Are sustainable firms more profitable? Preliminary evidence from BCorps

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Abstract In striving to adopt sustainable business model innovations, Benefit Corporations (BCorps) have gained attention, as they allow to combine purpose with profit maximization. Against this backdrop, and given the highly dynamicity of economic scenarios, this study aims to explore the relationship between sustainability and financial performance in Italian Benefit Corporations (BCorps). Using a sample of 239 Italian BCorps and employing a two-stage selection approach, findings reveal that firms with better sustainability performance achieve superior financial results, by also unveiling the existence of a selection effect in pursuing BCorp certification.
Keywords: financial performance; sustainability performance; Italian firms; BCorps; selection effect.

1. Introduction and objective

In recent years there has been a shift from the standard business model voted to profit maximization to alternative business models seeking to handle multiple interests (Paelman *et al.*, 2021) via a progressively higher integration between social and environmental considerations alongside financial goals. Among these, BCorporations represent one such model, pursing both purpose and economic value (Kim & Schifeling, 2022) Parallelly, the associated BCorp certification scheme has become a viable tool for assessing and measuring those socially and environmentally committed firms' performances (Boffa *et al.*, 2023). Existing research as largely focused on the antecedents of BCorp certification or the positive and negative impacts of sustainability efforts on financial outcomes (Parker *et al*., 2019), therefore highlighting the complexity of this relationship. In this complex landscape, this paper contributes to the ongoing debate by examining the nature of the relationship between financial and sustainability performance, within the context of BCorps. The relationship between sustainability and financial performance in purpose-driven companies is complex and somewhat ambiguous. Management theory suggests that sustainable strategies positively impact financial performance (e.g., increased sales and more stable growth), as sustainability acts as an "insurance-like" protection for firms, especially in volatile environments. Moreover, literature suggests that there is a substantial selection effect, meaning that companies with perform better may be more willing to achieve certification compared to other companies with a poorer financial performance (Heras-Saizarbitoria *et al.*, 2011). This suggests that a selection effect exists and sometimes it becomes a prerequisite for certification itself. Considering these ideas, we propose that:

H1: BCorps with better sustainability performance have better financial performances.

H2: There is a selection effect associated with BCorp certifications, meaning that financially healthier companies have a higher probability of pursuing the certification.

2. Data and Methods

The study uses a sample of 239 Italian BCorps, combining data from the BLab database and standardized financial information from Bureau Van Dijk's ORBIS database.
To explore the relationship between sustainability and financial performance of Italian BCorps, and given the hypothesized selection effect, this study employs a two-stage selection approach. The first stage multivariate analysis is performing considering return on assets (ROA) and return on equity (ROE) as performance measures, while sustainability performance is measured by considering the latest available overall B Impact Assessment score. Additional control variables are included in both stages.

3. Results, Discussions and Concluding Implications

Findings reveal a positive relationship between sustainability and financial performance of Italian BCorps, supporting our first hypothesis and aligning with the literature suggesting the use of sustainability as a cushion for absorbing sustainability-related costs. Results also reveal the existence of a selection effect in the pursuit of BCorp certification: financially healthier companies are more willing to invest in sustainability initiatives and seek certification, to boost competitiveness. Theoretically, this study contributes to the advancement of literature on purpose-driven firms, by specifically addressing the lack of empirical evidence on the topic. Managerially, this study suggests that pursuing sustainability goals is not solely a moral or ethical choice but a strategic move to improve financial performances. This also contribute to advance the trade-off theory: firms considering BCorp certification should have a strong financial foundation to be better positioned to pursue certification. For policymakers, this study remarks on the necessity of providing incentives to encourage sustainability efforts of firms and increase certification accessibility, consequently impacting on economic growth. However, the study's focus on Italian BCorporations might limit generalizability, suggesting opportunities for comparative research in other contexts. Moreover, as the use of BIA scores and ROA/ROE may not capture all dimensions of sustainability and financial performance, future investigations should adopt alternative and complementary measures.

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