourth sector spread out. This is represented by a hybrid way of doing business, capturing in a single organization, characteristics that were typical of opposite categories: such as the private sector represented by the for-profits, the social sector of the non-profits and finally the public one that is conducted by the government. But the real revolution behind the fact of the clear cutting of obstacles, is the fact that the real protagonists of these new idea of business are the stakeholders, as Sabeti (2009) affirms in the article:

«The for-benefit archetype should be designed with an inclusive and expansive conception of an organization's boundaries. It should be premised on a notion that all stakeholders are part of the organization, and as such should be afforded formal rights in accordance with the nature and extent of their involvement, in the for-benefit the organization does not interact with its stakeholders-it is its stakeholders »

Therefore, this organization develops itself concentrating on stakeholders' point of view as a mean of creating an inclusive ownership and in order to understand the real social needs. Knowing that ,there is the urgency to create a supportive structure for these four sector especially through the adoption of a new legal structure represented by the *Bene-*

*fit Corporation* and through a legitimate certification that affirms the nature and the commitment that the firm wants to employ: that is represented by the B corporation.

### **2.3 Certified B-Corp**

The B corporation movement was born in 2006, from the willingness of three friends: Jay Coen Gilbert, Bart Houlahan and Andrew Kasooy, to create a lab: the B-Lab, a no profit entity, that could provide a tool in order to help the social and environmental oriented firms to improve their ability to drive the change. Doing so, they have created a voluntarily association that certifies companies worldwide (Blasi & Sedita, 2019).

Certified B corporation are hybrid organizations that implement their engagement formalizing their aim with a certification procedure. Through this tool, they state that they must legally consider the social and environmental impact and especially the consequences of their actions on their workforces and the community around them. As the B corporation community affirms, the certified B corporation are, as it is reported from the certified B corporation Official website, (<https://bcorporation.eu/certification>):

«Businesses that meet the highest standards of verified social and environmental performance, public transparency and legal accountability to balance profit and purpose. The B Corp community works toward reduced inequality, lower levels of poverty, a healthier environment, stronger communities and the creation of more high-quality jobs with dignity and purpose »

Through the certification, launched in 2007, these companies are able to affirm their engagement into the profit and the no-profit arena, affirming their willingness to adapt their mission and business towards these twofold scopes (Poconi *et al.*, 2019).

Rather than considering this certification procedure a marginal trend, the B corporation community involves more than 2933 certified corporations, located in more than 64 countries, all connected to a unique goal: drive the change in the business world (from the certified B Corporation Official Website <https://bcorporation.net/>, 11/08/2019 ).The document is drafted by the B lab that provides to companies the opportunity to voluntarily adopt the environmental and social standards required. This subject has also the scope to create a community of firms that are focused on this matter, in order to empower their strengths.

Obviously, the necessity to be analysed by the B LAB is due to the assessment of the level of environmental /social impact that is conducted taking into consideration five



categories: the governance, the workforce, the community, the environment and customers. Finally, in the case of a positive result, the certification is given, and it lasts for two years in which the firm could be called as a “certified B corporation” (Gazzola *et al.* 2019). The certification empowers the firm of the legitimacy to be able to generate a social or environmental impact, giving the possibility to go against the traditional way of doing business, that demands the unique focus on the shareholders’ return; promoting a real commitment instead of green washing practices (Hiller, 2013). Finally, the possibility to obtain the certification is left to every for-profit companies of any sizes, that work in every type of industry and that are located in every states, incorporated using a vast arrays of legal structures ( from the limited liability company to the corporation), taking into consideration only one exception that these types of businesses need to be formed for at least more than one year (Fisher. E.,2016).

An example of company that has been a pioneer of this certification is “Patagonia” that in the annual *Benefit Corporation* report of 2013 presents all its commitment and willingness to create a community around the ability to drive the change. As it is reported:

«we could codify into our corporate charter the values we hold dear, including our ongoing funding of grassroots environmental organizations because protecting the wild places we love and play in is so integral to our business. Moreover, as we face the challenges of global climate change, disruption of our financial markets, pressures on water and food supply and the unbridled consumption threatening our planet, it becomes ever more clear that a community of companies must now emerge to stem the tide of ecological disaster and share and evolve a new vision of responsible business »

### **2.3.1 The Certification Procedure**

The *B-Certification* do not only evaluate the outcome of the firm, but it takes into consideration the overall performance of all the firm in terms of impact on the society and on the environment. The certification implies also a minimum standard of transparency and accountability requirements in order to install a long-term network with the stakeholders. The B Lab movement is actively involved in order to create a community of enterprises that share the same value, empowering their work in favour of a more constructed impact investing market, promoting their legitimacy, and finally resulting as appealing companies from the point of view of the target group of consumers (Branzeri *et al* ,2018).

The procedure is mainly composed by three parts: the completion of the B impact assessment, the overlapping between the company characteristics and the legal requirements and finally the verification and transparency process.

### **2.3.2 The Global Impact Investing Rating system**

Therefore, the willingness of the B Lab is towards a more awareness of the phenomenon, the instalment of a network of these enterprises and the implementation of the impact investing asset class with the aid of the “GIIRS” Ratings and Analytic Platform.

The GIIRS platform was launched in 2011 by the Clinton Global Initiative, a rating agency that serves as an instrument to help the investors to evaluate the impact of companies. It considers the performance of the firms in terms of the impact that are able to generate showing the same efforts applied to analyse the companies’ financial risks and return (Wilburn and Wilburn, 2014).

It is a “comprehensive” and “transparent” tool to help the impact investors to access the performance of these types of enterprises through a comparable analysis that portrays the social and environmental results of each single company that needs an investment injection. The data examined are obtained by the companies themselves and then they are evaluated by a third-party agent that provides the rating class. The GIIRS Company rating is mainly composed by three parts (Richardson, 2012):

- An overall rating that pays attention on the impact areas mentioned before: the governance, Workers, Community and environment;
- An overall evaluation of the company’s social and environmental Business Model (SEM);
- The traditional Key performance indicators (KPIs) that are related to the industry class and the characteristics of the firm in questions such as: its size, its geography and the mission;

This rating system is used in accordance of the B impact assessment that provides the overall analysis of the impact of the business.

### **2.3.3 The B Impact Assessment**

In order to evaluate the ability of a firm to obtain the certification, the B Impact Assessment tool is used, testing the overall business model and your daily operations with

the use of 200 questions about the business, the social and environmental engagements and the company's governance practices. This industry-specific instrument is applied to quantify your ability to drive an impact among five macro areas: The Governance, the Workforce, the Community, the Environment and the Customers. Furthermore, after the 200 questions there is a final "disclosure questionnaire" when the drawbacks of the firm are determined, such as any sanctions or any sensitive practices. However, it is important to underline that these discoveries do not affect the overall result of the test, but they are relevant in order to demand improvements in specific areas of the firm or in order to obtain more transparency. Then, the certification is obtained only if the threshold is overcome, that is represented by a score of at least 80 points out of the 200 available. The length of the questionnaire depends on your company size and industry sector. Finally, the B impact assessment could be used only by the enterprises that have at least one year of life because the platform assessed what happened in the last 12 months (from the certified B Corporation Official Website <https://bcorporation.net/certification/meet-the-requirements,20/08/19>).

The *impact areas* are the following ones.

### *Community*

In this area, the focus is on the relationships installed in the community in which the company is embedded, analysing topics like the civic engagement or the diversity in the company ownership group. The analysis pays attention on the quality of the networks created between the firm, its suppliers and the local community. Furthermore, the focal point is on the measurement of the level of involvement offered to the population including the ability of the products and services offered to help people to empower their status with the economic opportunity offered or through the guarantee of a healthy life through the access of basic services.

Figure 4 Possible question from the Community area of the B impact assessment

Which of the following underserved populations does your business impact or target (check all that apply)? If you are a business-to-business focused company, think of who the ultimate user of your product or service is.

<input type="radio"/> Low-income, poor or very poor (including low-income minorities and other underserved populations)	<input type="radio"/> Minority, disabled, and other underserved (but not low-income)
<input type="radio"/> Nonprofits that serve the poor	<input type="radio"/> Nonprofits (other than those that serve the poor)
<input type="radio"/> None of the above (Skip the rest of the questions in this section)	

Source: Certified B corporation official website, B impact assessment , <https://app.bimpactassessment.net/company/173437/dashboard>(17/08/19)

## Customers

In this section, the firm has to confirm its ability to produce a public benefit through its outcomes; to assure that the mission is achieved and to evaluate whether the social issues are solved and whether the beneficiaries that constitute the target of the firm are satisfied.

Figure 5 Possible question from the Costumers area of the B impact assessment

Is this social or economic problem addressed for your customers and/or their beneficiaries?

If you answer "No" here, be sure to revisit the Environment and/or Community sections to ensure your business model impact is appropriately captured. The answer to this question affects questions you'll encounter further on in your assessment.

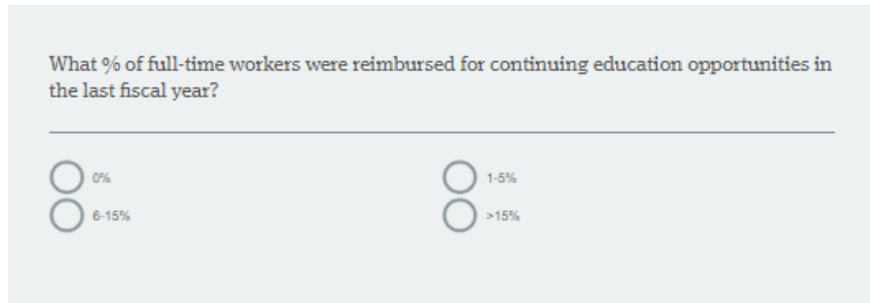
- ☐ Yes
- ☒ No, customers support in our ability to produce the impact we described but the primary beneficiaries are other stakeholders (i.e. we donate to charities based on sales to customers, or we use sales to buy fair trade ingredients)

Source: Certified B corporation official website, B impact assessment , <https://app.bimpactassessment.net/company/173437/dashboard>(17/08/19)

## Workers

Considering that the certification not only show the engagement of the enterprise through its products, but include the overall company, the workforce conditions pay a relevant role. The capacity of the firm to create a good environment for its employees is determined, considering the firm's willingness to provide a profitable career path for its workforce, a safety working environment and the spread of the corporate culture that is shared among the company's environment. Furthermore, this type of firm is able to achieve its mission only if the overall company is included and only if the social and environmental values are spread around the environment, creating a community also inside the firm that constitute the power to drive the change.

Figure 6 Possible question from the Workers area of the B impact assessment



What % of full-time workers were reimbursed for continuing education opportunities in the last fiscal year?

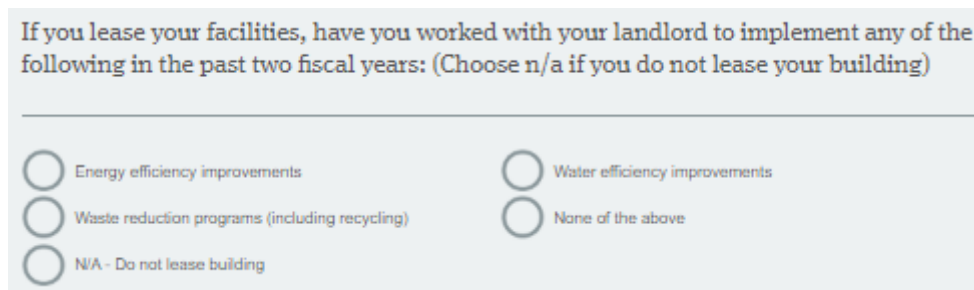
☐ 0% ☐ 1-5%  
☐ 6-15% ☐ >15%

Source: Certified B corporation official website, B impact assessment ,  
<https://app.bimpactassessment.net/company/173437/dashboard>(17/08/19)

### Environment

In this case the impact is quantify in terms of the quality of emissions of the production processes, the materials, the resources, the energy uses and how the company is capable to manage climate issues and its impact on the land when the production process takes place. The supply chain is completely evaluated from the transportation channels, through the reduction of toxic substances to end with its ability to solve environmental issues.

Figure 7 Possible question from the Environment area of the B impact assessment



If you lease your facilities, have you worked with your landlord to implement any of the following in the past two fiscal years: (Choose n/a if you do not lease your building)

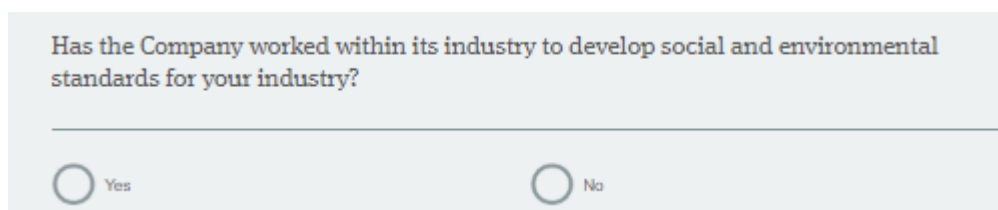
☐ Energy efficiency improvements ☐ Water efficiency improvements  
☐ Waste reduction programs (including recycling) ☐ None of the above  
☐ N/A - Do not lease building

Source: Certified B corporation official website, B impact assessment ,  
<https://app.bimpactassessment.net/company/173437/dashboard>(17/08/19)

### Governance

The governance is a tool used by the companies to monitor and govern better the firm. Considering its scope, this aspect is analysed to test the mission promoted, its ethic, the transparency and the accountability that characterize the enterprise. Moreover, also the level of inclusion of the various players that are inside the firm is taken into consideration. For example, the points in order to obtain the certification are given to the firm that promote the communication of the financial information through its workforce or to the firms that give the possibility to their customers to provide feedbacks.

Figure 8 Possible question from the Government area of the B impact assessment



Has the Company worked within its industry to develop social and environmental standards for your industry?

☐ Yes ☐ No

Source: Certified B corporation official website, B impact assessment , [https://app.bimpactassessment.net/company/173437/dashboard\(17/08/19\)](https://app.bimpactassessment.net/company/173437/dashboard(17/08/19))

## 2.4 Meeting of the legal requirements

The legal requirements consist on the incorporation of the stakeholders in the decision-making process, pending on the directors and officers to consider not only shareholders' matters but also the stakeholders' group. The completion of the legal requirements is made possible through the adoption of several incorporation forms from the LLs to the *Benefit Corporation* one and the level of incorporation's freedom depends on the state where the company is located. In particular, in Italy there are two main possibilities: the first one consists on the adoption of the "Società benefit" within four years, therefore until the 1<sup>st</sup> of January 2020, that is the date in which the Italian system have allowed this incorporation procedure. The other path that could be followed is the transformation into the *Benefit Corporation* within two years from the date of the obtainment of the certification document (from the certified B Corporation Official requirements <https://bcorporation.net/certification/legal-requirements> , 18/08/2918)

### 2.4.1 Verification and Transparency

The last phase consists on the review by the B lab of the B impact assessment results in order to assure the meeting of the 80 points. Due to the presence of a constant increase number of companies, the verification process lasts from 1 to 6 months. Apart from the evaluation of the 200 responses is also requested the submission of further documentation in order to clarify the overall analysis of the firm. Then, in order to meet the public transparency, every B corporations have to show their B impact report on the bcorporation.net, creating a database where it is possible to examine each company's result.

Finally, if the outcome of the evaluation is positive, the B corporation agreement is signed, the certification is given with the payment of a fee that is promotional to the company annual revenues. As a result of the certification, each company obtained a public profile where there is the possibility to obtain its score, that is finalized taking in-

to consideration company size, sector and nationality, and its personal impact report (Branzeri *et al.*, 2018). To conclude, the B corporations are able drive a change paying less attention on the maximization of profit as a traditional firm demanded, incorporating the environmental and social mission inside the firm boundaries and trying to achieve an even higher results on the impact field, comparing their results to similar enterprises and also promoting their differentiation in terms of mission and purpose on large scale.

#### **2.4.2 The strengths of the certification**

The power of the certification goes beyond the merely public commitment on environmental and social practices, delivering instead value for a wide range of points of view that enhance the company.

