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**B CORP CERTIFICATION AND ITS IMPACT
ON FUNDING ROUNDS OVER TIME**

GIULIO FERRETTI | 33821

A Project carried out on the Master in Finance Program, under the supervision of:

Professor Francisco Queiró

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Abstract

This paper studies the impact of B Corp certification and its interaction with the B Impact Assessment score on companies' funding rounds over time. The results reveal that these factors are associated with an increase in organizations' ability to raise capital. Traditional VCs and impact investors have both a role in generating additional investment in B Corps. Moreover, we explore the reverse causality issue and find that most of the increase in companies' funding happens right before the certification. We conclude that firms use part of their financing to pay the internal re-organization costs required to become B Corps.

Keywords B Corp Certification · Funding Rounds · Capital Raised

1. Topic and Background

1.1 Introduction

Over the last decade, society has raised attention toward the hybrid business model, where organizations bring together social, environmental, and economic goals. This movement has enlarged through worldwide initiatives such as the UN Global Compact, by several fair-trade and sustainability social movements, by the progress of business reporting on social issues, and by the growth of impact investing and financial markets indices, such as the FTSE 4 Good. As BlackRock CEO Larry Fink wrote in his 2018 annual investor letter, we are at the moment where "society is demanding that companies, both public and private, serve a social purpose" (Fink, 2018). Nowadays, there are many ways in which organizations can move towards a hybrid form. One popular method is to join the various networks that have emerged to share opinions and practices on how to achieve a combination of social, ethical, and economic goals. Some of these networks have devised a certification form to be granted when the company proves to be able to follow and maintain specific social and environmental performance

standards. From a business perspective, a certification could be a useful tool to differentiate itself, attract talented workers, gain exposure toward investors and new, socially conscious costumers and clients. However, there is little research investigating whether these kinds of certifications give investors greater confidence in environmentally and socially responsible companies. In this thesis, therefore, we examine one of the certification schemes that have emerged over the last decade: the B Corporation (hereafter B Corp) certification system. This research examines whether obtaining B Corp certification has an impact on companies' ability to attract new investments. Also, we study whether this supposed relationship depends on the degree of companies' social and environmental impact improvement over the years.

1.2 B Corp Certification

Certified B Corps are for-profit companies that have successfully passed the voluntary and private certification procedure instituted by B Lab, a US-based non-profit organization. The B Corp model does not represent a new kind of corporate legal entity, but it offers a framework that any company in the world can use to build a better business. As *The B Corp Handbook: How to Use Business as a Force for Good* explicates: "This framework is relevant whether you are a business-to-business (B2B) or a business-to-consumer (B2C) business, a sole local proprietor or a global brand, a start-up or a third-generation family business, a limited liability company or a partnership, an employee-owned company or a cooperative, a C corporation or an S corporation, or even if you are still deciding on the right structure for a new business" (Honeyman & Jana, 2019). Through the certification process, companies must demonstrate and show their social and environmental performance, legal accountability, and public transparency. The analysis of the performance is addressed by the B Impact Assessment, an online free tool that is intended to measure on a 200-point scale a business's positive impact in areas such as governance structure, worker engagement, community involvement, customer relationships, and environmental footprint. Aggregating anonymous data from the users of the

B Impact Assessment, B Lab enables companies to compare their results to thousands of businesses. This context gives access to resources and best practice guides that can help companies to improve their social and environmental performance over time. Although the B Impact Assessment is based on the verified practices of a business over the past 12 months, B Corps are required to amend their articles of incorporation to legally protect their social and environmental mission over time, and they must renew their certification every three years (before 1 July 2018, it was every two years). To become certified, or to maintain the certification during renewal, it is required to score a minimum of 80 points. Currently, the median score for all Certified B Corps is 95 (Honeyman & Jana, 2019). It is also needed to pay an annual fee that ranges between \$500 to \$50,000, varying by region and depending on the firm's annual revenues. The B Corp movement was started in the United States in 2007 by B Lab to support the development of more ethical businesses. It had 3,301 certified B Corps in 71 countries and across 150 industries in May 2020 (B Lab, 2020). The B Corp movement defines itself as a community of leaders, with the unified goal to redefine success in business so that one day all companies will compete not just to be the best *in* the world but also to be the best *for* the world (Honeyman & Jana, 2019).

