FOUNDERS AND THE SOCIAL PERFORMANCE OF B CORPORATIONS

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INTRODUCTION

In many respects, social entrepreneurs are like other more traditional entrepreneurs. Novel ideas are conceived to recombine existing resources and, when successful, create new value. The most salient difference is that their new ventures are what some are calling hybrid organizations (Battilana & Dorado, 2010). On one hand, they incorporate a desire to achieve some level of financial return by using the techniques and approaches of traditional for-profit companies. On the other hand, they also have the concrete social and/or environmental aspirations of traditional nonprofit organizations.

Expanding upon Freeman’s (1986) thesis on entrepreneurs as organizational products, numerous in-depth studies are developing defensible insights about how different types of founders assemble or develop the resources, routines and capabilities, social networks and market signals that are (to varying degrees) responsible for a young organization’s competitive performance. However, similar analyses of the social performance of young organizations have been hampered by the lack of a set of criteria for measuring the social impacts and a concomitant lack of quantitative data (Short, Moss, & Lumpkin, 2009). As such, what we think we know about how founders influence social outcomes is based on either salient anecdotes or small and typically convenience samples of organizations.

These shortcomings are easing with the emergence of the B Corp movement. B Corps are certified for-profit companies that seek to generate demonstrable and verifiable social impacts. Since 2007, this US-based movement has produced a broad-based sample of more than 600 young social enterprises that publicly report quantitative information about their various social impacts.

The aim of this paper is to link the social performance data reported by B Lab (the nonprofit that certifies B Corps) to information about the composition and career backgrounds of B Corp founding teams. This allows us to begin a more serious empirical investigation of exactly how the characteristics and career backgrounds of social entrepreneurs influence their ability to achieve high social performance in the new organizations that they establish.

SOCIAL ENTREPRENEURS – MARKET MEANS AND SOCIAL ENDS

Lacking the foundation for a coherent theory of social value production that might generate a series of testable hypotheses, we follow the approach taken by Brüderl et al. (1992), who examined categorically how a range of variables influence the growth and survival rates of new business enterprises. Based on this and other precedents, we consider how founding team size, as well as the gender, education and prior entrepreneurial and employment experiences of founders influence the social performance of young social enterprises.
Every founder brings human, social and financial capital to his/her new venture. Each founder also adds to the capacity to share the workload and brings a unique perspective to the many problems that must be addressed. On the other hand, larger teams also produce conflicts and other inefficiencies associated with normal group processes. It seems reasonable to expect that a similar set of trade-offs will characterize the production of social value. To examine this possibility, we test whether having more founders on a B Corp founding team helps or hurts social performance outcomes.

Empirical studies of the competitive performance of new ventures provide little systematic evidence that ventures launched by female entrepreneurs are more or less viable than those led by males. There may, however, be some subtle differences that are relevant for a study of social performance outcomes. Brush (1992) suggests that female owners are more likely to emphasize organizational goals other than profitability, while Dezsö and Ross (2012) argue that the presence of females in top management positions contributes to the diversity and information richness required for effective organizational innovation. Because B Corps are innovative in their use of business means to pursue social ends, these insights lead us to expect that having women on founding teams might contribute positively to social performance outcomes.

Accumulated education is a widely used indicator of the level of general human capital available to new ventures. Here, studies typically find that educational attainment levels of entrepreneurs are positively correlated with competitive performance. We follow these findings and examine whether accumulated post-secondary educational experiences similarly help founders deliver superior social performance.

Because of the overlap in activities and requisite know-how across entrepreneurial efforts, founders may learn from prior entrepreneurial experiences to improve the competitive performance of their later ventures, to better select their next business opportunities, and even to enhance confidence about the ability to manage a new venture. We examine whether these expected benefits translate into the production of social value by testing whether prior entrepreneurial attempts help founders deliver better social performance. We further probe this potential relationship by distinguishing whether prior founding efforts were aimed at launching for-profit versus nonprofit ventures.

While findings on the effects of prior entrepreneurial experience are somewhat thin and mixed, there is more consistent evidence that working in the same or related sectors prior to founding has positive implications for subsequent organizational performance. We follow these insights and examine how the pattern of pre-founding employment experience influences the social performance of new ventures. In doing so, we distinguish between experience accrued in jobs held in the for-profit, nonprofit and government sectors. In addition, given the different variants of capitalism practiced around the world, we also distinguish experiences working for American versus non-American companies.

**DATA AND ANALYSIS**

The B Impact Ratings System is an assessment tool that measures a company’s social and environmental impacts and is comprised of a B Impact ‘Assessment’ and B Impact ‘Report’. The Assessment is a survey comprised of 60-200 questions divided into several impact areas: organizational governance, and impacts on employees, consumers, community and the environment. The number of questions asked and the weightings assigned to each are based upon the size and industry sector of the company. The Report is the one-page summary that a
company receives after completing its assessment.