As the founder of Patagonia affirms, as Stammer (2016) reported:

«*Benefit Corporation* legislation creates the legal framework to enable companies like Patagonia to stay mission-driven through succession, capital raises, and even changes in ownership, by institutionalizing the values, culture, processes, and high standards put in place by founding entrepreneurs »

First of all, it represents an appealing instrument to attract the attention of conscious consumers. Nowadays in fact there is an increasing trend towards the purchasing and the interest of the consumers on sustainable brands. But this expectation is satisfied only if the commitment is well-demonstrated, so the loyalty must be obtained through a truthful engagement that is represented by a third-party certification. Furthermore, the obtainment of the certification could help the firm to increase its legitimacy and credibility not only from the customers' point of view but also from the perspective of the companies that work in the same sector. Indeed, the network that could arise, could be the optimal scenario to share best practices, comparing the result of each firm, starting a real process of race to the top. As a consequence, giving the possibility to review the B report of every certified firms, each company could improve its inefficiencies or its operational cost, obtaining a win-win situation in which the company is able to increase its B assessment score and also to improve the overall efficiency of the company thus empowering also its ability to drive the change (Stammer, 2016). Indeed, the adoption of the certification is a way to personally impose an obligation to follow the mission stated

at the beginning during the life of the firm, giving a protection to these matters through the use of the a new way of managing the firm, deciding the ownership structure and finally being able to pass these values to the next generations. To conclude, the power of this certification stands behind its wide range of areas that are analysed, indeed rather than focusing only on a specific product, such as the promotion of organic ingredients, or on a specific niche in the market, or on a specific typology of industry; instead the overall business is certified. Moreover, the certification is provided by a third party that is outside the firm's boundaries, that is able to evaluate uniformly all the business objectively, avoiding all the possible influences. As a result, the document satisfies the need of the overall community, customers and stakeholders that ought to go beyond the firm's words, in order to mitigate their risks and to evaluate the quality and the truthiness of what is promoted (Branzeri *et al.*,2018).

Figure 9 The main characteristics of the B certified corporation

<p><b>Dominant objective: mission, purpose and leadership</b> Socially and environmentally embedded mission.</p> <p>Profit is not the dominant objective of the firm - temper short-term financial outcomes to achieve social and environmental outcomes.</p> <p>Longer time horizons for patient, slower and more autonomous business development.</p> <p>Institutionalise sustainability in the mission through positive, passionate and engaged leadership and champions.</p> <p><b>Measuring success: impacts, externalities and economic growth</b> Go beyond reducing negative impacts by investing in social and natural capital to increase positive environmental/societal impacts.</p> <p>Internalise social and environmental externalities.</p> <p>Challenge the presumed need for perpetual economic growth and increasing consumption.</p> <p><b>Stakeholders</b> Develop and maintain mutually beneficial relationships with stakeholders. Manage the organisation for the benefit of all stakeholders.</p> <p>Value nature for its intrinsic value and practice environmental stewardship.</p> <p><b>Influencing sustainability agenda: institutional work</b> Interacting progressively with stakeholders and the wider socioeconomic system to bring about change for sustainability.</p>	<ul style="list-style-type: none"> <li>• Profit with a purpose.</li> <li>• Help to create a better world for current and future generations.</li> <li>• Not focused on maximising short-term profits, but on positive societal impacts and making a difference.</li> <li>• Focused on the social purpose of the business, regardless of their level of profitability; it is intrinsic to the business model.</li> <li>• No explicit focus on long time horizons but not focused on short-term profitability.</li> <li>• Work with leaders in sustainability.</li> <li>• Provide thought leadership around new areas of sustainability.</li> <li>• Create positive social and/or environmental outcomes and impacts through an integrated, not differentiated, model.</li> <li>• Reinvest profits in their products and services to grow their businesses to enable them to increase their positive societal impacts.</li> <li>• Internalise impacts into the business model, which is underpinned by a sustainability-focused mindset or philosophy or set of values.</li> <li>• No explicit challenge to economic growth. However, focused on impact rather than economic growth.</li> <li>• Grow the business to allow them to increase their societal impact.</li> <li>• Work closely with stakeholders to reduce negative impacts.</li> <li>• Shareholders are not considered as more important than other stakeholders.</li> <li>• No explicit acknowledgement of nature as a stakeholder.</li> <li>• Support principles of environmental stewardship.</li> <li>• Lobby government for initiatives to support B Corps working individually and with others to drive policy changes.</li> <li>• Advocacy activities to promote the B Corp values and model and educate people about a better way to do business.</li> </ul>
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Source: Stubb W (2017)

## 2.5 Benefit Corporation

The *Benefit Corporation*. as Hiller (2013) affirms, is:

«a new legal business entity that is obligated to pursue public benefit in addition to the responsibility to return profits to shareholders. It is legally a for-profit, socially obligated, corporate form of business, with all the traditional corporate characteristics combined with societal responsibilities»



Therefore, it is a new legal form that represents an attempt to increase the social and environmental way of doing business in a constructed way, empowering this engagement, avoiding limiting it to a merely additional feature of the business that the firm wants to pursue and finally creating an alignment between creation of value and the social and environmental mission. So, the new entity created must prioritize not only the return of the profits to its investors, but also the creation of a public benefit that must be used to address the prominent environment and social needs. Thus, the new legal entity must pursue the profit maximization including also the environmental and social duties imposed by the new legal form. As Hiller (2013) highlights, especially in the United States, there are five areas in which the new enterprises have to focus on, that are:

- The public benefit
- The third-party review of the social and environmental impact generated
- The duties of the directors towards stakeholders
- The transparency

#### *The public benefit*

The author affirms that a public benefit could be defined as:

«a material positive impact on society and on the environment, assessed against a third-party standard» (Hiller,2013).

So the merely engagement of the corporation in one of the green marketing practises does not matter, the change has to create a material commitment, that must fill in the list provided by the corporate statue, like the promotion of jobs, or the focus on the health of a community.

#### *Third party standard*

In order to access the company's credibility, there is the need to choose an "independent, credible and transparent" third-party standard in order to evaluate the annual benefit report where the public benefit is reported. This entity must be independent and without any ties with the corporation, paying attention on the relationships or connections that have involved the firm or the ownership in the last three years. This is due to the minimization of all the problems connected with the influences and pressures that the corporation could have. This requirement is essential in order to provide objectivity to the new legal form.

### *Directors' duties*

Contrary to what happens in a traditional corporation, directors are not only invited but they must consider the interests of the community, the customers, the suppliers, the work force and the environment apart from the common shareholders. This obligation has also consequences on the concept of fiduciary duties because in this case the area in which these duties apply is broader than before.

### *Transparency*

In order to assure the accomplishment of the mission stated, two reports must be provided to analyse the public benefit's achievement and the directors' duties. The first one that is called "The Benefit director's compliance report" is drafted by the Benefit Director, an independent figure, that has to affirm whether the company has worked towards the social and environmental benefits and whether the directors have taken into consideration the interests of the stakeholders.

While the second document, the "Annual benefit report" is publicly published and it accesses the overall improvements achieved during the year towards sustainability considering the performances achieved (Hiller, 2013).

Overall, the *Benefit Corporations* have modified their entirely way of doing business and the incorporation form in order to meet the standard requirements in terms of:

- The purpose that becomes the fundamental part of their mission, spending all the resources generated to create value that goes beyond the shareholders' interests;
- Accountability: the willingness is counterbalanced by the commitment showed by these enterprises that have decided to irreversibly change their business structure to achieve a long-term sustainable goal;
- Transparency: as mentioned before, they ought to report their works using a third-party standard to assure the transparency and the objectivity needs (from the certified B Corporation Official Website <https://bcorporation.net/>, 19/08/2019).

## **2.6 Why becoming a *Benefit Corporation*?**

The instalment of the *Benefit Corporation* is a way to extend the horizon of the company's mission including not only the return of the profit but also social and environmental aspects. Indeed, as it is outlined in the *Benefit Corporation* official website, there are several advantages in the adoption of this type of corporate form. First, there is the alle-

violation of the work demanded to the director, that thanks to the *Benefit Corporation* status, has a legal protection in order to include in the decision-making process financial and non-financial interests without compromising the maximization of the profit. Secondly, these firms could have the possibility to become more attractive from the impact investors' point of view that are safe guarded by the presence of the *Benefit Corporation* form in terms of accountability towards the mission stated. Then taking into consideration the next generation in terms of ownership group, the mission promised creates an attractive opportunity to satisfy the expectations of the future generation of workers. As the Deloitte research outlines, nowadays the youngsters part of the society is interested in the meaningful way of doing business and so they tend to entrust who showed this engagement. Therefore, it comes out that 70 per cent of millennials discourages the traditional organization structure, because of the absence of the commitment towards the social concerns, preferring to work independently. therefore the new workforce is not only focused on the remunerative issue but they expand also their judgment to the implication of the business on the community and to the ability of the corporation to innovate and drive the change, filling the gap between the inequalities and the ideal society.( Deloitte survey,2014).

### **2.6.1 *Benefit Corporation* In the United States**

The diffusion of the *Benefit Corporation* in America, so the spread of those companies dedicated to “people, planet and profit” dates to the beginning of the 2010, when the 1<sup>st</sup> of April of the 2010 in Maryland a new way of concepting a corporation was introduced. Then since now, 32 states have passed the *Benefit Corporation* legislation to give a viable way to go against the shareholders' value maximization. This new incorporation law in order to be used must be “opt-in”, therefore the shareholders must vote in favour of this option as an expression of an election that expresses the willingness of the party to do so. Each American state presents some differences concerning the legal requirements and incorporation rules, but in general this new legal form does not imply a tax benefits, leaving unaffected the decision to adopt the C-corporation or S-corporation tax status. The commonalities among all the states are centred around three main characteristic of the *Benefit Corporation* that are: the broader purpose, the Director's responsibility and the Transparency. Considering the purpose, is overcome the

classical idea of the ownership model which seen the corporation as the final instrument to produce profit for its owners. Instead with the adoption of this new form, the enterprise model is welcomed, that consists on the inclusion of the interests of all the characters that have a stake in the firm: such as the employees, the community, the environment and so on (Alexander, F., 2017). Obviously, this expanded mission must be assessed through a third-party standard that must be developed by an independent and transparent entity, that could be provided by the B Lab that presents a list of possible third-part options. As a consequence, of the expanded horizon of the corporation that takes into consideration also the stakeholders; the responsibility of the directors is enlarged, that during the decision making process should also address the interests and the impacts of the activities on these new group, as the fiduciary duty demands. In more detail, as the Model act of the *Benefit Corporation* dictates in article 301:

“the directors shall consider the effects of any action or inaction upon shareholders, employees, the interests of customers as beneficiaries of the general public, the community and societal factors, the local and global environment”

But this duty has some limitations that exonerates the director by any third-party suits, as so only the corporation itself, the director or shareholders that own more that 2% of shares has this right (Stecker, M. J., 2016.) Moreover, the corporation is also relieved of any liabilities on the behalf of the corporation in case of any monetary damages or any failure of the *Benefit Corporation* to create the public benefit. Finally, the transparency is points out, as all the *Benefit Corporations* have to make an annual benefit reports that must be publicly shown (except for Delaware), which explains the activities acted in order to pursue the public benefit and the social and environmental performances achieved. This represents the way to show their commitment to the public, underlying that the report is disclosed in accordance to the standards promoted by a third party (Pelatan, A., Randazzo, R., 2016.) To conclude, even if the process could slightly vary among the different state where the company incorporates, the path is mainly composed by three steps.

- The recognition by your state of this new corporate form;
- The inclusion of the benefit mission in the articles of incorporation;
- The drafting of an annual Reporting: that includes the results of the company’s social and environmental impact (Stanley, 2016).

### 2.6.2 The *Benefit Corporation* in Italy

In 2016 Italy has rightly led the way in promoting the new incorporation form in Europe: The *Benefit Corporation*. Indeed, it is the first country in Europe and the second in the world after the United States, that has introduced the *Benefit Corporation* form in order to give the possibility to install a meaningful corporation (Grechi *et al.*, 2019).

The Italian legal system has announced in January 2016 the “Società Benefit” with the Stability Act, law n.208 in article 1 paragraph 376 explaining that; (Gazzetta Ufficiale della Repubblica Italiana 2015):

«La società benefit», che nell’esercizio di una attività economica, oltre allo scopo di dividerne gli utili, perseguono una o più finalità di beneficio comune e operano in modo responsabile, sostenibile e trasparente nei confronti di persone, comunità, territori e ambiente, beni ed attività culturali e sociali, enti e associazioni ed altri portatori di interesse»

The rule regulates the possibility for this type of enterprise to pursue a twofold scope, both the financial and the beneficial ones, achieving the interests of all the stakeholders involved in the system. Furthermore, the final aim of the *Benefit Corporation*, that consists in addressing a social or an environmental issue must be reported on the articles of incorporation. This rule represents a real revolution into the Italian system because there is for the first time the chance to both govern a for-profit company and to pursue the interests of all the players that are outside the corporation, sacrificing a part of the gains that are traditionally destined to shareholders. Therefore, the Italian law highlights also the sanctions in terms of liability of the directors or on the behalf of all the company that is caused by the inability to achieve the stakeholders’ wealth. Indeed, the norm dictates the “pursuit of one or more common benefit” that must be achieved through a business activity that is “responsible sustainable and transparent”. These requirements imply that whether the purpose or the activity are operated without creating a benefit for the community or through illicit activity, the directors become liable. Indeed, the pursuit of the common benefit does not only require the active achievement of a positive effect because also the minimization of the problem satisfies the legal requirement. Besides the balance of the opposing interests, the rule dictates also the advertising and the transparency of the social mission that the firm wants to pursue in order to publicly affirm the commitment. Consequently, there is the duty to write down an annual specific

report that shows the achievement of the common benefit. These disclosure requirements are explained in the paragraph 382 of the 208 rules, as Riolfo (2019) reported:

«the report concerning the pursuit of the common benefit includes: 1) the description of the specific objectives, modalities and actions taken by the directors for the pursuit of the common benefit purpose as well as the circumstances that have prevented or slowed it down 2) the impact assessment generated, as measured by the external evaluation standard for the areas expressly identified... 3) a section which includes a description of the new objectives as the company intends to pursue in the following year»

Therefore, having noticed the importance of the report in order to assure the monitoring function on the behalf of the stakeholders, it must be credible, and this is made possible through an external valuation standard (Riolfo, 2019). Moreover, in order to clarify the steps that must be followed in order to become a *Benefit Corporation*, it is essential to distinguish between these types of enterprises that are born as *Benefit Corporations* and the ones that were incorporated as traditional corporations and that want to modify their corporation form to become *Benefit Companies*. This last category of companies needs to modify the corporate statute in order to include also the for-benefit purpose. Then after having appointed a person who is responsible for the inclusion of the stakeholders' interests, the social or environmental mission must be identified. Whether the activity is interrelated or not with the principal business does not matter, the unique focal point is the provision of high social and environmental performances. Then in order to assure the accomplishment of the objectives, there is the exigency to nominate a third-party audit that must assess the impact generated. This entity must be independent, credible and transparent. Then among the duties, there is the need to draft the benefit annual report that must include:

- An overall evaluation of the impact generated using the standard addressed;
- The ability of the enterprise to accomplish the goals prefixed at the beginning;
- The quality of work that is provided to the workforce in terms of salaries, benefits and any possibility of career progression;
- The relationships with other stakeholders, such as: its suppliers, the local community, any volunteer activities or any donations provided;
- The environment, addressing the impact generated and the resources wasted and any recycling improvements;
- Any objectives that the society would like to pursue in the future;

Then the annual report must be published on the website of the company and attached to the balance sheet (Buonfrate *et al.*, 2016).

Finally, considering the Italian scenario, there are approximately 200 enterprises labelled as *Benefit Corporations*, but the 71% of these companies were born with this corporation form while the 29% of them derived from a traditional type of corporation that has been transformed in order to become a hybrid organization. Among them, taking into consideration the analysis of the CUOA (2018), the major part of the sample belongs to the service sector. This relevance of appealing on this sector is due to the fact that the legitimate and the reputational factors are hard to quantify in the case of absence of a certified commitment, as a consequence the certification or the *Benefit Corporation* form serves as a tool in order to affirm the social commitment and in order to guarantee the amount and the quality of enterprise's work (Fior and Landini, 2018, CUOA).

### **2.6.3 Pros and Cons of becoming a B corporation or a *Benefit Corporation***

The decision to show an interest towards this trend comes with some implications that a firm should evaluate in order to access the ability of the firm to perform well, paying attention on the resources available and the possible positive consequences of the environmental and social initiatives. Below, there are presented the pros and cons of the adoption of these two options.

#### *Pros*

- **Resiliency:** the implication of the social and environmental purpose into the mission of the firm implies a long-term commitment that is translated into more focus on the tasks and a bigger attention on the action and investments made. As a result, the B Lab has reported that the B corporation were 63% more able to survive to the 2008 economic recession.
- **Brand Identification:** the commitment itself is not enough to be considered a good company, indeed the label of the *B-Certification* or of the Benefit represents a threshold that must be overcome in order to find meaningful businesses.
- **Improve the quality of the workforce:** As it is reported, employees are 3.5 times more likely to invest their energy on work if they perceived the importance of their

effort, not only in terms of profit but also in terms of the ability to become a “company problem solver”. Moreover, in order to obtain the certification, also the Workforce class is assessed, hence is not unusual to find benefits for employees, wellness initiatives or a salary above minimum wage that attract and incentivise the new workers to improve their performances (Stanley, 2016).