1.3 The Rise of B Corps: Motivation and Benefits

Independently by deciding to apply for the certification or not, the B Impact Assessment is a free tool that can be used by any company for improving their social and environmental performance. Many organizations have found it enormously insightful to understand what they were doing well and what they could do better (Honeyman & Jana, 2019). In this context, the number of companies that demonstrate interest and commitment in certifying as B Corps have substantially increased over the years (*Appendix 1, Figure 1*). This trend is proof of the increasing attention of society toward the *hybrid* business model, where organizations bring together social, environmental, and economic goals. Villela et al. (2019) explore different

factors that influence companies' decision to join the B Corp community and find that longtime commitment to the social and ethical business is the primary driver toward this action. It is especially true for those companies that were born as social enterprises because they saw in this movement's principles and values a strong alignment with their ethics and vision (Honeyman & Jana, 2019). There is also who is energized by the idea of contributing to build a B Corp movement in their respective countries and to help showcase a better way to do business. For instance, this was the case for Small Giants and Lunapads, which were respectively among the firsts B Corps in Australia and Canada (Honeyman & Jana, 2019). As current research suggests, entrepreneurs and founders with ambitions to accomplish social goals look at the B Corp certification as a valuable legitimacy and reputation-building tool (Gamble et al. 2019). As a member of a Chilean B Corp named Mercado Birus answered during an interview, "there is a big difference between saying you want to do business differently and being certified by a third party that can verify your claims" (Honeyman & Jana, 2019). Indeed, the free B Impact Assessment is just a part of the process. The certification kicks off a rigorous journey where entrepreneurs can monitor themselves, compete with the other members of the community on their impact, and learn how to improve further their business integration between the social, environmental, and financial activities. Also, B Lab ensures compliance with the companies' commitment by auditing ten percent of all certified B Corps every twelve months. This rigorous journey helps organizations to communicate better who they are, what they believe in, and how they and their product are different from the others (B Lab, 2020). This context contributes to reinforcing trust with partners and stakeholders, and it simplifies access to investors who share the same concern about social and environmental impact (Gamble et al. 2019).

Many enterprises see the benefit of connecting with a network of like-minded people and leaders who want to change the world through business. Entrepreneurs that join the B Corp movement share enthusiasm about the synergies they have with their peers, as well as about the

new partnerships they build within this community (Honeyman & Jana, 2019). Corey Lien, CEO of a Taiwanese B Corp named DOMI Earth, stated that B Corp is a mindset shift from "How can I get the advantage over you?" to "How do we combine and amplify our impact?" (Honeyman & Jana, 2019). This certification can be an effective way for companies to get exposure to potential costumers and clients. Indeed, many people still struggle to believe in the companies motivation and level of commitment toward social responsibility efforts. In a survey promoted by Nielsen (2016), as much as 61 percent of consumers said to be skeptical on this topic. Moreover, 41% of the respondents thought that the business's ultimate and sole purpose of undertaking socially-responsible actions is to make good publicity. Hence, ventures that are authentic in their commitment to generating a positive social and environmental impact must put even more effort into persuading consumers of this fact. The B Corp Certification is a great third party validation tool to achieve this aim.

Also, it can help to attract talents and to engage employees. A study made by Goldman Sachs (Ling et al. 2007) found that new generations of employees have a stronger desire than ever to align personal and corporate values. People are not only searching for financial reward, but also for positions that fulfill their passions and their need to contribute for a higher purpose. Therefore, becoming a B Corp can help companies to show talents their sincere commitment toward this higher purpose. This argument is supported by an article of the *Wall Street Journal* (Gellman & Feintzeig, 2013), which stated that "more companies are touting the B Corp logo to attract young job seekers who want an employer committed to both a social mission and the bottom line." For B Corps, attracting employees who feel engaged in the business' decision-making and whose values are aligned with theirs is very important for active stakeholder engagement (Winkler et al. 2018). Cohen and Warwick (2006) explore the connection between engagement and productivity in their book, *Values-Driven Business*, stating that employees work more productively and pay more attention to a company's profitability when, all things

being equal, they work for something they believe. The last advantage for B Corps is their obligation to amend their governing documents. This legal action protects their long term purpose from the conflicting ambitions of new investors or changes in the management ideas.