Any company can access the B Corp website and complete an assessment survey. To become certified, companies must then complete reviews to ensure that all of their survey answers accurately reflect the intention of the B-rating system. They must also submit documentation supporting roughly 20 percent of their answers and agree to be subjected to further scrutiny (ten percent of all certified B Corps are audited every year). Finally, certified B Corps are required to submit a copy of their company’s governing documents that have been amended to adhere to the B Corp legal framework.

The dependent variable for our analysis is the most recent B-rating published for companies that were certified B Corps at some point between 2007 and 2011. Scores were extracted from the current and previous editions of the B Corp website (www.bcorporation.net). Because the survey was materially altered between ‘Versions 2 and 3’ and because there are relatively few published ratings based on Version 3 of the survey, we focused on ratings derived from the earlier survey versions.

We supplemented these ratings data by collecting information about the founders of each B Corp. Knowing the name of each certified B Corp, we searched company websites and other on-line sources for the names of all company founders. We used this information to create two variables: a count of (known) individuals on each founding team and an indicator variable set to one when the team contains at least one female member. We then searched for each of these founders on the LinkedIn website (www.linkedin.com) in order to collect (self-reported) information about their prior education and employment experiences. Career histories were found for 735 out of the 924 B Corp founders. Focusing on the years prior to the founding year for the focal B Corp, these career data allowed us to create several variables that indicate the pre-founding educational, entrepreneurial and employment experiences of the B Corp founders. Our prior education variable counts the number of post-high school educational experiences reported by all known founders. Because LinkedIn also indicates when individuals self-report as being founders in their various employment spells, we created two variables that count the number of prior for-profit and nonprofit founding experiences on each team.

We then adjusted and summed the total number of years that founders worked in for-profit, nonprofit or government jobs prior to founding. The adjustment discounts a year of work experience when an individual reports working in more than one job in that year. To make the latter sector determination, we searched the websites of each of the 3,350 named former employers to determine which broad sector they operate in. To explore the possibility of different effects for US versus non-US employment experience, we decomposed each of these three sector experience variables based on whether or not the employer was an American organization.

In addition to the founder variables, our models include several controls. Numerous studies examine the relationship between an organization’s age and outcomes like efficiency, productivity and failure rates. The B Corp website provides information on the founding years of certified B Corps as well as the rating years. This information allows us to calculate the age of each B Corp in the year of the focal B-rating. There is also documented evidence of spatial heterogeneity in the founding rates and performance outcomes of new organizations. We situate our analysis in these debates by examining whether certain locations tend to produce B Corps with significantly higher or lower social performance outcomes. In this respect, the B Corp website provides information about company location; i.e., city and state. Finally, certain sectors may be more amenable to generating positive social performance outcomes. We therefore
created several variables that allow us to parse out potential sector effects. One ‘dedicated social sector’ variable flags B Corps that (according to the B Corp website) operate in the ‘nonprofit consulting and fundraising’, ‘renewable energy’ or ‘sustainability consulting’ sectors. We also assigned each B Corp to one of the several two-digit NAICS categories in order to further explore and then account for significant inter-industry heterogeneity.

Beginning with 639 US B Corps, we dropped 102 companies that did not report a B-rating based on Version 2 or lower. We dropped eight more companies because we could not determine the names of any of their founders and another 50 because we could not find LinkedIn pages for any of the named founders. Finally, because the LinkedIn experience data are sparse prior to 1977 and because we want to allow for a fairly broad window of time to capture these experience data, we set aside another nineteen companies that were founded prior to 1987. This reduced the final sample to 460 B Corps.

The descriptive statistics give us a rough idea of the typical B Corp and founding team profiles. Among the certified B Corps in our final sample, B-ratings range between 80 and 183 and average slightly more than 108. The average company age when the most recent B-rating was recorded is between five and six years old. Roughly twenty percent of these B Corps are headquartered in either New York state or Pennsylvania. Almost ten percent of them are in a dedicated social sector while close to forty percent operate in a professional services industry. The typical B Corp has one or two founders on the team and roughly one-third has at least one female founder. Roughly one in five of the teams have some prior entrepreneurial experience. The most common locus of accumulated pre-founding employment experience is in the for-profit sector, followed by the nonprofit and government sectors. Overall, the average founding team has roughly ten years of total pre-founding employment experience, with roughly ten percent coming in non-US companies.