### *Cons*

- Additional resources commitment: Obviously, the more a company differentiate the more resources in terms of time and money will be spent in order to accomplish the result. These companies must consider additional administrative costs besides the ones that are typical of the traditional corporation. Moreover, nothing comes for free, indeed the company in order to value the possibility to obtain the *B-Certification* or the *Benefit Corporation* statue have to consider also the annual fees.
- Finally, the Potential threat of short-term shareholders’ profit. As mentioned before the achievement of the generation of public benefit requires more resources, extending also the time horizon to gain profit. This could represent a weakness for traditional investors that are interested in a short-term return to obtain the money back (Stanley, 2016).

## **2.7 Benefit Corporation VS B Corporation**

In the 21s century, the trade-off between profit and social or environmental impact should be overcome, redesigning the business to satisfy both issues as the Benefit and the B corporation attempt to do. Both possibilities tend to converge to a unique solution following instead a different path, indeed, as Stubbs (2017) has reported:

«Sustainable business models achieve economic prosperity while reducing negative external impacts and creating positive external effects for the natural environment and society»

B certified corporation is a firm that has expressed its willingness to go from a business centred on the promotion of products and services to the attention on the building of “Good companies”. Therefore, through the certification, a company shows its attempt to meet rigorous requirements in terms of transparency, accountabilities and social and environmental performances. Contrarily, the *Benefit Corporation* involves the incorporation process, including the social and environmental matters in the article of incorpora-



tion and in the legal structure. Both options represent the evolution of the way of doing business, from a maximization of the shareholders' value to the creation of social and stakeholders' value, creating a stakeholders' corporation that encompasses inside the company's boundaries all the issues that are relevant in order to drive the change towards sustainability. Taking into consideration the certified B corporation, the document as mentioned before is provided by a non-profit entity: The B lab, if the company in question could meet the standards requirements. On the other hand, the *Benefit Corporation* is a legal entity, that as its form required, has the obligation to achieve legal standards in terms of transparency and to consider the stakeholders perspective in the decision-making process of the business performed (Fisher,2016). So while the certification expresses a personal willingness to meet the requirements imposed by the B lab, without the creation of a new legal entity, the Benefit enterprises agree to perform their activities following the requirements of a new legal structure in favour of an alignment of their mission and their activities (Hiller,2013). As a result, while there are several ways of obtaining the *B-Certification*, such as the improvement of the Governance, the engagement of the community or the accuracy in terms of accountability and transparency, the possibility to become a *Benefit Corporation* implies one unique solution: the modification of the overall legal structure (B corporation legal requirement, from the certified B Corporation Official Website [bimpactassessment.net](http://bimpactassessment.net)). Furthermore, both the options use a commercial activity, the selling of products or services in the market to generate profit that instead of generating dividends, they are destined to the social or environmental purpose. Therefore, they share the meaningful way of doing business, that is seen as the powerful tool to create a positive outcome that goes beyond the merely positive returns that could be obtained by any traditional business (Stubbs W.,2017). However, thanks to the fact that they are trying to converge to the same scope, they tend to be confused. Indeed, as the *Benefit Corporation* official website reported:

«they are both leaders of a global movement to use business as a force for good. Both meet higher standards of accountability and transparency. Both create the opportunity to unlock our full human potential and creativity to use the power of business for the higher purpose of solving society's most challenging problems»

So, as it is possible to understand they are trying to create a viable exit to overcome the social and environmental problems that concern our society. They do so, sharing the ac-

countability and transparency requirements, in terms of duties of directors to consider the interests of stakeholders and in terms of publicly statements to report the achieved results. However, the way of doing so it is slightly different, while for the B corporation, the B impact assessment provides the threshold that must be overcome in order to achieve the performances stated in the certification; while in the case of the *Benefit Corporation*, due to the nature of the incorporation adopted, the minimum level of performances is implied and they are self-reported. Then the differences do not disappear yet, indeed it is possible to create a *Benefit Corporation* in only a limited number of countries, where the law has identified this new incorporation form, while in the case of the *B-Certification*, the possibility is extended to every enterprises despite its corporate structure and state of incorporation. Furthermore there is a cost that must be sustained in order to enter in this niche in the market, that consists in \$70-\$200\$ of fees in the case of the Benefit one and from \$500 to \$50000 per year, depending of the firm's revenues, for the B certified corporation. So, there are two different forms that could be used to drive a change, that could be chosen according to the mission that the firm wants to pursue or that could overlap in the same enterprise, considering the fact that the best way to meet the B certified corporation requirements is the *Benefit Corporation* form (from the certified *Benefit Corporation* official website, <https://benefitcorp.net/businesses/benefit-corporations-and-certified-b-corps>, 19/08/19).

In contrast, general *Benefit Corporations* are held to lower reporting standards than certified B Corps. Both have to provide an annual Benefit report, but for *Benefit Corporation* it is not necessary to address a specific third-party standard thus they do not need a third-party review. While the certification provides less flexibility demanding the approval of the B Lab Impact Assessment (Stanley, 2016).

Figure 10 Difference between B corporation and Benefit Corporation

Elements	B Corp Certified	Benefit Corporation
Accountability	The directors must take into account the effects of their decisions on both shareholders and stakeholders	Equal to the B Corp Certified
Transparency	The company must make public a report that evaluates its overall impact, drawn up according to an independent standard	Equal to the B Corp Certified
Performance	The performance of the different five areas are evaluated using the BIA. The minimum level is 80 points out of 200 to be classified as a Certified B Corporation.	Self-declared
Permanent checks	It must renew the certification every 2 years	Over time there is only a verification related to the transparency requirements.
Assistance and use of the 'Certified B Corp®' Brand	Access to a range of services and support from B Lab Certified B Corps can use the "Certified B Corp" brand and logo on their products and in all their communications No formal support from B Lab.	B Corp® brand cannot be used

Source: Gazzola P, Grechi D., Ossola P., Pavione E. (2019)

To sum up, the *Benefit Corporation* is an incorporation structure similar to the traditional ones that in respect of them they consider the interests of the entire group of stakeholders. Hence, they need to publicly state what they want to pursue as a mission, that could be general or specific and they are also relieved by the possibility of being accused by the investors of the inability to produce enough profits in the short term. On the other hand, the *B-Certification* represents a tool, stating their mission and their nature, that could be obtained by every type of firms without the need of the legal weight that is demanded by the incorporation form. Even if it could be apparently seen, as less demanding, because there is not the need to modify the bylaws, the drawbacks are easily identifiable, thus so the rewarding process is tougher in comparison to the benefit enterprises. Therefore, it demands a specific third-party overview of the annual report and in order to obtain the certification, the business must be run for at least 12 months due to the need of accessing the past performances. To conclude, both options requires some pros and cons, but both are able to identify companies that rather than focus on the firm

life cycle, pursuing high margins, they prefer instead to spend the resources, the commitment of all the enterprise to generate a benefit that is destined to all the players that are around the business word (Shiller,2017).

## 2.8 Conclusion

The *B-Certification* and the *Benefit Corporation* represent an opportunity to implement actively the engagement of a corporation that want to drive the change focusing in particular in the place where it is embedded, taking into considerations all the characters that are involved in the business life cycle from the suppliers to the customers, addressing also the community where the company is embedded and the environment in which is located. These instruments represent an opposing trend in comparison to the classical way of thinking about the company, indeed rather than underling the focus on the maximization of the profits, they tend to enlarge the company's points of view in order to include a wider area that needs to be implemented. Recently, this phenomenon has been adopted by more and more entrepreneurs that have understood the real power of their companies, that could create a viable instrument of change. Both the tools are useful, together in order to achieve the same social and environmental results but presenting some differences that characterize their nature. From one side, the *B-Certification* procedure that highlights the objectivity of a third-party audit to provide a certification that demonstrate the environmental and social performance achieved, presenting a public statement of their commitment. On the other hand, the *Benefit Corporations* that are not merely certifications that could be obtained by every firms, but this option requires the incorporation in the bylaws of the benefit interests, modifying the final scope of the firm. Causing so, a definitive change in the corporate structure that required the inclusion of the stakeholders' interests during the decision-making process of directors.

To conclude both the *B-Certification* and the *Benefit Corporation* do not want to substitute the no-profit enterprises, but they are trying to fill the gap between the for profits and the NGOs, demonstrating that the two apparently spheres are able to create synergies and to both promote a positive impact, maximizing alongside the business that the firms intend to pursue.

## WHAT *BENEFIT CORPORATIONS* REALLY DO

### 3.1 Introduction

This empirical chapter portrays the Italian *Benefit Corporation* sphere, taking into consideration the differences between family and non-family firm. In order to access whether being a family firm has an impact on the result of this type of corporation, a sample of the Italian *Benefit Corporations* have been analysed. The chapter is organised as following: the second (2) paragraph describes the method used in order to obtain the data and create the sample, underlying the method of the research and the adjustments made. In the third (3) paragraph the population examined is described highlighting its descriptive statistics. In the fourth (4) paragraph the impact managed by each company is described in detailed in order to access the degree of their commitments. In the Fifth (5) paragraph the sample is described in terms of its mean and standard deviations in order to access any differences between family and non-family group. Then in the sixth (6) paragraph any evidence of dissimilarities between the two categories analysed is verified to access their statistical significance. Consequently, in the seventh (7) paragraph the results are discussed in order to extrapolate any relevant insights. Finally, in the eighth (8) paragraph the conclusion portrays a summary of the entire Italian *Benefit Corporations* that have been taken into account for the study.

### 3.2 Data collection

In order to analyse the implications of being a family firm there was the need to create a sample of companies. Therefore, the first step was made possible through the AIDA database (research on the 20<sup>th</sup> of August 2019) that provides exhaustive information about the Benefit Italian corporations' world. The focal point of the examination is to point

out only *Benefit Corporation* firms, so the dataset was created on the base of the company name, choosing only the corporations that include the words:

- Società Benefit
- S.B.
- SB
- SB.
- Benefit

### **3.2.1 Database Adjustments**

Then after this preliminary selection the first draft was created, with 260 companies. However, the sample presented some biases due to the inclusion of duplicates that were present caused by companies that were selected twice, for example both for the “S.B” acronym and for the “Società Benefit” words in the company name. Furthermore, another typical error was the inclusion of firms that did not embrace the social mission, but they merely have the word “Benefit” in their company name, such as BENEFIT DISTRIBUTION SERVICE S.r.l.

After this elimination procedure, another criterion was added to compose the sample, that concerns the legal status, in fact there have been deleted all the firms that are inactive or in a liquidation procedure. As a result, the dataset of the Italian *Benefit Corporation* companies was ready, with 236 companies.

The information selected, in order to improve the research was divided into two subgroups: the one that were used for the qualitative analysis and the other for the quantitative one. The qualitative research needs:

- The Region: where the registered office is located in order to access the geographic location of the *Benefit Corporations*;
- The Social Reason: that the companies intend to follow to achieve their environment and social goals;
- The Foundation Year: to evaluate whether the firm is incorporated as a traditional company and then it has been transformed into a *Benefit Corporation* form or if the company was born after the 2016 and incorporated as a Benefit one since the beginning;

- The ATECO Code: this information is essential in order to access their principal business activity the company perform that could fill the manufacturing or the service category;
- The Shareholders' last name and the % of shares owned: to identify the family and non-family firms based on the presence of any familiar relationships and based on the shareholding compositions in terms of majority owned;
- The Typology of shareholders and the % of shares owned by them. This insight is important due to the possibility to find societies that assume the role of shareholders, such as mutual funds, private equity or other societies.

Then in order to complete the quantitative research, the focus was shifted to more numeric type of information, such as: The Revenues, the Ratios, the Labour cost and the Employees performance.

This bunch of information was extracted for the two years after the inclusion by the Italian law of the rule n.208 of the 2015 that was adopted in the 2016, (<http://www.societabenefit.net/testo-di-legge/>, 2/09/2019) allowing to create the *Benefit Corporation* form. Therefore, the statistics were collected for the 2017 and 2018. This decision was taken in order to compare companies that present the same characteristics in terms of duties and advantages offered by this legal status.

### **3.3 Descriptive analysis**

#### **3.3.1 Identification of family and non-family firms**

One of the limit of the family business sphere, is the impossibility to find a database containing all the records of the Italian family companies, therefore concerning the analysis in question, the identification of family companies is made following the criteria that identify this group and some assumptions made in order to access whether the family threshold is overcome.

There were considered as family firms:

- All the companies that owned a percentage of voting rights<sup>1</sup> equal or superior to 50%;
- The firms that were owned by one single person, with the 100% of all the shares on his hands;
- The companies owned by two people, ignoring the percentage owned by each character, including also the case in which the two players owned 50% of the shares respectively;
- The companies where the shareholding composition was composed by 3 to 5 people without any of them owning most of the voting rights;
- The firms that are owned by a holding company that could be traced back to a single person of a group of people that are connected by blood relationships.
- All the companies owned by two players: one single person and a holding company, with a 50% of voting shares owned respectively by each character.

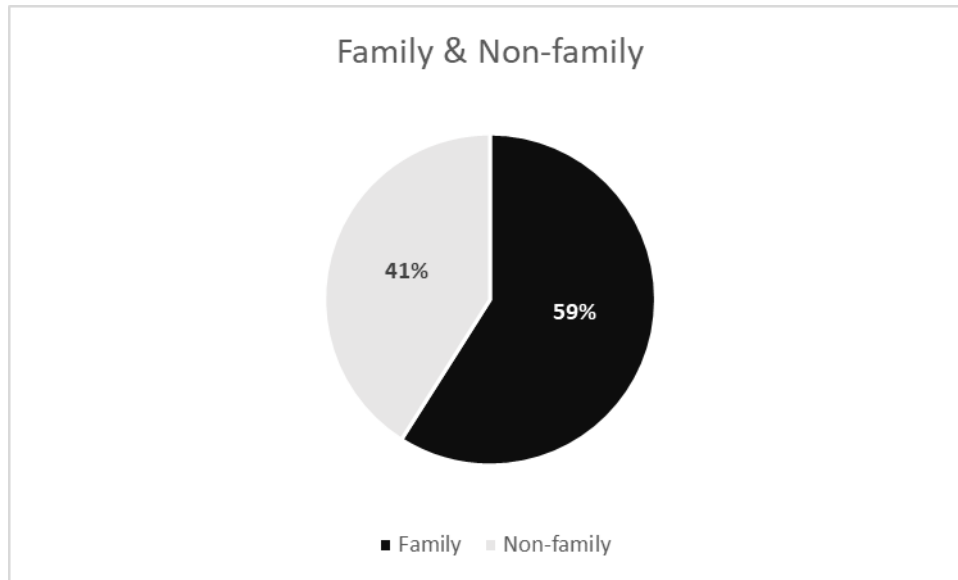
As a result, taking into considerations all these thresholds that must be overcome in order to be identified as a Family firm, the sample is composed as following: with 97 firms out of 236 that are non-family businesses and 139 out of 236 that are included in this family category.

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<sup>1</sup> Voting rights: it is important access the number of voting shares on the behalf of the family because these are the shares that allow the members of the family to have the firm control, having the power to decide.



Figure 11 Composition of the sample in terms of family or non-family firm



Source: our research

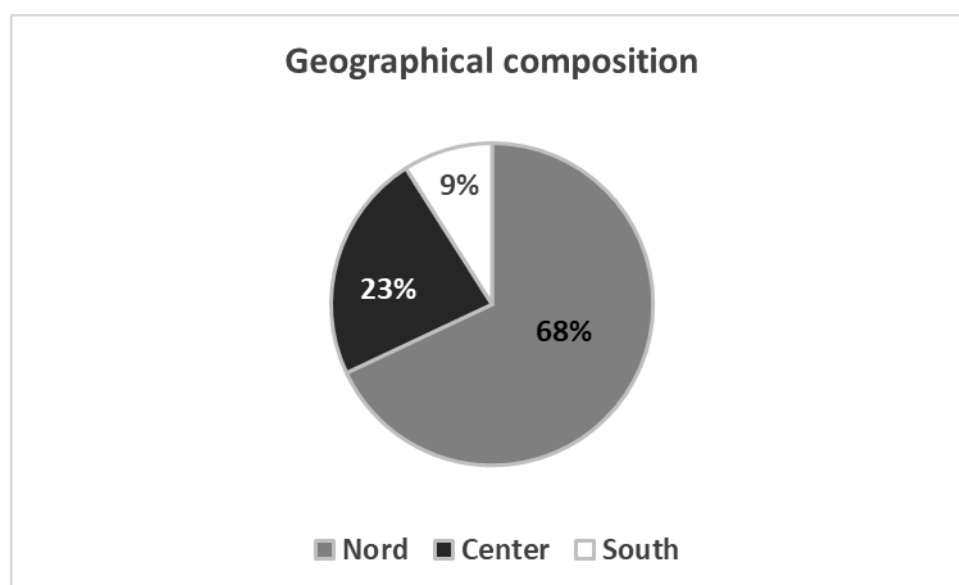
### 3.3.2 Geographical area

In order to locate and identify the geographical areas where the firms were incorporated, the panel was divided into three macro areas, according to the ISTAT classification and the information obtained by the AIDA server are the following:

- North: where it is possible to find all the firms that are located in: Piemonte, Valle d'Aosta, Liguria, Lombardia, Trentino-Alto Adige, Veneto, Friuli - Venezia Giulia, Emilia – Romagna;
- Center: that contains all the firms that come from Toscana, Umbria, Marche, Lazio;
- South: for all the firms located in Abruzzo, Molise, Campania, Puglia, Basilicata, Calabria, Sicilia, Sardegna;

Considering these divisions, our sample is divided as following; 160 firms are located in the North of Italy, 54 in the centre and 22 in the south, as the pie chart shows below in Figure 12.