1.4 Factors Determining VC's Investments and Multi-Stage Financing

Over the past three decades, venture capital (VC) has been a key source of financing for several innovative companies, some of which have had considerable success and have led to disruptive changes in people's life. Firms like Facebook, Airbnb, Google, and Amazon, to cite some of them. Kaplan and Lerner (2010) assess that almost one-half of all actual IPOs are VC-backed even though less than one-quarter of one percent of businesses are VC-backed.

The causes of this success stand on the actions VCs undertake across several areas such as deal sourcing (also called deal flow) and investment selection. Concerning the former, Gompers et al. (2019) emphasize that most VC deal flow comes from the VCs' networks. Therefore, entrepreneurs who effectively leverage their connections get a higher probability of being screened by VCs. Also, the screening is made up of several stages in which VCs sort through investment opportunities. Studying a sample of 681 VC firms, Gompers et al. (2019) explore that, on average, VCs screen 200 companies and make only four investments in a given year.

With regards to the investment decisions, previous research has found that VCs focus on factors such as the quality of the management team, the market or industry, the competition, the product or technology, and the business model (Kaplan & Strömberg, 2004). Further studies have tried to identify which of these factors VCs look the most during their investment decisions. It is not unanimous among VCs which aspects are most important. Some VCs focus more on the business (market, product, and business model); others, instead, focus more on the team. Gompers et al. (2019) have analyzed the strategies of 681 VCs firms, and their results suggest that VCs focus both on the management team and business-related factors when they select investments. Concerning their relative importance, the cross-sectional variation in their findings

suggests that the management team is more likely to be the most critical factor for early-stage investors. In contrast, business-related factors (such as fit with the fund, product offered, business model, market, and industry) are generally more critical for late-stage investors. These results are supported by another study of Bernstein et al. (2016), who find that, on average, Angel investors focus more on the team than to firm traction.

Despite their expertise, the vast majority of VCs investments fail, and a handful of start-ups drives most of their returns. Kerr et al. (2014) show the limited ability of the VCs to forecast the success of potential investments (even for experienced investors). To deal with this extreme uncertainty, investors prefer to break finances into stages and to learn about a venture's potential over time, rather than to commit the full amount upfront. In this context, they can set specific milestones at every round of funding and condition any further investment to their success.

These milestones could entail various achievements, such as receiving a prestigious recognition or getting a certain number of customers. The value of any milestone is rooted in the information it generates about the prospects of the venture. In this context, negative information is an essential signal for investors and allow them to abandon unprofitable investment without committing the full amount. Likewise, positive information is a necessary ally for companies willing to receive additional capital during a new funding round.

1.5 Hypothesis Development and Research Questions

During the last few years, interest in empirical research has begun to grow on the impact of B Corp certification on the evolution of companies over time (see, amongst others, Gamble et al. 2019; Villela et al. 2019; Conger et al. 2018; Parker et al. 2019; Moroz et al. 2018; Sharma et al. 2018, Gehman and Grimes 2017). Parker et al. (2019), for instance, identified that becoming a B Corp requires substantial internal re-organization costs that cause a slowdown in the short-term growth rates of certifying firms. Villela et al. (2019) examined four Brazilian case studies of B Corps and observed that these organizations did not prove purpose for the

future to increase their B Impact Assessment score. As the authors verified, and as Gamble et al. (2019) had already noted, these organizations mainly believed that the certification could be a reputation-building tool, and they were not strongly driven to reshape internal processes to advance their scores. Several types of studies have supported this companies belief, proving that B Corps receive several reputational and legitimacy gains, networking, and potential financial benefits (Gamble et al. 2019; Gehman and Grimes 2017; Conger et al. 2018).