RESULTS

Because the dependent variable (for certified B Corps) is constrained to fall in the 80 to 200 range, we estimate truncated regression models. In terms of location, B Corps in New York state and Pennsylvania significantly under-perform the others in the sample. This might be due to a selection effect as these two states are among the most prolific homes for B Corps. Because socially oriented sectors tend to generate higher scores by design, it is not surprising that these companies have significantly higher ratings. We also found that B Corps in the professional, scientific and technical services and the accommodation and food services had significantly lower social performance.

In a second model, we add the full set of variables that measure the characteristics and career backgrounds of the founders that established each company. There is no evidence that larger or more educated founding teams generate superior social outcomes. Although the coefficient on the prior for-profit founding experience variable is positive, it does not approach statistical significance. Moreover, the coefficient on the prior nonprofit founding variable is negative. This suggests that serial entrepreneurs are not producing superior social outcomes. Finally, there is no evidence that accumulated work experience inside nonprofit organizations produces superior social performance outcomes among these committed for-profit social enterprises.

A final mode that excludes all of the non-significant variables illuminates three founder effects that exert positive and significant effects on social performance. Companies that have at
least one female on their founding teams report B-ratings that are six points higher on average. Thus, while accumulating research points to several disadvantages faced by female entrepreneurs (that might also be salient in this setting), it is informative to learn that female entrepreneurs tend to produce superior social performance in this sample of committed social enterprises.

Prior work experience in US government jobs and non-US for-profit jobs also (marginally) improve the social performance of B Corps. The former effect suggests that the exposure to large-scale social problems that comes with government jobs might help in generating and implementing socially valuable entrepreneurial ideas. The latter effect might suggest that the (more cosmopolitan) individuals who select into working for non-US companies are also able to implement more socially valuable businesses. It might also suggest that exposure to alternative ways of doing business might help founders implement higher-impact business ideas inside the US. Both of these effects are interesting and worthy of further evaluation and theorizing.

**DISCUSSION AND CONCLUSIONS**

Clearly, businesses are being called on to generate greater levels of community, societal and environmental impacts. This places pressure on socially oriented entrepreneurs to develop and implement creative ideas that generate positive social value in companies that also deliver attractive financial returns. It places similar pressure on the systems and organizations that are required to support these entrepreneurs as they launch and grow. In light of these pressures, there should also be mounting pressure on business academics to deliver valid and defensible empirical insights about the relationships that govern the provision of social value within for-profit companies. Dees (2007) makes this point by arguing that social entrepreneurship deserves more academic attention as it blurs the lines between for-profit and nonprofit: a for-profit capable of achieving social purposes or a non-profit venture renovating its operation with for-profit thinking.

Until now, such insights have been limited by the lack of consensus measures of social performance and the corresponding lack of large-scale databases to ground empirical analyses. However, these limitations are easing with the proliferation of B Corps around the US. We leverage this promising development by presenting a preliminary analysis of the relationships between various founding team characteristics and the social performance of young B Corps. In addition to uncovering some interesting geographic and sector variation, our models point to possible gender effects in the provision of social performance, as well as positive effects of local government work experience and international for-profit work experience. These models represent a starting point for a more robust understanding of the factors that systematically influence the measurable social performance of young impact ventures.

Moving forward, we must recognize that notwithstanding the impressive recent progress of the B Corp movement, they must continue to improve the signal-to-noise ratio that characterizes social performance measurement. In this respect, we should look forward to improving the power of these statistical analyses as the number of certified B Corps continues to expand. Moreover, because formal B Corp certification is a costly process that is not adopted by all socially oriented companies, we must also look forward to expanding the sample to include companies that have completed the assessment survey but did not elect to become certified. Not only will this further expand the sample, it will allow us to assess whether full commitment to the B Corp movement is an additional predictor or moderator of a company’s social
performance.

We must also work on the theoretical side to develop a valid and robust ‘production function’ for social impact. Without a clear statement on how social performance is produced, it is difficult to make meaningful a priori predictions about its correlates. Making genuine progress on this front will require management scholars to not simply view social impacts as by-products of the competitive process, as is the norm in most studies that focus on the implications of corporate social responsibility.

Finally, as we learn more about where social performance comes from, we must also pay heed to possible trade-offs between social and competitive performance and try to include measures of revenues, revenue growth or profitability in future analyses. In addition to differences in realized competitive versus social performance, there are also differences in the extent to which the sampled companies prioritize social versus competitive performance as they establish their organizational blueprints.

If we develop this kind of momentum within the research community to match the momentum of the B Corp (and related) movements, we will be in a position to leverage accumulating data and provide much-needed insights that might improve the collective ability of the for-profit sector to purposely pursue strategies that address the mounting social and environmental challenges around the world.

REFERENCES