Figure 12 Geographical location of the sample examined



Source: our research

### 3.3.3 Principal Activity of the firm

Moreover, it is important to access the sector of belonging, with the help of the ATECO code that identifies each single company with a series of number that in its classification corresponds to a sector of belonging that include the main activity of the firm. For example, the INTEXO SOCIETA' BENEFIT S.R.L., one of the company included into the sample is identified with the code: 749099, that corresponds to, as the ISTAT Statistical Institute affirms(<https://www.istat.it/it/archivio/17888#codesearch>, 3/09/19):

«Altre attività di assistenza e consulenza professionale, scientifica e tecnica quali attività di intermediazione aziendale.»

Therefore, following the ATECO Classification, the example examined is divided following the principal business activity, that could be a Service or a Manufacturing one.

The sample is composed by:

- 68 firms that are included into the Manufactory category;
- 168 firms that belong to the Service category.

### 3.3.4 B-Certification

In the population studied the focus is on the Benefit nature of the companies, but in order to access the level of impact they aspire to perform, it has also been examined the presence or not of the *B-Certification*. This was possible following the information pro-

vided on the website of every firms, with an additional control to the list of firms that have obtained the certifications during these years, that is provided by the Official certified B corporation website (<https://bcorporation.eu/directory>, 09/09/2019).

Among all, only 27 companies have obtained the *B-Certification*, that is an additional tool in order to demonstrate their personal environmental and social engagement. In particular, 19 of the 27 companies mentioned before are family firms and 8 of them are non-family firms.

### 3.4 The impact engaged

The focal point of being a *Benefit Corporation* is to include in the company's goals, apart from the traditional shareholders, also the interests of a broader category, the Stakeholders that include the environment, the society and all the players, such as the clients and the suppliers, around the company. This advanced engagement must be incorporated in the corporate purpose that should provide in detail the way the firm is able to create a material positive impact on the society and the environment.

In order to show the engagement pursued, every *Benefit Company* provides in the corporate statute the following paragraph:

«La società in quanto società benefit si pone l'obiettivo di massimizzare il proprio impatto positivo agendo in modo responsabile, sostenibile e trasparente nei confronti di persone, comunità, territori e ambiente, beni e attività culturali e sociali, enti e associazioni ed altri portatori di interesse».

Apparently, following these words every company provides the same goals but analysing every single corporate statute this hypothesis must be confuted. Indeed, reading and comparing both the corporate statute and the information reported in their official website, it is possible to examine the activities that each single firm intends to pursue. Furthermore, according to the sample studied, there are similarities between the company's principal business activity performed and the goals the firms want to achieve. This is probably due in order to create synergies and to minimize the cost to achieve additional goals.

For example, The *Zordan Benefit Corporation*, that has also obtained the *B-Certification*, on its corporate website provides the possibility to download the impact report, where all the information about its engagement is showed.

Thus, considering the section of the environmental commitments, they outline their results, such as:

«41 tonnellate di legno e trucioli riciclati, ritirati e trasformati in pannelli di truciolare; 100% energia da fonti rinnovabili, acquistando energia con certificati verdi; attivazione di una procedura per ottenere una separazione più efficace dei rifiuti e stimolare l'attenzione agli sprechi» (<https://www.zordan1965.com/it/b-corp.html>, from the Impact Report, 2018).

Therefore, after having taken into consideration all the companies that constitute the object of our analysis is important to underline that as *Benefit Corporations*, contrarily to what is required for the B certified companies, these categories held a lower reporting standard. Indeed, both the *B-Certification* and the *Benefit Corporation* have the duty to draft the annual report, but in the case of the Benefit's one, there is more flexibility, due to the fact that it is not required the approval by the B Lab impact assessment, resulting more self-reported. This consideration explains why among the 236 companies, 85 firms do not have reported in detail the activities employed in order to drive the impact. Consequently, only 151 companies among the total sample have publicly reported on their web site the annual report in which the social and environmental activities are explained in detailed.

In particular, in the Table 1, it is reported the industry of belonging and the Geographical locations of all the firms that do not show their impact activities.

*Table 1 Characteristics of the firms that do not show their impact activities*

INDUSTRY	FREQUENCY	GEOGRAPHICAL LOCATION	FREQUENCY
Manufacturing	21	North East	27
Service	64	North West	16
		Center	37
		South and Islands	5
Total	85	Total	85

Source: our research

Then they are presented in Table 2 the features of all the firms of the sample that are relevant in order to access their impact activities, that are 151.

*Table 2      Characteristics of the firms that show their impact activities*

INDUSTRY	FREQUENCY	GEOGRAPHICAL LOCATION	FREQUENCY
Manufacturing	47	North East	30
Service	104	North West	35
		Center	70
		South and Islands	16
Total	151	Total	151

Source: our research

It is important to underline that considering the part of the sample that has showed the impact activities, so the 151 companies in object, 104 of them are belonging to the service sector, constituting the majority stake of the total number of companies. This is due to the higher attention on what is sold, to give relevance to their services that are hard to promote, due to the fact that are intangible outcomes. While considering the geographical location, we find out that in Italy the Benefit firms results more appealing in the North <sup>2</sup> and in the centre while they do not get attention on the South and in the Islands. Moreover, even if the 85 firms presented before, do not present their impact report, these considerations in terms of industry sector and geographical area, present the same features also in this group.

### **3.4.1 Impact areas**

In this section, we intend to report the various impact activities described dividing them, considering the goal addressed. Indeed, we have delineated four macro areas:

- The Environment: where there are all the companies that they intend to address the environmental issues.
- The Stakeholders: in this section there are included all the activities that are performed for the stakeholders outside the companies, therefore the activities that address the improvement of artificial characters, such as associations, university and so on; therefore it represents an indirect way to achieve the environmental and social goals, due to the fact that the activities address the agents in the middle of the process;

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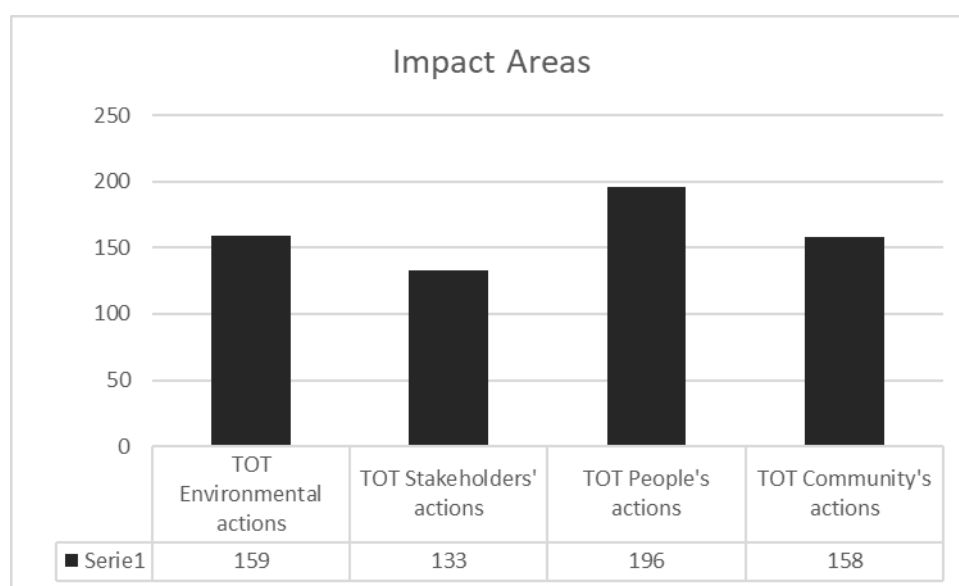
<sup>2</sup> The North West include all the firms that are located in: Valle d'Aosta, Liguria, Piemonte, Lombardia While the North East include all the firms that are placed in: Veneto, Trentino Alto Adige, Emilia Romagna and Friuli Venezia Giulia.

- **People:** this category includes all the activities that are useful to support the people inside the company's boundaries. Therefore, in this part are included all the efforts achieved for the increase of the wealth of the workforces, of the clients and of the suppliers;
- **Community:** finally, in this category are included all the activities that are useful for the community in which the companies are embedded.

It is important to underline, that even if the activities of both the People and the Community are performed for the generation of a positive impact for the human being, the final recipient is different. In the first case the focus is on the people inside the corporation, giving more humanitarian connotations to a category that has always been considered as the tool to obtain the business outcome. While in the case of the Community, the activities performed address the impellent social problems that are typical of the local community.

Therefore, after having portrayed the various categories the activities performed are divided as indicated in Figure 13.

*Figure 13 Impact Areas: number of initiatives*



Source: our research

To sum up, the identified activities are 646 representing all the actions described in the companies' impact reports, considering that many firms have identified more than one activity.

In this case, we find out that the area of interest that has shown more appealing is the one connected to the People's actions, that consists in all the activities performed to improve the motivation of the people that are directly connected with the companies and also the areas in which the customers obtain additional values, influencing their purchasing process and their loyalty's towards the firm. While the Stakeholders' actions have obtained the less participation since they are the one that could generate less synergies, being disconnected from the company's boundaries.

Indeed, we have accessed the activities performed from each sector of belonging, that are showed in Table 3.

*Table 3      Impact Areas & Sector of belonging*

INDUSTRY	ENVIRONMENT	STAKEHOLDER	PEOPLE	COMMUNITY	TOTAL
Manufacturing	80	27	55	42	204
Service	79	106	141	116	442
Total (frequency)	159	133	196	158	646

Source: our research

At the first impression, it seems that the services companies are the one that show more engagement on the impact activities, resulting more inclined to the creation of a *for-Benefit Companies*. But this is not true, because there is the need to compare the number of the activities performed by each sector with the total number of companies included in the specific category analysed. In other words, considering for example the environmental actions, the number of actions employed by the service sector and the manufacturing one are slightly the same. But the concentration of these activities in the total numbers of firms is different. In fact the number of activities have to be compared with the total number of manufacturing firms that are 47 and the total number of service companies, that is 104, in order to get the real incidence of the phenomenon.

### *Environment*

In the case of the environmental area, the manufacturing sector have achieved 80 activities while the service one has achieved 79 actions. But as mentioned before, there is the need to compare the results to the number of firms that belong to that sector. In the case of manufacturing there are 47 *Benefit Corporations*, therefore considering the mean value each company is able to achieve 1.7 activities.

While the service sector is composed by 104 firms that are able to show their commitment, performing in average 0.76 activities, so less than one activity per company.

Furthermore, these results are important to access that the environmental goals produce more interest in the manufacturing companies. The reason is because each manufacturing company produce a tangible outcome that could be easily compared with the outcome of similar firms. Therefore, these companies do not need to convince the customers to prove the quality of its products but instead they need to stress the ability to generate a less impact of the overall production process. Consequently, considering that all the life cycle of the product is highly connected with the environment where the firm belongs, it is important to show the capacity of the firm to reduce its footprint. Moreover, in order to underline even better the incidence of each activity, we have also analysed the activities performed by each company.

Taking into consideration the Manufacturing side, among the 47 *Benefit Corporations* that have presented their activities, 33 (70%) companies perform at least one activity that produce a benefit for the environment. Moreover, among these 33 companies, 21 companies achieve more than one activities for the environment, showing that it is not only a matter of philanthropy, or an inclination towards a specific environmental issue, but it is instead the product of a real strategy towards this category in need. In fact, translating the absolute value in percentage, among the 47 manufacturing companies, the 45% showed their engagement in more than a single environmental activity.

On the other hand, taking into consideration the Service sector, 37 companies among the 104 benefit-service businesses, that is the 35%, have demonstrated to engage at least one activity for the environmental's issue, while only the 18% of the 104 companies, is able to perform more than one activity.

The results coincide with what as mentioned before, therefore even analysing in detailed the number of the activities performed by each single company the conclusion does not change and the manufacturing sector still presents a favourable inclination towards the environmental matters. Thus, it could not be translated into an intrinsic propension of these typology of firms to these actions, but instead the cause is connected to the fact that customers requires more meaningful companies, and the only way to achieve it, from the manufacturing's point of view is through the commitment towards the environment showed in the label of the product sold, therefore it represents a duty towards the satisfaction of customers' needs (Table 4).



Table 4 Environmental Area: specific actions

AREA	ACTIONS	FREQUENCY
ENV: Actions towards the improvement of the environment	Improvements of urban design	2
ENV: Actions towards the improvement of the environment	Improvements of biodiversity promotion	3
ENV: Actions towards the improvement of the environment	Plantation of new trees	2
ENV: Documents' digitalization	Documents' digitalization	4
ENV: Soustenaible Packaging	Soustenaible Packaging	8
ENV: Soustainable Logistic	Priority on local furniture	6
ENV: Soustainable Logistic	Use of sustainable mean of transport	7
ENV: Soustainable Production method	Sustainable production process	19
ENV: Soustainable production method	Innovative techniques to reduce the environmnetal impact	14
ENV: Renewable resources	Renewable resources	36
ENV: Limitation of the use of natural resources	Limitation of the wasting of resources	3
ENV: Limitation of the use of natural resources	Limitation of the use of natural resources	12
ENV: Emission reduction	Emission reduction	15
ENV: Recycling, plastic reduction and plastic free	Waste recycling	23
ENV: Recycling, plastic reduction and plastic free	Plastic reduction and plastic free usage	5
Total		159

Source: our research

## Stakeholders

Taking into consideration the stakeholder's point of view, among the 133 companies that have demonstrated an interest on this category, 27 activities are coming from the manufacturing sector, while 106 from the service one. Also, in this case, in order to analyse these numbers is essential to compare it with the number of firms. In the case of the Manufacturing sector, considering the total actions performed in the Stakeholders category, each manufacturing companies performed 0,57 activity so less than one activity per company. While considering the service sector, composed by 104 firms, each of them is able to show its commitment promoting 1,5 activities per society, so more than one per firm. Then the analysis takes into considerations the number of activities that each company achieved, in order to access the incidence of the stakeholders practices on the overall strategy of the firm. In the case of the manufacturing sector, 22 companies (47%) performed at least one activity for the stakeholder's category while only the 8% of the total category is able to include more than one stakeholder activity. While taking into consideration the service's side, 52 companies among the 104 founded (50%), are

able to show at least one stakeholders' activity and the 29% is able to show the engagement on more than one activity.

These results are important to the insight that is possible to be extrapolated, infact considering both the activities performed and the number of actions engaged by each single company, the service sector is more inclined towards an engagement that takes into account the stakeholder's sphere. This is due to the fact that service companies produce a product that is highly intangible, consequently to convince the customers to buy their product, there is the need to get the attention of the people and improve also the quality of the moment in which the company and the customers are in contact, promoting the values of the companies through the implementation of activities on the behalf of the university, the school or other entities.

In detailed, the activities included in this part are showed in Table 5.

*Table 5 Stakeholders area: specific actions*

AREA	ACTION	FREQUENCY
STAKE- Stakeholders' wealth (prevention and promotion)	Actions towards the animal protection	4
STAKE- Stakeholders' wealth (prevention and promotion)	Promotion of stakeholders' wealth	20
STAKE- Stakeholders' wealth (prevention and promotion)	Support of civil protection actions	2
STAKE-Collaboration with the University	Collaboration with the University	11
STAKE- Investment on Research,University, School	Investments on school	1
STAKE- Investment on Research,University, School	Investment on scientific research	9
STAKE- Collaboration with the School	School trainship	11
STAKE- Associations and Institutions' support and volunteering activities	Associations and Institutions'support and volunteering activities	48
STAKE- Associations and Institutions' support and volunteering activities	Investment on restoration works	1
STAKE-Support soustainable initiatives	Action to improve public transparency	2
STAKE-Support soustainable initiatives	Promotion soustainable initiatives	17
STAKE-Support of circular economy initiatives	Promotion circular economy initiatives	7
Total		133

Source: our research

## *People*

The majority of activities were registered in the People category, where are present 196 actions: 55 of them belongs to the manufacturing sector, while the other 141 are addressed by the service one. Indeed, considering the manufacturing sector, knowing that 47 of them have showed a benefit activity, each company is able to perform 1.2 peo-

ple's activity on average, therefore slightly more than one activity per company. While considering the service one, they are able to perform 1.36 activities per companies, so approximately the two subgroups achieve the same results.