Building upon prior research, this work examines whether obtaining the B Corp certification has an impact on companies' ability to attract new investments. Also, we study whether this supposed relationship depends on the degree of companies' social and environmental impact improvement over the years. *(i) Firstly, we expect to find a positive and statistically significant relationship between the B Corp certification and companies' probabilities to get financed. We also suppose that this relationship depends on the B Impact Assessment score and on its variations over time.* We know from the literature that most VCs use their networks to generate new investment opportunities. Since the B Corp community allows companies and entrepreneurs to expand their networks, this context could benefit these organizations as it enables them to become acquainted with a broader audience of potential investors. However, two other channels most likely drive the real advantage of this certification. The first one is given by the continuous monitoring that B Lab ensures on all the B Corp community. VCs willing to generate a concrete social or environmental impact alongside a financial return should positively take into consideration founders and management teams that voluntarily get their businesses' assessed, certified and audited by an independent, no profit third party. The second success factor of the B Corps is embedded in various benefits and competitive advantages. Amongst all, B Corps create strong synergies and partnerships with each others; they get more exposure toward potential customers and clients, and they are more likely to attract talents and stimulate happier and more productive employees. For instance, several schools, such as Yale

School of Management and the Columbia School of Business, have promoted loan-forgiveness programs for MBA graduates if they are employed at a B Corp (B Lab, 2020). This context suggests that all things being equal, even if investors were only aiming for financial returns, B Corps could be more attractive than other similar companies. Though, an essential limitation of this reasoning is that the B Corp certification effect is assumed to be independent of any other factor. There is no reason it has to be like this. That is why we analyze the interaction with the B Impact Assessment score to study whether the effect of the B Corp certification depends on the degree of companies' social and environmental impact improvement over the years.

Another consideration about the B Corp title is that it could be a milestone that raises, on average, investors' perceived probability of success of ventures. It follows that obtaining this certification and scoring high on the B Impact assessment should also increase firms' valuation during their funding rounds: investors should pay more to receive a lower percentage of equity. For this reason, the second research question that we address is *(ii) whether the B Corp certification and its interaction with the B Impact Assessment score have a positive and statistically significant impact on firms' amount of capital raised over time*. However, this regression analysis likely suffers from sample selection bias because not all companies disclose their funding rounds, and data are not available for these observations. Thus, we define an additional binary outcome to test: whether the B Corp certification has some impact on the companies' decisions to make public their funding amount. Organizations can plan to reveal their capital raised as a market validation tool and as a way to discourage investors from financing other competitors. However, for companies that are only partially well-funded, it is likely not to be the same scenario. Disclosing a not successful funding round can cause negative signals to the market, and it can encourage other organizations to engage in a fierce competition (O'Hear, 2013). Thus, it is reasonable to assume that, on average, companies that do publish their financing rounds raise more capital than those ventures that keep them undisclosed. In

light of this reasoning, (iii) we hypothesize that all else being equal, there is a positive and statistically significant impact of the B Corp certification and its interaction with the B Impact Assessment score on the probabilities for firms of disclosing their funding rounds.

2. Methodology

2.1 Dataset Description

The dataset contains 1,195 companies observed in the period between 1 January 2000 and 17 September 2019 (overall, there are 14,747 observations). The data refer to an unbalanced panel because several firms in the sample were founded after 2000 (*Appendix 1, Figure 2*). The dataset is made of five variables: the B Corp certification (represented by the variable *certification*); the B Impact Assessment score (*score*); an indicator that represents if, in a given year, a firm participates in at least one funding round (*Funded*); a factor that represents if, in a given year, an organization announces its capital raised (*Disclosed*); and the amount of money raised yearly (*Raised*).

The variable *certification* is a dummy that equals 0 when the firm is not certified and equals 1 when the company becomes a B Corp. For all the firms, this factor equals 0 for the early periods and turns on in later years.

Table 1. Summary of the Variable *certification*.

<i>Certification</i>	<i>Observations</i>	<i>Percent</i>
<i>1</i>	<i>6,610</i>	<i>44.82%</i>
<i>0</i>	<i>8,137</i>	<i>55.18%</i>
<i>Total</i>	<i>14,747</i>	<i>100%</i>

The variable *score* describes the interaction between the B Corp certification and the B Impact Assessment score. Indeed, the score always equals 0 when the company is not certified. Firms must recertify and complete a new B Impact Assessment every two years from the previous time. Thus, their score always changes accordingly.

Table 2. Summary of the Variable *Score*.

<i>Certification</i>	<i>Score</i>				
	<i>Observations</i>	<i>Mean</i>	<i>Standard Dev.</i>	<i>Min</i>	<i>Max</i>
<i>1</i>	<i>6,610</i>	<i>99.02</i>	<i>17.59</i>	<i>79.40</i>	<i>177.80</i>
<i>0</i>	<i>8,137</i>	<i>0.00</i>	<i>0.00</i>	<i>0.00</i>	<i>0.00</i>
<i>Overall</i>	<i>14,747</i>	<i>44.38</i>	<i>50.63</i>	<i>0.00</i>	<i>177.80</i>

The variable *Funded* is a dummy that equals 1 when in any given year, a firm participates in at least one funding round. *Funded* equals 0 when in any given year, the organization does not participate in any funding round. There are 1134 single funding rounds in our sample. Aggregating these data by year, we get 969 observations with at least one funding round.

Table 3. Summary of the Variable *Funded*.

<i>Certification</i>	<i>Funded</i>		<i>Total</i>
	<i>1</i>	<i>0</i>	
<i>1</i>	<i>529</i>	<i>6,081</i>	<i>6,610</i>
<i>0</i>	<i>440</i>	<i>7,697</i>	<i>8,137</i>
<i>Total</i>	<i>969</i>	<i>13,778</i>	<i>14,747</i>

The variable *Disclosed* is a dummy that takes value 1 when in any given year, there is at least one funding round where a company reveals its capital raised. *Disclosed* equals 0 when the firm does not announce or does not participate in any funding round. There are 877 single disclosed funding rounds and 257 individual undisclosed funding rounds in our sample. Grouping these data by year, we get 774 observations where a company discloses at least one funding amount. Likewise, we get 195 data points where a firm does not disclose any funding round (105 for the period before the certification, and 90 for the following period).

Table 4. Summary of the Variable *Disclosed*.

<i>Certification</i>	<i>Disclosed</i>		<i>Total</i>
	<i>1</i>	<i>0</i>	
<i>1</i>	<i>439</i>	<i>6,081 + 90 = 6,171</i>	<i>6,610</i>
<i>0</i>	<i>335</i>	<i>7,697 + 105 = 7,802</i>	<i>8,137</i>
<i>Total</i>	<i>774</i>	<i>13,778 + 195 = 13,973</i>	<i>14,747</i>

The variable *Raised* describes the amount of US dollars raised yearly by a given firm that reveals its funding amount. *Raised* equals 0\$ when in a given year, a company does not hold any funding round (it is this case for 13,778 data points). It is greater than 0\$ when in a given year, a firm has at least one funding round, announcing its capital raised (there are 774 observations like this). Also, data are missing for 195 observations because there are only undisclosed rounds.

Table 5. Summary of the Variable *Raised*.

<i>Certification</i>	<i>Raised</i>				
	<i>Observations</i>	<i>Mean</i>	<i>Standard Dev.</i>	<i>Min</i>	<i>Max</i>
<i>1</i>	<i>6,520</i>	<i>1,134,616\$</i>	<i>11,500,000\$</i>	<i>0\$</i>	<i>460,000,000\$</i>
<i>0</i>	<i>8,032</i>	<i>202,318.8\$</i>	<i>2,582,466\$</i>	<i>0\$</i>	<i>165,000,000\$</i>
<i>Overall</i>	<i>14,552</i>	<i>620,032.9\$</i>	<i>7,949,591\$</i>	<i>0\$</i>	<i>460,000,000\$</i>

2.2 Data Collection and Analysis Process Development

Crunchbase and *data.world* are the two platforms used to source all data. The first one is a firm that provides business information about organizations. We have used *Crunchbase* to get data about funding rounds and companies' founding dates (Queiró, 2019). *data.world* is an organization that provides a platform to post, search, and collaborates on datasets. We have used *data.world* to access an open-source data file, created by B Lab (2017), about firms that have become B Corps over time. The data of *Crunchbase* and *data.world* have been merged together using shared information on companies' names and their websites' URLs. We have also audited everything by hand to maximize the matching accuracy, and we have obtained a comprehensive dataset made of 1,195 firms. As the current and former number of B Corps available on *data.world* is 4,058, the selection process resulted in roughly 30% of this quantity. Concerning the development of the analysis process, future B Corps are used as a control group for those firms that obtained the certification in an earlier period. Companies have become B Corps in a staggered way over time: some firms have obtained the certification in 2007, and

others not until 2019 (Appendix 1, Figure 1). Moreover, concerning our sample of 1,195 companies, the median number of years that passes from the creation of the business to its first certification is six years, while the average is seven years. Also, the B impact assessment is based on companies' verified practices over the past 12 months. Thus, no firm is ever certified during the early years. Eventually, PostgreSQL 12 is the open-source database used to store and pre-process the data; and STATA 16 is the statistical software package used to perform the regressions' analysis (Figure 3).