Moreover, to have a clearer picture of the situation we analyse also the frequency shown by the companies. In the case of the manufacturing sector, 27 companies among the 47 manufacturing one (57%), are able to show at least one people-oriented activity while the 23% of the total manufacturing sector is able to show the engagement towards people with more than one activity.

On the other hand, taking into consideration the service sector, 71 companies (68%), are able to show at least one people activity, while the 38% achieved the commitments of two activities towards the people category. In this case, the service sector is more inclined towards the people category but the difference is not so relevant because the results are approximately the same. This result is not so astonishing because the activities intended towards the people are the ones principally connected with the workforce, therefore it is not a matter of sector of belonging, but this typology of actions are essential for all the *Benefit Corporations* in order to engage and improve the performances of employees.

Indeed, all the actions analysed for the people category are presented in Table 6.

Table 6 People area: specific actions

AREA	ACTION	FREQUENCY
PEOPLE- Work environment quality	Sustainable working environment	3
PEOPLE- Work environment quality	Quality of the working environment as an indicator of the companies' performances	34
PEOPLE-People's wealth	Action towards the promotion of individual wealth	11
PEOPLE- People's wealth	Pet Therapy	1
PEOPLE- People's wealth	Promotion of sustainable practices	7
PEOPLE-Training and development	Training opportunities	44
PEOPLE-People engagement	People engagement	14
PEOPLE- Equal opportunity	Actions in order to abolish inequalities (ethnicity,gender, orientation)	15
PEOPLE- Equal opportunity	Reduction of the remuneration gap	6
PEOPLE-Customers' engagement	Improvement of clients' sustainable attention	32
PEOPLE-Relationship suppliers	Suppliers ethic code	4
PEOPLE- Work-life balance	Actions towards women engagement	9
PEOPLE-Work-life balance	Working flexibility	16
Total		196

Source: our research

## Community

The last category taken into consideration is the one that contains all the activities that have as a goal the improvements of the community environment.

This group contains 158 activities: 42 of them are performed by manufacturing companies and 116 by service firms. Therefore, in average each manufacturing company is able to perform 0.9 activity while an average service one performs 1,1 activities.

Taking into consideration the number of activities performed, 28 manufacturing companies (59%) are able to perform at least one activity that has an impact on the community in which they are embedded, with a percentage of 19% that is also able to perform more than one activity. On the contrary, there are 72 service companies (69%) that are able to perform at least one activity, managing to act more than one activity on the behalf of the community with a percentage of 29%.

In this case, the insight is that the service companies are more inclined towards the show of activities that empower the community even if the difference is not so wide. This is because it is an essential prerequisite of the *Benefit Corporation* to improve the wealth of their community, because being embedded in this scenario they are more inclined to overcome the issues that they are facing every day.

Finally, the activities demonstrated in this section are presented in the Table 7.

Table 7 Community area: specific actions

AREA	ACTION	FREQUENCY
COMM-Hospitality and charity actions	Immigrants recipients	9
COMM-Hospitality and charity actions	Support of poor people	25
COMM-Wealth, ethic and soustainability	Culture and sustainable promotion	31
COMM-Wealth, ethic and soustainability	Legal equality promotion	6
COMM-Wealth, ethic and soustainability	Promotion of sport activities, wealth and security	5
COMM-The companies and the management of the work	Adoption of local forniture	13
COMM-The companies and the management of the work	Hiring local employees	23
COMM-Community network	Creation of synergies with no-profit entities	36
COMM-Network with the educational system	Collaborations with local schools	10
Total		158

Source: our research

### 3.4.2 Final considerations and future research

Through this analysis it has been possible to access the real level of engagement performed by the *Benefit Companies* that as we have described below, goes beyond the merely inclination towards the environmental and social causes.

Even if, not all the companies of the sample have been able to show that; in the reports they have described in detailed the action they want to pursue and the recipients of these commitments.

#### *Manufacturing sector*

Indeed, it has sorted out that the *manufacturing sector* is more inclined towards environmental actions while the service one prefers the actions that are connected to the more humanitarian part, therefore the stakeholders, the people and the community. The reason that explains this behaviour is that these companies decide the activity to perform based on the synergies that could be extracted, and their inclination is oriented towards the activities that produce more advantages for their core businesses. In fact, the manufacturing companies produce tangible products that could be differentiated promoting a low impact production process that is also able to cause the increase of the final quality of the product.

#### *Service sector*

While in the case of the *service sector*, the outcome generated is highly intangible and the customers is unable to access all the processes in order to produce that service, therefore the focus shifts on the promotion of additional activities to empower the credibility and the reputation of the firms. Finally, even if these insights are useful to get a more comprehension of what these companies are intended to achieve, it is important to stress that future research should focus on the analysis of the resources employed by each firm on each single activity, in order to better quantify the efforts employed.

## 3.5 The empirical analysis

### 3.5.1 The hypothesis

The research question of the following analysis is to access whether being a family firm has some implications in terms of the efficiency and the profits generated by the company. In other words, the focus is to analyse in the sample the differences that come out

comparing the two subgroups, that are the one composed by family and the other by non-family businesses.

### **3.5.2 Sample group**

Among all the companies that represent the object of studying, in order to obtain more reliable results there is the need to extract only the companies that presents value for the Revenues of the 2017, 2018; ignoring all the companies that presents “n.d.” acronym or “0”. This is also due because ratios, such as ROI, ROA, ROE but also the EBITDA need reliable values in order to formulate their results. Therefore, the sample is composed as following:

- The sample group, which constitutes the group treated, that is composed by 64 companies that are 42 family businesses and 22 non-family companies;
- The panel group, which is the one non treated, that is composed by the remaining part of the population examined, which is composed by 172 companies.

Indeed, the sample group has the scope to represent a fraction of the entire population, therefore in order to be sure that there are not biases, the two groups have been compared to portray their characteristics.

#### *Characteristics of the sample group*

The sample group as mentioned before contains 42 companies, but in particular:

- 42 family businesses that represent the 66% of the sample;
- 22 nonfamily businesses constituting the 34% of the subcategory analysed;

Moreover, considering their region of incorporation, they are located as resulting below:

- In the North: 52 companies, therefore the 81% of the sample;
- In the Center: 11 Companies, thus representing the 17%;
- In the South: 1 firm that constituting the 2%;

Finally, it is important to access whether they have been incorporated before or after the 2016, that is the year in which the *Benefit Corporation* form has been introduced in the Italian system. The sample has been divided in two groups, the one that contains all the companies that were born before the 2016 and the other composed by all the firms raised exactly in the 2016 or after the 2016.

As a result, 37 (58%) companies have been incorporated before the 2016 representing the largest part of the population and the other part, the remaining 27 firms (42%) have been created after the adoption of the rule that provides the possibility to be incorporated as a *Benefit Corporation*.

### **3.5.3 Characteristics of the peer group**

The group that does not represent the category studied through the empirical analysis is composed by 172 firms, that are located according to the place where they have been incorporated:

- In the North: the majority is in this area of Italy, where 109 firms have installed their location constituting the 63% of the peer population;
- In the Center: 42 firms are fundable in this place, representing the 25% of the peer group;
- In the South: 21 companies that in percentage could be translated into the 12%, representing the minority subgroup.

Considering their *business life* it is relevant to access whether they have been constituted before or after the 2016. Among the group, 139 firms, translated in percentage the 81%, have been installed after the 2016, constituting the 81 %, while dating back to more remote years, 33 firms, that is the 19%, were born as traditional companies and then they have applied modifications to their corporate forms.

Finally dividing them according to the principal activity performed, 129, that is the 75% of the peer group, firms are in the service sector while 43, that corresponds to 25%, are in the manufacturing one.

### **3.5.4 Descriptive statistics on the sample**

Considering the sample group, in order to access its characteristics and the relation that elapse between the two subgroups, the family and non-family group, there is the need to use a Statistical tool: STATA, a software for statistic and data science.

First, as mentioned before, the variables that we intend to study in order to verify the hypothesis are:

- Revenues
- EBITDA

- EBITDA/Sales
- ROS
- ROA
- ROI
- ROE
- Employee's Performances
- Labour Cost

Moreover, it is important to enlighten that these data have been extrapolated for the year 2017 and 2018, due to the fact that the parliament has passed “The stability Act” on the 2016, which allow the Italian companies to be incorporated as *Benefit Corporation* and also to let companies that have been incorporated as traditional corporation to become “Società Benefit”. Among them, in order to simplify the analysis, the focus was shifted to the Data mentioned before that belong to the year 2017.

First of all, using the command “Summarize”, we have obtained the mean and the standard deviation of each variable in order to compare the differences between the family and non-family firms. In detail, the mean is simple the average of the values divided by the total numbers of events. While the standard deviation is useful in order to access how far are located the values from the mean, in other words it useful to know whether or not the data are concentrated around the mean.

### *Revenues 2018*

In this case the variable has been described according to their nature, that is being a family or a non-family firm. As it is possible to see in the Table 8, the mean is higher in the case of family firm. But considering the standard deviation, it is possible to say that the values are distant from the mean so the distance between the minimum value and the maximum one is higher than in the case of the non-family firm, where the standard deviation has an inferior value.



Table 8 Ranks table: Revenues 2018

```
. by nature, sort : summarize Revenues2018
```

-> nature = family					
Variable	Obs	Mean	Std. Dev.	Min	Max
Revenues2018	42	7920.184	20997.51	5.028	108561

-> nature = non family					
Variable	Obs	Mean	Std. Dev.	Min	Max
Revenues2018	22	1039.656	1395.482	15.25	4456.353

Source: our research

## EBITDA

In this case, the EBITDA<sup>3</sup> is taken into consideration to access the efficiency of the company. In particular, we have a higher mean value considering the family group, but as in the case before the standard deviation is higher, due to the presence of a wide interval between the minimum and maximum values.

Table 9 Ranks table: EBITDA2018

```
. by nature, sort : summarize EBITDA2018
```

-> nature = family					
Variable	Obs	Mean	Std. Dev.	Min	Max
EBITDA2018	42	1358.884	4633.234	-507.138	28012.16

-> nature = non family					
Variable	Obs	Mean	Std. Dev.	Min	Max
EBITDA2018	22	-38.90382	420.888	-1348.506	355.676

Source: our research

<sup>3</sup> The Ebitda is essentially the net income plus the interests, taxes, depreciation and amortization. It is useful in order to analyse and compare two subgroups without the biases created by the effects of financing and capital expenditure.

### EBITDA-to-Sales

Another important financial ratio that is considered is the EBITDA-to-sales ratio that is useful in order to access the profitability of the company, comparing its revenue with its earnings. Also in this case the mean value of the family group is higher than the mean value of the non-family group, while comparing the Standard deviation we can see that in the case of the family businesses, the values are more around the mean compared to the values of non-family firms.

Table 10 Ranks table: EBITDA/Sales 2018 in %

```
. by nature, sort : summarize EBITDAsales2018
```

```
-> nature = family
```

Variable	Obs	Mean	Std. Dev.	Min	Max
EBITDAs~2018	42	14.35524	13.13208	-5.44	42.76

```
-> nature = non family
```

Variable	Obs	Mean	Std. Dev.	Min	Max
EBITDAs~2018	22	-52.49045	207.1623	-960.88	36.65

Source: our research

### ROS

In this case, one of the ratios is taken into consideration, the ROS, in order to measure how much of the profit is created through the sales. Even in this case, the efficiency is higher in the case of family business and contrarily to what have happened before the standard deviation is lower in comparison to non-family firms. In the case of non-family firm, even if the negative value could be alarming it is important to enlighten the fact that in the sub group there are firms that do not belong to the same line of business and they do not have the same size.

Table 11 Ranks table: ROS 2018

```
. by nature, sort : summarize ROS2018
```

```
-> nature = family
```

Variable	Obs	Mean	Std. Dev.	Min	Max
ROS2018	42	7.70881	9.015392	-5.49	29.59

```
-> nature = non family
```

Variable	Obs	Mean	Std. Dev.	Min	Max
ROS2018	22	-.18	11.7069	-30.44	16.44

Source: our research

## ROA

In this case, the ROA is examined to determine how well the two groups use their assets. The mean is extremely higher in the case of family firm while the standard deviation is little suggesting that the values are around the mean.

Table 12 Ranks table: ROA 2018

```
. by nature, sort : summarize ROA2018
```

```
-> nature = family
```

Variable	Obs	Mean	Std. Dev.	Min	Max
ROA2018	42	15.37714	17.72064	-12.63	59.64

```
-> nature = non family
```

Variable	Obs	Mean	Std. Dev.	Min	Max
ROA2018	22	-12.95045	54.02299	-230.67	52.22

Source: our research

## ROI

Another ratio analysed is the ROI that is useful to evaluate the efficiency of the companies' investments and even in this case the family are able to succeed, showing higher values. While considering the standard deviations, the values are approximately the same.

Table 13 Ranks Table: ROI 2018

```
. by nature, sort : summarize ROI2018
```

```
-> nature = family
```

Variable	Obs	Mean	Std. Dev.	Min	Max
ROI2018	42	2.765952	7.564359	-20.9	23.46

```
-> nature = non family
```

Variable	Obs	Mean	Std. Dev.	Min	Max
ROI2018	22	2.580455	7.398706	-8.34	23.2

Source: our research

## ROE

Then, the last ratio analysed is the ROE, that is a profitability ratio that measures the ability of a firm to generate profits from its shareholders investment in the company.

Table 14 Ranks Table: ROE 2018

```
. by nature, sort : summarize ROE2018
```

```
-> nature = family
```

Variable	Obs	Mean	Std. Dev.	Min	Max
ROE2018	42	27.09786	32.46946	-54.4	92.55

```
-> nature = non family
```

Variable	Obs	Mean	Std. Dev.	Min	Max
ROE2018	22	15.63864	21.21395	-13.27	66.79

Source: our research

## Employee' performances

Then considering a more managerial value, the performances of employees are taken into consideration. In this case the results of the family and non-family respectively are not so distant, even if the mean of the family is always higher than the non-family's mean. While the standard deviation values are approximately the same.

Table 15 Employees' performances

-> nature = family					
Variable	Obs	Mean	Std. Dev.	Min	Max
perform~2018	42	8.274762	11.67354	0	62.79
-> nature = non family					
Variable	Obs	Mean	Std. Dev.	Min	Max
perform~2018	22	7.222727	10.9334	0	40.41

Source: our research

### Labour cost

In terms of costs employed to pay the workforce, family businesses result cheaper, considering the mean. While considering the standard deviation the non-family value is higher in respect to family firms. As a result, the values are more distant from the mean, therefore the interval that goes from the minimum to the maximum is wider than in the case of family firms.

Table 16 Ranks table: Labour cost 2018

. by nature, sort : summarize Labourcost2018					
-> nature = family					
Variable	Obs	Mean	Std. Dev.	Min	Max
Labourc~2018	42	24058.57	19642.76	0	57700
-> nature = non family					
Variable	Obs	Mean	Std. Dev.	Min	Max
Labourc~2018	22	29607.27	23176.11	0	73190

## 3.6 Empirical Analysis

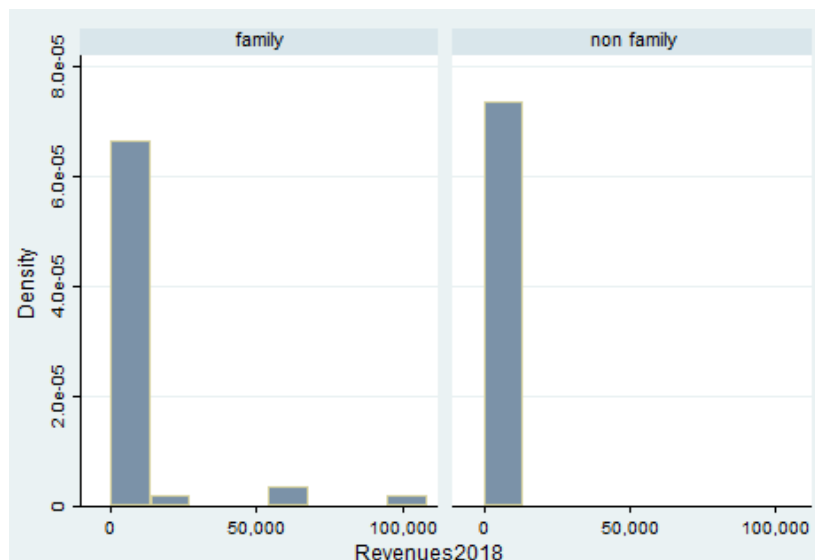
In this section the sample already described, is used in order to verify the hypothesis proposed before, that consists into accessing whether the fact of being a family, brings to the firms an additional value or on the other hand it represents a destroying element.