Figure 3. Process Diagram.

2.3 Regression Model Development

The primary regression model is formulated to analyze binary responses in the context of panel data. Specifically, these data refer to $n=1195$ firms observed over $T=20$ time periods. There are missing years for several cross-sectional units in the sample; thus, the dataset is an unbalanced panel with a total of 14,747 observations. During the formulation of the analysis, it is crucial to control for as many relevant factors as possible to avoid omitted variable bias. It is useful to view the unobserved factors influencing the response variable as consisting of two types: those that are constant and those that vary over time. In this context, models for panel data are valuable because they make it possible to account for time-invariant unobserved firms' characteristics, known as *individual fixed effects*. Also, in the construction of the regression model, it is best to allow the intercept to change over time. This action enables us to account for the *time fixed effects*. When examining binary responses in the context of panel data, it is valuable to start with a linear probability model (LPM) and use the within transformation to

remove the unobserved effect. The reason for including a LPM is to provide some forms of estimates of average partial effects (APEs). Also, the LPM does not require, differently from nonlinear methods such as the fixed effects logit model, to assume independence of the responses $\{y_{i0}, \dots, y_{i20}\}$ conditional on the explanatory variable x_i and the firm fixed effects a_i (given that the inference is made robust to serial correlation, as well as heteroskedasticity). Letting i denote the cross-sectional unit and t the year, the LPM is specified as follows:

$$(1) \quad P(y_{it} = 1 | x_{it}, a_i) = \beta_0 + \beta_1 certification_{it} + \beta_2 score_{it} + \left(\sum_{k=1}^{19} \delta_k D_{tk} \right) + a_i$$

where $t = 0, 1, 2, \dots, 19$; $i = 1, 2, 3, \dots, 1195$; y_{it} represents either the dummy *Funded* or *Disclosed* and $P(*)$ is the *response probability* — that is the probability that $y_{it} = 1$; x_{it} defines all the time-varying independent variables included in the regression; a_i embodies the unobserved factors that are constant over time; and $\beta_0, \beta_1, \beta_2, \delta_1, \dots, \delta_{19}$ are the unknown parameters to estimate. The model has $T - 1 (= 19)$ time dummies, excluding the one for the first year (the base period) to avoid perfect collinearity.

In the analysis, we also use a nonlinear method known as the Fixed Effects Logistic Regression Model (FELRM). In this context, the FELRM is the following:

$$(2) \quad P(y_{it} = 1 | x_{it}, a_i) = \Lambda \left[\beta_0 + \beta_1 certification_{it} + \beta_2 score_{it} + \left(\sum_{k=1}^{19} \delta_k D_{tk} \right) + a_i \right]$$

where $t = 0, 1, 2, \dots, 19$; $i = 1, 2, 3, \dots, 1195$; and $\Lambda[*]$ is the logit function.

Among the nonlinear methods, the FELRM allows explicitly a_i to be arbitrarily related to the explanatory variables. However, the FELRM does not enable us to estimate the partial effects or the APEs on the response probabilities without assuming a value of the unobserved heterogeneity. The distribution of a_i is unrestricted, and $E(a_i)$ is not necessarily zero; thus, it is not trivial to know what to plug-in for a_i . The FELRM also requires that the responses

$\{y_{i0}, \dots, y_{i20}\}$ are independent conditional on (x_i, a_i) . This assumption is equivalent to the linear model hypothesis that, conditional on (x_i, a_i) , the y_{it} are serially uncorrelated.

The last method used in the analysis is a fixed effects (FE) transformation model on the variable *Raised*. It is worth to notice that 195 observations about funding rounds are missing and that this lack of data may cause sample selection bias. However, it is always useful to apply this method and to compare its results against the other models. Also, it allows us to capture the partial effect of the B Corp certification and its interaction with the B Impact Assessment score on firms' funding rounds. This model is specified as follows:

$$(3) \quad \log(y_{it} + 1) = \beta_0 + \beta_1 \text{certification}_{it} + \beta_2 \text{score}_{it} + \left(\sum_{k=1}^{19} \delta_k D_{tk} \right) + a_i + e_{it}$$

where the left-hand side of the equation is the natural logarithm of *Raised* plus 1\$ and e_{it} represents the idiosyncratic error. Since *Raised* takes on the value 0 for 13,778 observations in the sample, we add 1\$ to enable the use of the logarithm on the dependent variable. Furthermore, it is worth noticing that the capital raised is still in nominal dollars. Because of inflation, the analysis should focus on the effect of each explanatory variable on real dollar amounts. Nonetheless, it is not needed to turn nominal dollar amounts into real dollars because the variable *Raised* appears in logarithmic form, and dummy variables are used for all years (except the based period). Using real or nominal capital raised in a logarithmic functional form only affects the coefficients on the time dummies.

3. Results

3.1 Analysis of the probability of participating in a funding round

This section presents an analysis of the B Corp certification and its interaction with improvements in the B Impact Assessment score, using *Funded* as the response variable. We study the impact of these factors on the probability for firms to participate in a financing round.

Table 6. Panel Data Models for Companies' Participation in Funding Rounds.

Model	FE LPM			FE Logit					
	(1)	(2)	(3)	(4)		(5)		(6)	
Estimation Method	Coefficient	Coefficient	Coefficient	Coefficient	Odds Ratio	Coefficient	Odds Ratio	Coefficient	Odds Ratio
<i>certification</i>	0.02934** (0.01353)	0.04576** (0.0204)	-0.06671 (0.06913)	0.18215** (0.08552)	1.19979** (0.1026)	0.30897** (0.12852)	1.36202** (0.17505)	-0.50632 (0.4664)	0.60271 (0.2811)
<i>score</i>			0.00114* (0.00067)					0.00839* (0.00462)	1.00843* (0.00466)
Firms' fixed effects?	Yes	Yes	Yes	Yes		Yes		Yes	
Time fixed effects?	No	Yes	Yes	No		Yes		Yes	
Firms Cluster-robust standard errors?	No	No	No	No		No		No	
Observations	4,396	4,396	4,396	4,396		4,396		4,396	
Number of firms	439	439	439	439		439		439	
Log-likelihood value	—	—	—	-1448.916		-1391.8805		-1390.2158	
R-squared (within)	0.0012	0.0254	0.0261	—		—		—	
Pseudo R-squared	—	—	—	0.00156		0.04087		0.04201	

Standard errors are in parentheses below all coefficients or Odds Ratios (OR). The LPM is estimated using OLS, and the logit model is estimated using the maximum likelihood estimation (MLE). The coefficients are statistically significant at the level *10%, **5%, ***1% against a two-sided alternative. For these models, 756 companies (10,351 observations) are excluded from the estimation. 754 firms never participate in any funding rounds; and 2 companies get financed every year since their foundation. Thus, such data points contain no information for estimating the parameters of the explanatory variables.

The results of *Table 6* reveal a consistent pattern: including year dummy variables increases the values of the estimated coefficients and OR. The regressions of columns (1)-(3) refer to a LPM.

In this context, we use the FE transformation method to remove the unobserved effect. The within R-squared given in these columns is interpreted as the amount of time variation in the response probability that is explained by the time variation in the independent variables. Estimating the regression in column (1) without adding time dummies gives an estimated coefficient of roughly 0.029 on the *certification* variable. This result is statistically significant at the 5% level: the B Corp certification is estimated to increase the probability to participate in a financing round by nearly 2.9%. Including time fixed effects to the regression in column (2) increases the magnitude of the estimated coefficient on *certification* without affecting its