In other words, the tests, that are going to be explained, have the duty to highlight any relevant evidence between the two groups, the family and non-family firms. First of all, the variables are examined, in order to verify the normality's assumptions then the Mann-Whitney test is used.

### 3.6.1 Normality Assumptions

In order to apply the test to access any differences between the family and non-family firm, there is the need to test whether the distribution of the population is normal. First, we have examined the graph of each single variable studied in order to evaluate their distributions. In order to access the presence of normal distribution, it is essential to analyse the shape and the normality is figured out whenever the graph is symmetrical, and it assumes a “bell shape”, with the mean, the median and the mode that assume the same value. However, in the sample analysed, the variables do not present a bell shape, as we can see in the Figure 14, where the histogram of the Revenues of the 2018 are represented, taking into consideration the family and the non-family group respectively.

Figure 14 Histogram of Revenues 2018



Source: our research

Therefore, in order to be sure that to test effectively the normality assumption we also test it through the Shapiro-Wilk test. The test is based on two hypotheses:

- H0: The variables are normally distributed;
- H1: the variables are not normally distributed

The way to evaluate if the sample studied is normally distributed is based on the p-value obtained with STATA. If the p-value obtained is less than 0,05 or 0,01; then the null hypothesis of normality can be rejected. On the other hand, if the p-value has a higher value than the alpha level that is equal to 0,05 or equal to 0,01; the H0 cannot be rejected and the population is normally distributed.

In this case we have made the tests for all the variables, but as an example we have reported the results of the revenues 2018, for the family and non-family firm, as Table 17 and Table 18 show. It is important to underline that in this case it has been created a dummy variable in order to use the command “if”, that assumes value= 1 when there is a family firm and it assumes a value=0 in the case of a non-family firm.

*Table 17    Shapiro-Wilk test for family firms*

```
. swilk Revenues2018 if dummyfamily==1
```

Shapiro-Wilk W test for normal data

Variable	Obs	W	V	z	Prob>z
Revenues2018	42	0.41136	24.161	6.722	<u>0.00000</u>

*Table 18    Shapiro-Wilk test for non-family firms*

```
. swilk Revenues2018 if dummyfamily==0
```

Shapiro-Wilk W test for normal data

Variable	Obs	W	V	z	Prob>z
Revenues2018	22	0.74015	6.583	3.821	<u>0.00007</u>

Source: our research

Both for family and non-family firm the p-value is less than any alpha levels chosen, therefore we are able to reject the null hypothesis of normality, at any significant levels.

### **3.6.2 The Mann-Whitney test**

As a result, after having assessed the Normality, there is the duty to use a non-parametric test: The Mann-Whitney test, in order to evaluate if the difference between the two groups, the family and non-family one is significant. A non- parametric test is

used in the case of an asymmetric distribution as in this case. The hypothesis of the test are:

- H0 that affirms that the groups in comparison comes from the same population, so that they have the same distribution. So, in this case it is translated into no statistical significance between the family and the non-family group;
- H1 instead, affirms that the first group data distribution differs from the second group data distribution, so that there is a significant difference between family and non-family business (Nachar, N.,2008).

### *Significant variables*

The variables that through the tests have shown a significant difference among the two populations studied are: The Revenues, the EBITDA, the EBITDA on Sales, the ROA, the ROS and the ROE, as it is reported in the next tables. For simplicity the results reported considered the year that is more recent, the 2018.

### *Revenues 2018*

The p- value obtained with the test is 0.0953 that with a confidence interval of 90% allows to refuse the H0 hypothesis.

*Table 19 Test statistics table: Revenues2018*

```
. ranksum Revenues2018, by( nature)

Two-sample Wilcoxon rank-sum (Mann-Whitney) test
```

nature	obs	rank sum	expected
family	42	1483	1365
non family	22	597	715
combined	64	2080	2080

```

unadjusted variance      5005.00
adjustment for ties      0.00
-----
adjusted variance        5005.00

Ho: Rev~2018(nature==family) = Rev~2018(nature==non family)
      z =      1.668
      Prob > |z| =    0.0953

```

Source: our research



### EBITDA 2018

Considering the results obtained and comparing the p-value that in this case assumes a value equal to 0.0097, the H0 hypothesis is refused, taking into account an  $\alpha=0,05$ , therefore the difference between family and non-family firms is significant in the case of the EBITDA values, and the higher mean value obtained by family businesses is not due to chance.

Table 20 Test Statistics Table: EBITDA 2018

```
. ranksum EBITDA2018, by( nature)
```

Two-sample Wilcoxon rank-sum (Mann-Whitney) test

nature	obs	rank sum	expected
family	42	1548	1365
non family	22	532	715
combined	64	2080	2080

unadjusted variance	5005.00
adjustment for ties	0.00
adjusted variance	5005.00

```
Ho: EB~A2018(nature==family) = EB~A2018(nature==non family)
      z = 2.587
      Prob > |z| = 0.0097
```

Source: our research

### EBITDA/Sales 2018

Also, the EBITDA on sales financial metric agrees with the other ratio, that the contrast in terms of family and non- family performances results is not due to chance, but it is real, as the H0 hypothesis is refused, with a p-value of 0,0124.

Table 21 Test Statistics Table: EBITDA/SALES2018

```

. . ranksum EBITDAsales2018, by( nature)

Two-sample Wilcoxon rank-sum (Mann-Whitney) test

```

nature	obs	rank sum	expected
family	42	1542	1365
non family	22	538	715
combined	64	2080	2080

```

unadjusted variance      5005.00
adjustment for ties      0.00
-----
adjusted variance        5005.00

Ho: EB~s2018(nature==family) = EB~s2018(nature==non family)
      z =      2.502
Prob > |z| =      0.0124

```

Source: our research

## ROS 2018

Then the ROS of the two groups has been take into account, also in this occasion the p-vale demonstrates that the difference between the family and non-family group is significant, allowing to refuse the H0 hypothesis, with p value of 0,0227.

Table 22 Test Statistics Table: ROS 2018

```

. ranksum ROS2018, by( nature)

Two-sample Wilcoxon rank-sum (Mann-Whitney) test

```

nature	obs	rank sum	expected
family	42	1526	1365
non family	22	554	715
combined	64	2080	2080

```

unadjusted variance      5005.00
adjustment for ties      -13.75
-----
adjusted variance        4991.25

Ho: ROS2018(nature==family) = ROS2018(nature==non family)
      z =      2.279
Prob > |z| =      0.0227

```

Source: our research

## ROA 2018

Another ratio is able to demonstrate that the difference between the two categories of firms can be significantly considered, as the p-value of 0,0039 confirms.

## ROE

The significance of the difference is also explained by the ROE of the 2018, as the p-value of 0.0061 affirms, being able to refuse the H0 hypothesis with a confidence interval of 90%.

Table 23 Test Statistics Table: ROA2018

```
. ranksum ROA2018 , by( nature)
```

Two-sample Wilcoxon rank-sum (Mann-Whitney) test

nature	obs	rank sum	expected
family	42	1569	1365
non family	22	511	715
combined	64	2080	2080

unadjusted variance	5005.00
adjustment for ties	0.00
adjusted variance	5005.00

```
Ho: ROA2018(nature==family) = ROA2018(nature==non family)
      z = 2.884
      Prob > |z| = 0.0039
```

Source: our research

Table 24    *Test Statistic table: ROE2018*

```
.   ranksum   ROE2018   , by( nature)
```

Two-sample Wilcoxon rank-sum (Mann-Whitney) test

nature	obs	rank sum	expected
family	42	1495	1365
non family	22	585	715
combined	64	2080	2080

unadjusted variance	5005.00
adjustment for ties	-2.29
adjusted variance	5002.71

```
Ho: ROE2018(nature==family) = ROE2018(nature==non family)
      z =   1.838
      Prob > |z| =   0.0661
```

Source: our research

### *The remaining variables*

On this part, they are presented all the variables that through the test do not manage to demonstrate a significant difference between the two populations studied.

### *ROI*

In the case of the ROI, the p- value is bigger than any level of significance, therefore it is impossible to refuse the hypothesis H0 and as a result the difference between the two groups of the population is not significant.

Table 25     *Test Statistics table: ROI 2018*

```
.   ranksum   ROI2018, by( nature)
```

Two-sample Wilcoxon rank-sum (Mann-Whitney) test

nature	obs	rank sum	expected
family	42	1393	1365
non family	22	687	715
combined	64	2080	2080

unadjusted variance	5005.00
adjustment for ties	-1132.08
adjusted variance	3872.92

```
Ho: ROI2018(nature==family) = ROI2018(nature==non family)
      z =    0.450
      Prob > |z| =    0.6528
```

Source: our research

### *Labour cost*

One of the variables evaluated in order to compare the efficiency of family and non-family firms is the cost of the Labour. Even if, as mentioned before there have been found differences between family and non-family firms, this contrast could not be considered as significance due to a p-value that is bigger than any level of significance.

### *Employees Performances*

The last variable studied is the performance of the employees, but even if the family firms have demonstrated a higher mean values for this variable in comparison to the non-family group, the difference between being a family or a non-family could not be considered significant as the p-value is bigger than any level of significance.

Table 26 Test Statistics table: Labour cost 2018

```
. . ranksum Labourcost2018, by( nature)

Two-sample Wilcoxon rank-sum (Mann-Whitney) test
```

nature	obs	rank sum	expected
family	42	1312	1365
non family	22	768	715
combined	64	2080	2080

```

unadjusted variance      5005.00
adjustment for ties      -64.17
-----
adjusted variance        4940.83

Ho: Lab~2018(nature==family) = Lab~2018(nature==non family)
      z =  -0.754
      Prob > |z| =  0.4508

```

Source: our research

Table 27 Test Statistics Table: Employees performances 2018

```
. ranksum performance2018, by( nature)

Two-sample Wilcoxon rank-sum (Mann-Whitney) test
```

nature	obs	rank sum	expected
family	42	1434	1365
non family	22	646	715
combined	64	2080	2080

```

unadjusted variance      5005.00
adjustment for ties      -19.02
-----
adjusted variance        4985.98

Ho: per~2018(nature==family) = per~2018(nature==non family)
      z =   0.977
      Prob > |z| =  0.3285

```

Source: our research

### 3.7 Discussion

Analysing the sample that constitutes the tool to access any kind of relationships between “being a family” and the ability to perform better, it has sorted out that all the variables examined have reported higher mean values in the case of family firms in respect to non-family firms. Even if all the variables, from the Revenues to the employ-

ee's performance, have demonstrated this higher efficiency of family firms in the Benefit scenario, this could not be directly translated into an overall better result of the family business because the test have outlined some limitations. Through the "Mann Whitney" test it has been possible to affirm that the difference is statistically significance in relation to the Revenues, to the Ebitda, to the Ebitda on sales, to the various Ratios such as ROS, ROA, ROE (except for the ROI). But it is not possible to affirm the significance of such difference between the two groups, in the case of the Labour cost and the Employees Performance. This could be due to many reasons, such as the fact that the companies divided in the two subgroups, contain firms that are belonging to different sectors, such as some firms coming from the manufacturing one and some other from the service one. Another reason relates to the size of the firms, therefore bigger firms that performs better could have biased the results, giving to their group of belonging an overrated mean that do not correspond to the real average of the other firms in the group. Moreover, the result is useful to affirm that being a family- benefit firm could help the business to achieve higher results in terms of efficiency but even if the cost of labour results cheaper in the family case and also even if the family's employees performance tested are higher that the non-family, "the familiness" matter do not represent the triggering factor of this dissimilarity. On the other hand, the fact that the analysis have produced this output could be explained affirming that the family firms outperform the non-family one, having shown an higher propensity in driving their business towards sustainability, even if both groups have some characteristics in common in terms of management of the firm. In order to explain better, considering the cost of labour, a random employee that could be hired by a traditional or a benefit firm, if he has the possibility to choose between two companies, he will prefer the one that is able to offer the highest wage and benefits. Therefore, even if the company in object is a family firm in order to compete in the market it should approximately offer the same salaries and benefits that the other competitors propose in the market which are translated in the same wages paid and a non-significant difference. To conclude, the analysis has produced a relevant insight. The Italian scenario, as the evidence told, is typical composed by family businesses that could be interested in embracing the environmental and social issues not only for a merely interests in philanthropy matters, instead it could be used as an instrument to achieve higher results, in order to differentiate the business, obtaining a

broader range of results, from the one related to the business to others that are included in the environmental sphere, donating more “meaning” to the principal business activity while performing better.

### **3.8 Conclusion**

In the chapter, it has been taken into consideration all the *Italian Benefit Firms*, that still represent an emerging niche in the market. It has been useful to access the main characteristics of these types of firms that have demonstrating the need to differentiate in respect to the traditional firms in order to embrace the environmental and social matters. Therefore, it has been sorted out that the sample taken into consideration is characterized by a high level of heterogeneity, being composed by companies that belongs to different sectors, from the one interested in consultancy to the one producing foodstuffs. The results are that even if they are so different also in terms of size and in terms of ownership compositions, considering the presence of family and non-family firms, they all shared:

- the same capacity to drive the change, showing in their reports their practical engagement towards a more sustainable environment;
- the same ability to resolve the social issues that are typical of the community in which they are embedded.

Indeed, it has also been possible to evaluate whether the fact of being a family firm has some consequences in terms of the performances of the *Benefit Companies*. Considering all the variables that have been examined; the Revenues, the Ebitda, The Ebitda to Sales, the ROA, the ROS and the ROE, have been showed a significant difference in terms of performances between the family and non-family group. While the ROI, the Labour cost and the Employees’ performance variables, even if the family group present higher values for all of these, it has not been possible to state the significance of the difference.

To conclude, in general the family firms have been obtaining higher values in the variables studied resulting a family firm the suitable form to embrace the social and environmental values.



## MANAGING *BENEFIT* FAMILY FIRMS

### 4.1 Introduction

In the empirical chapter, it has been investigated the greater ability of family firm to achieve both environmental and economic performances. The result obtained, are clear, family firms are more able to take into consideration both the economic and social ties, due to their intrinsic nature, that obliged them to consider since the beginning the two-fold objectives: the protection and the empowerment of family's values and the achievement of a positive business outcome. Therefore, the reason behind these superior proved skills is also the presence of the family in the firms that has obtained the bigger stake in the business that allow them to have the control and to decide the future of the company. As a consequence, the business activity they performed, is more than a merely job. It represents the sustainment of the family, the tool to increase their family's awareness in the community in which they are embedded and the unique way to pass through generations all the values that are impossible to disentangle from the corporation. As a result, the company becomes a real part of the family and the parents, which in this case are the owner of the firm could be prone to risk everything in order to let the company succeed. So, the attachment and the involvement showed, represents one of the critical factors of their success. Moreover, the environmental and social attention could be seen through the eyes of all the stockholders around the firm as a certification of their strong values and of their reliability. Consequently, considering the presence of asymmetrical information in the market, the engagement in social and environmental activities represent a reliable and truthy way to be known better and to be evaluate by the customers for the meaningfulness of the company and not only basing the attention on the final output.

So, the chapter is organized as following: in the second (2) paragraph there is a brief description of the family firm and the thresholds that must be overcome in order to identify a business in this manner. In the third (3) chapter it is presented one of the most relevant characteristic of family firms: the socioemotional wealth and its implication on their ability to improve their impact on the environment. In the sixth (4) paragraph it is underlined the family's natural propension towards corporate social responsibilities practices due to the presence of a twofold objectives. In the fifth (5) paragraph the concept is mentioned again taking into consideration the reasons behind this appealing on environmental and social practices. In the sixth (6) paragraph the implications of the analyses, presented in the third chapter, are mentioned. In the seventh (7) paragraph the activities performed by the family and non-family companies are described in detailed, assessing the presence of any differences among the two sub-groups. In the eighth (8) paragraph in order to reconnect with the focal point of the dissertation it is reported the overall engagement towards this trend of a constant bigger number of firms. In the ninth (9) there is the conclusion that sum up all the information that have sorted out by the analysis of family and non-family firms.

## **4.2 The typology of organization studied**

As Zellweger (2017) affirms:

«The distinction between family and nonfamily firm is not a matter of the size of the business, nor whether it is privately or publicly held. Rather, what qualifies a family firm, as such is the degree to which a family controls its firm».

Therefore, the concern is not on dimension, or industry, because it can be classified as a family firm any type of organization that is controlled by its family members. More in detailed, there is a criterion that must be followed in order to classify this typology of corporation as family firms that involves the ownership constitution. Hence, there is a distinction between small and large firms. For small enterprises, there is the need that at least 50 % of the voting rights are in the behalf of the family. While in the case of bigger companies, the threshold is overcome with a lower percentage of 20%. So, the relevant element in order to access the nature of a firm includes the control activity due to the ability to take the decisions and drive the future of the company. Indeed, in order to

access whether the family has an impact on the organization is important to estimate the involvement and the influence applied on the business.

Thus, beyond the classification procedure, the relevance of this topic is due to the importance that assumes in the business sphere. Indeed, the family business category do not constitute a niche in the market but instead they represent the prevalent form of organization in the world.

As Alderson (2012) reported, in the United states the 90 % of the firms are family companies, while in Europe the percentage is slightly inferior, around the 70%- 80% representing anyway the major stake in the market.

### **4.3 The paradox in family business: The Socio Emotional Wealth**

The relevant feature that distinguishes a family business from the traditional firms is the emotional endorsement that pervades the business sphere. Analysing the approach showed by family's members towards the firm, they tend to include also their personal values to shape the firm as the shadow of their family. So, the prevalence of the emotional sphere on the financial and business matters is defined as Socio emotional wealth. This concept, as Gomez-Mejia (2007) reported is:

‘the non-financial aspects of the firm that meet the family’s affective needs, such as identity, the ability to exercise family influence, and the perpetuation of family dynasty’.

As the definition explained, the Socio Emotional wealth represents the transitions of family's emotions and values into the organization in order to research an identification with the business activity.

Thus, in order to define this theme, it is important to present the various dimensions that compose it. Berrone et al (2012) have identified five main spheres:

- Family control and influence: the values of the firm remain more vivid and they tend to remain unaffected if the control of the firm is in the hands of the family members. Consequently, the more the family's members assume a controlling role in the company the more the family's wealth will be empowered (Berrone *et al* 2012);
- Family members' identification with the firm: it represents the strength of the connection between the family and the organization that is exacerbated when the firms is called with the family name, creating an overlap of the family and business dimensions.

- Binding social ties: another typical feature of the socio emotional wealth (SEW) is the fact that those types of organizations tend to extend their values and their familiar behaviours to non-family members such as suppliers and workers. This is due to the willingness to share a strong sense of belonging and commitment to the firm in order to create a strong tie between the organization and the members.
- Emotional attachment: family's members consider the firm as an important part of the family, empowering the organization with emotions and human characteristics. Therefore, this attachment is translated into a destroyed ability to take decisions in an objective manner. Thus, they show a strong emotional involvement in the business activities that is from one side positive as it helps to achieve high quality products and services thanks to the strong commitments showed, but on the other side it could be harmful due to negative emotions that could cause a bad atmosphere among the workforce or an inability to gain positive returns due to the absence of collaborations and synergies.
- Renewal of family bonds to the firm through dynastic succession: a typical pattern that distinguish a family from a non-family firm is the ambition to pass the firms and its values to the next generation. This requires an adaptation of the overall business that should include a longer time horizon of the decision-making process.

As a result, the more a firm presents a high intensity of these spheres the more the SEW will govern the future of the firm. Thus, the translation of family's value into the business sphere, creates a prioritization of the family's matters in comparison to the business sphere, therefore the financial performances of the firms could be harmed due to decisions that are only taken to keep the family's value intact. Moreover, this strong cohesion between the family's values and the firm is exacerbated when the corporation is both owned and managed by family's members while it is slightly reduced through the succession process and the passing of future generations. Furthermore, also the relationship with the risk is affected by the socio emotional wealth. In general, family firms tend to be risk averse because of the willingness to preserve the continuity of family's values. But in the case of the possibility to obtain some loss in family's sphere, they are inclined to accept situations that could threaten the economic performances of the firm in order to protect the emotional sphere (Gomez-Mejia *et al*, 2007). As a result, the risk

aversion is overcome in favour of the loss-aversion of the family's dominance and values (Debicki *et al* ,2016).

This endowment of values is the element that distinguishes a family firm from a traditional enterprise, but it is differently developed in each single-family business. Indeed, the importance that this array of values assumed; relates to the benefits that a family could obtain preserving this emotional aspect. Consequently, the degree of importance of these values vary due to the importance that the members give to the goals they prioritize (Debicki *et al* ,2016).

#### **4.4 The socioemotional wealth & the Environmental implications**

After having presented the core values of the family business that rather than limiting to an inclusion of the non-economic part, they are totally absorbed by the emotional parts of their family, the connection to the Hybrid organization and in particular to the *Benefit Corporation* is clear. As Battilana *et al* (2010) points out, family firms have always showed a strong interest in non-economic factors in order to decrease the sense of objectivity that characterized every traditional firms, in order to assure a stronger sense of self and identity from the firm. It is paradoxically therefore, the ability of these family members to start the business with members of their family and then being able to install even stronger ties and a tougher sense of belonging with the community around and the company itself. Therefore, after having constituted such a powerful sense of identity, the destiny of the firms becomes also the destiny of the family, starting to overlap one with the other. The result is a higher attention in respect to traditional companies on environmental goals, in order to avoid being labelled as "irresponsible corporation". But the society requires an effective engagement, indeed it is not good enough to show some social initiatives, instead there is the need to employ a longer-term vision that is also one of the main aspiration of family firms that see the companies as an investment for their future generation. Finally, also the connection between the social emotional wealth and the environmental performances will be exacerbated more in the case in which the company's actions are limited to a specific geographic area, especially if this area corresponds to the place in which the company is located. The reason of this event is the fact that being stucked in a specific community signifies the obtainment of constant judges and comments from the consumers and the society at all. Therefore, in order to protect the social emotional wealth, the family will be willing to suffer some financial losses in

order to guarantee a positive community reaction due to the strong environmental and social policies employed.

#### **4.5 Family firms and CSR**

Family firms tend to be projected into the future, due to the relevance of the next generation that will carry on the company. Consequently, commercial benefits are overcome by the SEW, that represents the focal point of these firms, as this element is able to preserve the family's values. The question is whether the family firm, due to its ability to pay attention to a two-fold objectives: that is the family and the business, is able to drive the change in the environment or in the society, or in other words to be socially responsible. On one hand, the risk of mission drift is high, since these firms are inclined to present some nepotism characteristics, that consist on showing some self-interested behaviours in order to protect their relatives and especially their children. But on the other hand, the interest in corporate social initiatives could represent a tool in order to enhance the family's reputation, representing a way to empower the family's values (Liu *et al*,2017). Furthermore, people, as mentioned before, are demanding more transparency and more commitment to the business that must recognise that their actions have implications for a broader spectrum of agents. Therefore, a showed interest in the CSR is becoming essential in order to gain reputation and legitimacy in the market. In this scenario, there is also another advantage that could be extracted by a family's firm that is showing an interest in these sustainable practices. As this typology of firms is always used by small and medium enterprises, they usually lack the resources to use effective communication tools. Therefore, the promotion of good practices could promote a positive image of the firm that could be translated into a better positioning that create alongside the socio emotional wealth, another intangible asset that nowadays is becoming essential. Moreover, these organizations tend to have good relationship with the community in which they are embedded that could be ameliorate showing a favourable attitude towards stakeholders (Lopez-Perez *et al*,2018).

Even more, one of the essential aspects of the family business' vision is the long-term view of their business that must be transmitted through generation. This concept finds also points of contact with the nature of the sustainability and corporate social responsibility that invite the market to view beyond the merely companies' life cycle, but to embrace also the future of the society and the environment. Overall, the attention on CSR

practises could help the firm to perpetuate the business, giving a positive image of the firm that could remain invariable through the future generations.

## **4.6 Evidence from the empirical analysis**

### **4.6.1 Limitations of the sample**

The empirical analysis performed in the chapter three, has as a scope the addressing of the ability of family and non- family firms, that have decided to incorporate as *Benefit Corporation*, to perform in the market in terms of the results of their financial metrics such as: the Revenues, Ebitda, Ratios; and in terms of the management of the firm: the Labour cost and the Employees performances.

In particular, the insight that we would like to extrapolate is to access which group of companies achieve better results. But before enucleating the focus of the discussion, it is important to underline that the results obtained could not be considered for their absolute truthfulness. As a matter of fact, the sample studied presents some limitations, due to some constraints in the research. The main weakness of our dataset is the inexistence of an official Database of the all Italian family corporations. Therefore, the only way to obtain this classification, is to access the shareholders composition and the shareholders' surname in order to identify the presence of any familiar ties. Secondly, the other limitation is connected to the fact that some of the companies that are part of the sample do not present the values of the financial variables, therefore the one that do not present any values for revenues have been ignored in order to perform the empirical statistic tests through the STATA program. Third another "dark" element was connected to the fact that the sample have put together companies that comes from difference sectors, including both manufacturing and service companies and that there were incorporated in different years, being the companies in different stages of their firms life cycle. Therefore, the significance of any relationship studied is connected to these constraints that could have created a slightly distortion of the overall results.

### **4.6.2 Insights from the research**

As mentioned before, the studied was aimed to examine the consequences of being a family- benefit firm in terms of efficiency and its ability to outperform the non- family counterparts. As the initial hypothesis have predicted, it has been possible to demon-

strate that the results obtained in all the variables examined outperform the non-family firms, with a statistical significant differences between the two groups, for the only exceptions of the ROI, the Labour costs and the employee's performances.

### *Revenues*

In particular, the first variable studied is the Revenues results, because we aspire to access their ability to earn a profit in the long-term. In this case, the family mean value compared to the non-family value, have shown a remarkable difference in terms of the ability to convince the consumers to buy their products or services. This could be manageable thanks to the fact that the consumers are attracted and convinced to buy their outputs due also to the values and to the sense of trustiness around family firms.

### *EBITDA*

Then another variable that have shown statistical significance is the EBITDA, that is useful to access the financial outcome of the operating decisions, eliminating all the noises created by non-operating matters. In this case, it was not difficult to access the group that have presented a more positive outcome since the family's part of the sample has shown a positive mean value while the counterpart has obtained a negative value. However, this negative value could not be taken into consideration in isolation because it is probably due to the presence of some firms with negative values that have impacted the overall category. Taking also in mind, that one of the weaknesses of this metric is that it measures the company's earnings of the last 12 months, accessing only the company's current operational performance. So, a negative EBITDA could be influenced by the fact that some companies, having been incorporated recently in the first year, could present for example higher amortizations costs that have influenced the results. Indeed, similar results have been obtained in the case of EBITDA to Sales, that is an useful financial metric to access the profitability of the company comparing its earnings with its revenues.

### *Ratios*

Then the Various Ratios have been accessed, in particular the ROS to verify the overall efficiency, that is the measure of the profit that is produced from the sales. In the case of family firms, a positive ROS could signifies their ability to growth efficiently while a decreasing ROS as in the case of the non-family group could be translated into imped-



ing financial troubles, but it is important to have always in mind the fact that the companies belong to different sector, having different business models with different operating margins. Also, the ROA value, that have showed similar results, is affected by the characteristics of the sector, even if it is interesting to verify the companies' ability to generate earnings from the invested capitals. Finally, the ROE is taken into account. This is one of the most important measure, considering the fact that the sample is composed by Benefit firms that have shown the willingness to consider also the interest of a broader category of characters including also all the stakeholders. But beyond this, the shareholders of the company could not be set aside, therefore is important to quantify the company's capacity to make use of shareholders' funds. In this case both the group have presented positive outcomes, with a superior ability on the behalf of the family companies.

#### ***Labour costs and employees' performances***

On the other hand, considering more managerial aspects, there have been taken into consideration the level of employees' performances and the Labours costs. Both the variables, even if they have shown through the mean values superior performances of the family firms, could not be considered statistically significance, as the Mann-Whitney test have shown a p-value that is not able to refuse the H0 hypothesis for every levels of significance. The reason behind this, could be the fact that being a family or a non-family firms do not represent the only essential factor in order to access the managerial superiority between these subgroups. But even if, the test has not been able to provide a statistical significance of these two variables, the presence or not of any familiar relationships still assume an important role. Moreover, it is important to underline that the labour costs and the employee's performances are strongly connected, infact analysing the output obtained through the test is easy to access that in the case of family firms the value of the labour cost is inferior, obtaining also greater performances in comparison with non-family firms. This could be influenced by several factors. First, the presence of familiar ties could increase their focus on the business, creating an emotional attachment that encourages them to achieve high performances. Second, it might be possible to suppose a scenario in which a young talent has the possibility to be hired by his father's company or by a non-family firm. In the case of his father's one, the work environment will be more friendly, allowing him to enjoy more flexibility. But on the other

hand, due to the presence of his father, he could be forced to work more hours than the normal standard required without the obtainment of a proportional remuneration. Indeed, the presence of strong familiar ties among members of the companies could also help to increase the ability of the owner to find suitable tasks that are proportional with his “child” skills, avoiding the waste of efforts that are also translated in wasting of money. Finally, also the communication plays a fundamental role in the family’s firm.

If the relationship among family’s members is positive, their strong connection could help to speed up the process, due to the tacit knowledge between the members and due to the improvements in the decision-making process avoiding any kind of fears and doubts. On the other hand, in case of conflicting situation, this factor could damage the work atmosphere, slowing down all the business life cycle. But, even if these considerations play a relevant role in influencing the results obtained, it is not possible to affirm that the presence of familiar relationships represent the focal point, thus the major influence could be due to the sector of belonging and the phase of the company in the moment in which it has been studied.

To conclude, the analysis have pointed out that among the Italian *Benefit Corporations*, there is a significance differences in terms of performances considering the family and non- family firms resulting in a showed strong inclination of the familiar part to embrace values and issues that go beyond the business sphere.

#### **4.7 Activities performed by family and non-family firms**

Taking into consideration the activities analysed in the chapter 3, we have also identified the actions performed by the family and non-family firms. In particular, among the 139 family corporations, 91 companies have carried out the benefit aim, showing at least their engagement in one activity while among the 97 nonfamily firms, 60 firms have accomplished at least one impact operation.

However, in order to analyse the contribution of each company on a specific macro area, we have divided the activities into the categories explained in the chapter three, that are: the environment, the stakeholders, the people and community. In detailed:

##### *Environmental area*

In this case among the 91 family firms, 44 (48%) have showed an interest in the achievement of at least one environmental activity, while 26 out of the 91 considered

have performed at least two activities, constituting the 29% of them. Therefore, only a minority of the family firms have included in their strategy the implementation of environmental issues.

While considering the non-family's side, among the 60 companies, 26 (43%) have performed at least one activity, while 14 companies, representing the 23% are able to engage their efforts acting on at least two environmental results. Therefore, in this case the differences between family and non-family firms in terms of activities performed has poor significance because the results are approximately the same, even if the family show a slightly bigger engagement.

### *Stakeholders area*

Considering the resources employed towards the stakeholders' category, from the family's part, 44 (48%) companies among the 91 have performed at least one activity towards them while only 18 firms, constituting the 20% have performed two stakeholders' actions. While taking into consideration the non-family's side, 30 companies (50%) among the 60 companies are performing at least one activity while 16 among the 60 considered, constituting the 27% are developing two or more actions. Therefore, even in this case the differences between family and non-family firms is irrelevant, due to approximately the same results achieved, stating that the non-family are able to show more engagement on the stakeholders' side.

### *People area*

Moving to the people's arena, among the family's side, 58 (64%) companies out of 91 have achieved at least one action, of which 32 companies, representing the 36% are able to perform a number of people's goals at least equal to two. On the other side, 40 non-family companies out of 60 firms (66%), are able to show at least one action towards the benefit of people, while the 32% of them, in absolute values 19 companies, are able to achieve at least two actions on the behalf of people. Even in this case, the trends of the two sub-groups studied is similar because they show an insignificant difference among them, even if the family group is able to show a superior inclination towards people.

### *Community area*

Considering the improvement of the community area, 58 family companies (64%) out of 91, are able to fulfill at least one community action, while 22 companies among the 91 considered is able to achieve the completion of at least 2 activities, representing the 24% of the population. On the other hand, the non-family companies are showing that 42 among the 60 companies considered, perform at least one action; while 17 non-family businesses among the 60 taken into account, thus representing the 28%, are able to achieve at least two actions on the behalf of the local community. To sum up also in this case, the two classes of firms do not present a relevant difference in terms of the engagement proved, even if in this case the non-family firms are more focus towards a strategy oriented towards the community.

#### **4.7.1 Implications**

After having analysed the number of activities that the family and non-family firms are able to perform towards the areas identified, it is important to extrapolate the relevant insights. In all the cases, it has been possible to test that the two sub-groups do not present a relevant difference in the number of activities showed towards the environment, the stakeholders' category, the people group and the community. Therefore, it is important to affirm that the quantity of activities performed by the *Benefit Corporations* are not connected to the presence or not of any familiar ties.

#### **4.7.2 Family and non-family activities**

In order to have a clearer picture of the scenario, it is important to analyse the single engagement showed in the categories identified in the macro areas, in order to have a look at the incidence of being a family on the activities performed.

Therefore, in the Tables 28 there are the summary of all the activities performed by family and non-family firms.

### *Environment*

In the *environmental* area, analysing the activities performed there is not a significant difference between the family and non-family firms. Moreover, the appealing towards the environmental activities showed by both groups is similar. This is due to the fact that the environmental activities presented, such as the use of renewable resources or

energy, represent the basic requirements that every Benefit companies, that aspire to address the environmental cause should perform.

Table 28 Environmental Area - Family & Non-family firms

AREA	ACTION	FAMILY		NON FAMILY	
		FREQ.	%	FREQ.	%
ENV: Actions towards the improvement of the environment	Improvements of urban design	2	2,2%	0	0,0%
ENV: Actions towards the improvement of the environment	Improvements of biodiversity promotion	2	2,2%	1	1,7%
ENV: Actions towards the improvement of the environment	Plantation of new trees	1	1,1%	1	1,7%
ENV-Documents digitalization	Documents digitalization	3	3,3%	1	1,7%
ENV- Soustainable packaging	Recycling Packaging	4	4,4%	4	6,7%
ENV-Soustainable Logistic	Priority to Local suppliers	2	2,2%	4	6,7%
ENV-Soustainable Logistic	Use of sustainable mean of transports	6	6,6%	1	1,7%
ENV- Soustainable production methods	Soustainable production process	11	12,1%	8	13,3%
ENV- Soustainable production methods	Innovative techniques to improve environmental impact	8	8,8%	6	10,0%
ENV- Renewable resources	Renewable resources	23	25,3%	13	21,7%
ENV- Limitation of the use of natural resources	Rationalization of resouces	2	2,2%	1	1,7%
ENV- Limitation of the use of natural resources	Rationalization of natural resources	7	7,7%	5	8,3%
ENV-Emissions reduction	Emission reduction	8	8,8%	7	11,7%
ENV-Recycling, plastic reduction and plastic free	Waste recycling	14	15,4%	9	15,0%
ENV-Recycling, plastic reduction and plastic free	Plastic reduction and "plastic free"	3	3,3%	2	3,3%

Source: our research

## Stakeholders

Taking into consideration the Stakeholders area the difference between the activities performed by the family firms and the non-family firms is not significant, as it possible to see comparing the number of firms that performs the activities.

However, it is important to highlight the behaviours towards the collaboration with as-sociations and no-profit entities. In this case, the family firms show a less appealing to-wards the creation of network with the institution. The reason behind this trend could be find in the family propension towards the creation of family foundation. In other words, the family could be more inclined to achieve the same stakeholder results creating a

form of governance that is designed by the family itself, guaranteeing the alignment of the family owners' interest and the protection of the family control, generating also economies of scale due to the alignment of the firm and the family foundation.

*Table 29 Stakeholders Area-Family & Non-Family firms*

AREA	ACTION	FAMILY		NON FAMILY	
		FREQ.	%	FREQ.	%
STAKE- Stakeholders' wealth (prevention and promotion)	Actions towards the animal protection	2	2,2%	2	3,3%
STAKE- Stakeholders' wealth (prevention and promotion)	Promotion of stakeholders' wealth	12	13,2%	8	13,3%
STAKE- Stakeholders' wealth (prevention and promotion)	Support of civil protection actions	1	1,1%	1	1,7%
STAKE-Collaboration with the University	Collaboration with the University	4	4,4%	7	11,7%
STAKE-Investment in Research, University and school	Investment on school	1	1,1%	0	0,0%
STAKE-Investment in Research, University and school	Investment on scientific research	3	3,3%	6	10,0%
STAKE- Collaboration with school	School trainship	4	4,4%	7	11,7%
STAKE- Associations and institutions support and volunteering activities	Associations and Institutions support and volunteering activities	30	33,0%	48	80,0%
STAKE- Associations and institutions support and volunteering activities	Investment on restoration works	0	0,0%	1	1,7%
STAKE-Support of sustainable initiatives	Actions to improve public transparency	0	0,0%	2	3,3%
STAKE-Support of sustainable initiatives	Promotion of sustainable initiatives	11	12,1%	6	10,0%
STAKE-Support of circular economy initiatives	Promotion of circular economy initiatives	3	3,3%	4	6,7%

Source: our research

## *People*

Considering the *People* area, some activities present some relevant insights that are typical of the family business way of doing business. Firstly, taking into consideration the promotion of the employee's training, the Non-Family companies are able to outperform the family's firms. The reason behind this difference is the fact that among familiar members the form of knowledge that is mostly shared is the tacit knowledge. Indeed, considering the constraint of resources, the family firms tend to focus more of the benefits towards their employees, such as the promotion of work-family flexibility and the improvement of the inclusion of the workforce in the decision-making process. This happens because the family companies tend to weight more the creation of familiar ties

also with non-family members, improving the working network instead of investing in training programs focused on the working tasks.

Therefore, Family firms are more inclined towards the activities that are aimed at the increase of the wealth of the workforce inside the corporation. In other words, their engagement is towards all the actions that are important in order to create a better working environment, such as a more inclusion of people or an equitable remuneration. While, on the other hand, the Non-Family prefer to focus on objectively actions such as the promotion of training program, giving more importance on business goals instead of emotional values.

### *Community*

The *Community area*, among all the activities presented, shows only a specific behaviour of Family Firms, consistent with the *Socio Emotional Wealth* theory. In fact, comparing the numbers of firms that have included in their report the collaboration of local suppliers, the Family firms are more inclined towards this activity, comparing 10 Family firms with only 3 non-family firms. This is mainly due to the fact that Family firms show a strong effort towards the guarantee of a good image and a good reputation in the community in which it is embedded. Therefore, one way to empower the company from the community's point of view is to increase the wealth of the local suppliers, creating also a network in which the companies could obtain favourable synergies.

Moreover, considering the overall trend, the non-family firms are more focused on the activities that are achieved collaborating with the institutions such as the reception of immigrants, or the collaboration with the local system. While the family are more inclined towards the activities that exacerbate the connection with the narrower local network.

Table 30 People area- Family and non-Family firms

AREA	ACTION	FAMILY		NON FAMILY	
		FREQ.	%	FREQ.	%
PEOPLE-Working environment quality	Sustainable working environment	2	2,2%	1	1,7%
PEOPLE-Working environment quality	Quality of the working environment as an indicator of the companies' performances	20	22,0%	14	23,3%
PEOPLE-People's wealth	Actions towards the promotion of individual wealth	3	3,3%	8	13,3%
PEOPLE- People's wealth	Pet therapy	1	1,1%	0	0,0%
PEOPLE- People's wealth	Promotion of sustainable practices	6	6,6%	1	1,7%
PEOPLE-Training and development	Training opportunities	23	25,3%	21	35,0%
PEOPLE-People engagement	People engagement	12	13,2%	2	3,3%
PEOPLE-Equal opportunity	Actions in order to abolish inequalities (ethnicity, gender, orientation)	9	9,9%	6	10,0%
PEOPLE-Equal opportunity	Reduction of the remuneration gap	6	6,6%	0	0,0%
PEOPLE-Customers' engagement	Improvement of clients' sustainable attention	18	19,8%	14	23,3%
PEOPLE- Relationships with suppliers	Suppliers ethic code	2	2,2%	2	3,3%
PEOPLE-Work-life balance	Actions towards women engagement	5	5,5%	4	6,7%
PEOPLE- Work-life balance	Working flexibility	13	14,3%	3	5,0%

Source: our research

Table 31 Community area- Family and Non-family firms

AREA	ACTION	FAMILY		NON FAMILY	
		FREQ.	%	FREQ.	%
COMM- Hospitality and charity actions	Support of poor people	14	15,4%	11	18,3%
COMM- Wealth, ethic and sustainability	Culture and sustainable promotion	16	17,6%	15	25,0%
COMM- Wealth, ethic and sustainability	Legal equality promotion	3	3,3%	3	5,0%
COMM- Wealth, ethic and sustainability	Promotion of sports activities, wealth and security	3	3,3%	2	3,3%
COMM-The companies and the management of the work	Adoption of local furniture	10	11,0%	3	5,0%
COMM-The companies and the management of the work	Hiring local employees	13	14,3%	10	16,7%
COMM-Community network	Creation of synergies with no-profit entities	22	24,2%	14	23,3%
COMM-Network with the educational system	Collaboration with local schools	4	4,4%	6	10,0%

Source: our research



### 4.7.3 Final consideration

Indeed, the overall result confirms the hypothesis that the decision of the Beneficiary's Area is highly connected to the principal activity performed by the firm. In other words, the *Benefit Corporations* choose their focus among the impact areas, analysing the similarities between the principal business activities and the resources required to achieve the benefit action. This strategy is mainly due to reduce the slowdown of all the decision-making process, that in the case of engagement in a completely different area from the principal business, could arise.

Hence, this strategy is also connected to the fact that the *Benefit Corporations*, due to the aspiration of the achievement of environmental and social goals, present some difficulties in obtaining investments, especially from traditional investors. Therefore, the limited resources available impose these companies to choose the benevolent activities that are able to generate the biggest gain in terms of reputation and empowerment of family's wealth, relative to the amount of money invested. Consequently, the Family factor do not represent the driver of the decision of the social or environmental activities that the *Benefit Corporations* intend to pursue, due to the fact that the industry category of belonging influences the final choice. Moreover, taking into consideration each activity performed, we have demonstrated that significant differences in intensity and focus between family and non-family firms do not emerge *among* the areas, but we found some specific behaviours *inside* the areas. These familiar patterns emerged are mostly evident taking into consideration the activities towards the people and the community. Thus, family businesses show their inclination towards the protection of the family's core values, investing on the activities that could guarantee the empowerment of family's reputation and the pursuit of a good image of the firm, generating as a result the flourishing of the family itself.

To conclude, through the activities performed, it has been possible to identify the core values of the family: the reputation and the aversion towards all the activities that could cause any detriment of the balance between the family and the business, choosing instead all the actions that give the possibilities to extrapolate synergies and resources avoiding as much as possible the inclusion of external characters, such as the institution in the company that could threaten the family side.

#### **4.7.4 Family firms' inclination towards environmental and social issues**

Apart from the efficiency, the fact that is sorted out is the superior ability of family firms to take into consideration environmental and social aspects, including them effectively in the principal core of business and managing to respond to both the objectives: the environmental and business matters. This is due for many reasons that are strongly connected to the nature of this type of companies and their duty to always combine opposites spheres.

Another reason is the fact that family firms due to the creation of a business based on benevolent social ties, they are strongly inclined to install those relationships also beyond firm's companies, trying to build long and strong ties with their clients, their suppliers and finally with the overall society in which the companies is embedded. Therefore, as a consequences of the impressive volumes of pressure that these characters show, they are, is a sense, obliged to show these types of efforts in order to guarantee the positive image of the firm and in order to protect the family from any possible detriments, such as the exclusion of family members, or the reduced bargaining power of the firms, that could be caused by negative opinions or uncooperative feedbacks. Therefore, the commitments on this aspect that goes far beyond the company's matters could be achieved through the showing of public actions that are strongly influencing the key players of the market such as the customers and the suppliers (Berrone *et al*, 2010). Indeed, this continue willingness to preserve the "Familianness" of the companies is due to the importance of the familiar values in the business. In other words, the business becomes the tool to exacerbate the family matters, extending its life, passing the business to the future generations, that will obtain as an heritage the past values from the ancestors of the family, that corresponds most of the time to the pioneer of the company established. Connected to this aspirational willingness, there is also the need to pass a valuable business that is easily guaranteed establishing fiducial ties with the stakeholders around the company's sphere and creating a sense of commuting that could help the firm to enlarge his business objectives including also impactful activities. In this is way, these types of firms are more inclined to promote environmentally friendly practices, or more oriented towards the showing of activities that impact the overall benefit of the local community (Berrone *et al*, 2010).

To sum up, what has emerged is the fact that family firms are more inclined to environmental issues being always exposed on these external forces, that as Battilana *et al* (2010) have affirmed this environmental appealing could be identified as “the isomorphic pressures of coercion”, that is translated into the strong fear of the ability of the external agents to inflict pain on the organization. It is important to underline indeed, that this external agent does not only affect family firms, impacting instead the overall market but these firms more than others are influenced by them. Therefore, it is not merely relevant to identify and quantify this pressure, but instead it is essential to drive the attention towards the subjective way the family firms internalise them. In fact, one of their focal features is the inability to remain alienated from the environment that surrounds them, capturing all the insights coming from the outside. This is due to a twofold cause, firstly they need to protect the family so it is important to quantify the future implications of what happens beyond the companies second for the already mentioned, importance given to the transgenerational control, that is possible to be managed creating a wealthy environment. Therefore, the ownership structure of the companies has an impact on the interiorization of external forces,

In fact as Berrone *et al* (2010) affirms:

«It would be a natural bridge between institutional pressures on behalf of the environment and the internal response of the firm, with legitimacy in the institutional field through substantive compliance more valuable when it helps the controlling owners achieve an idiosyncratic set of "socially worthy" noneconomic preferences»

In other words, the family's control has a strong consequence on the high concern on altruistic activities that are one of the tools to empower the family's ego at first.

#### **4.8 The Business world towards this new way of doing business**

The insight from the overall analysis, apart from being or not a family firm, is the fact that the Benefit firms are playing a constant increasing role in the business environment. Therefore, the ancient Friedman's view of seeing the business as the tool to achieve the wealth of the company's shareholders without wasting efforts in additional and moral duties is going to be destroyed. This is evident having a look at the efforts that the firms from all over the world are showing.

The 20<sup>th</sup> August 2019, The Business roundtable, that is a non-profit association based in Washington, whose members are the chief executive officers of major U.S. companies,

such as the CEO of Apple, Accenture and AT&T, have decided that the American companies apart from the maximization of profits, should also drive their attention towards the maximization of the quality of life of their workforces and of their consumers, enhancing the conditions of all the people in need and producing their outputs in a ethic and less impactful way.

In order to clarifying better the concept that they have expressed as it is possible to accessed in the Business Roundtable official website (on [Businessroundtable.org](https://www.businessroundtable.org), date of access: 2/09/19) is that:

«As leaders of America's largest companies, Business Roundtable CEOs believe we have a responsibility to help build a strong and sustainable economic future in the United States. That means creating quality jobs and good wages and benefits. It requires action to increase opportunity and raise living standards. It demands advancing public policies that better enable people of all backgrounds to achieve their potential»

This could be translated into an overall global movement towards the evolution of the capitalism that needs to include these social and environmental factors in order to reduce the inequalities that the traditional systems have created. For example, taking into consideration the disparity in a traditional company, the CEO remuneration have sharply increase from the 1978 to the 2019, with a growth of the 940%, while a standard employees' salaries have only obtained the 12% more.

Therefore, this evident steps towards sustainability are not only important in order to improve the wealth of the environment and the community in which the companies are embedded. Instead it is important to understand, that nowadays the companies are starting to employ their real role in the society. They are slowing that their business could not be considered in isolation from the stakeholders around them, but instead it has a strong role in order to influence also the public institutions to achieve these results. Therefore these commitments, it is not only important for the others beyond the companies boundaries, because it represents a win-win situation in which in turn the consumers, which are part of the society enhanced, will reward these companies through a more willingness to purchase and showing also a long-term loyalty towards the brand (Palumbo,2019).

## **4.9 Conclusion**

In the chapter it has been discussed the characteristics and all the aspects that make the family firms the most suitable players to embrace the social and environmental performance. This is due to its composition, having mixed since the beginning the emotional values of the family and the financial values typical of the business sphere. The mixture that comes out from these two forces is an organization that inspire to achieve not only the business results but also the empowerment of the family that is behind the company and the ability to pass what have been created to the next generation. Therefore, in comparison with a traditional firm, the introduction of sustainability goals does not represent an impellent obstacle. Indeed, even if the introduction of different and opposite objectives could cause some problems in terms of the management of the organization or the allocation of resources, they are relieved of learning how to balance any contrasts or differences between the two spheres. Furthermore, also their goals are more aligned with the environmental rules, due to their propension to long-term strategies in order to create a sustainable business for the future generations. Finally, considering that these family's firms are usually called with the name of the family, the reputation factor matters. Consequently, it is essential to promote good practices to results "good companies" for the world. To conclude, representing the family firms the majority of the companies in the word is important to assess their resilience, that is possible through the use of all external and exogenous factors that comes from the stakeholders around the company, empowering them in order to prevent any detriments in the core of the company, that is represented by the family itself.



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