previous statistical significance. The year dummies in column (2) are jointly significant at the 1% level (the F statistic for this test is 5.15). Thus, the result from equation (1) seems to suffer from omitted variable bias. The estimated coefficient in column (2) tells that the B Corp certification increases one's probability of participating in a financing round by almost 4.6%. Column (3) examines if the effect of the B Corp certification depends on improvements in the B Impact Assessment score over time. The negative coefficient on *certification* measures the effect of the B Corp title when the B Impact Assessment score equals zero, which is not interesting (a firm cannot be a B Corp with a score less than 80). It is critical not to look separately at these two estimated coefficients and conclude that they are not statistically significant. In fact, the *p-value* for the F test of this joint hypothesis is 0.019, and the estimated coefficients on *certification* and *score* are jointly significant at the 5% level. To estimate the partial effect of *certification* on the response probability, we must plug-in interesting values of the score. The mean value of *score* in the sample is 99.075, so the APE of *certification* on the probability of participating in a funding round is $-0.06671 + 0.00114(99.075) \approx 0.04576$. It is worth to notice that this APE is equivalent to the partial effect reported in column (2). The estimated coefficient on *score* is positive and tells that improving a company B Impact Assessment score by 10 points increases further its probability of participating in a funding round by roughly 1.14%. Eventually, for the LPM, using cluster-robust standard errors (where we cluster by firm) does not lead to a relevant loss of significance in estimates. In column (2), the coefficient's *t* statistic on *certification* becomes 1.99, and it is still significant at the 5% level; also, the time dummies are still jointly significant at the 1% level. In column (3), *score*, taken alone, is not statistically significant anymore. However, the coefficients on *certification* and *score* are still jointly significant at the 5% level (the *p-value* for this F test becomes 0.0421). The regressions of columns (4)-(6) contain the estimates from a fixed effect logit model. The coefficients' magnitudes of the explanatory variables are difficult to interpret, but their signs

still capture the direction of their partial effects. Also, the statistical significance of the coefficients is always determined by whether it is possible to reject $H_0: \beta_j = 0$ at a sufficiently small significance level. The FE logit estimated parameters represent the partial effect of each variable on the log-odds ratio of the probability of getting financed. Thus, the exponential functions of the coefficients on the *certification* and *score* variables (e^{β^1} and e^{β^2}) are, respectively, the OR associated with obtaining the B Corp title and the incremental OR of making improvements in the B Impact Assessment score. The OR is a measure of association between each explanatory variable and the response probability. In column (4), estimating FE logit without the inclusion of time fixed effects gives an estimated coefficient of roughly 0.18 on *certification*, with it being statistically significant at the 5% level. This result suggests that the B Corp certification has a positive effect on the probability to participate in a financing round. The OR of *certification* is about 1.20. It means that, if a company becomes a B Corp, its odds of getting financed are multiplied by roughly 1.20. Column (5) modifies equation (4) by adding time fixed effects. This regression gives a higher estimated coefficient of about 0.31 on *certification*, with it being still statistically significant at the 5% level. Also, the OR in column (5) is roughly 1.36. Performing a Likelihood ratio (LR) test on the year dummy variables, we find that these factors are jointly significant at the 1% level (the LR statistic is 114.07). Thus, the result from regression (4) seems to suffer from omitted variable bias. Column (6), examines if there is any interaction between the B Corp certification and improvements in the B Impact Assessment score. The estimated coefficients on *certification* and *score* are jointly statistically significant at the 5% level. The *p-value* for the LR test of this joint hypothesis is 0.0105. The estimated coefficient on *certification* is negative, and its OR is about 0.603. But this coefficient measures the effect when the B Impact Assessment score equals zero, which, as already explained, is not interesting. If a firm becomes a B Corp and it scores 80 at its B Impact Assessment, its odds of participating in a financing round are multiplied by nearly

$0.60271 * e^{(0.00839*80)} \approx 1.179$ times. The OR on *score* is roughly 1.008, and this value represents the incremental OR of B Corps that improve their score over time.

3.2 Analysis of the probability of disclosing one's funding round

This section presents an analysis of the B Corp certification and its interaction with improvements in the B Impact Assessment score, using *Disclosed* as the response variable. We study the impact of these factors on the probability for firms to disclose their funding rounds.

Table 7. Panel Data Models for Companies' Announcing Their Funding Rounds' amounts.

Model	LPM			FE Logit					
	(1)	(2)	(3)	(4)		(5)		(6)	
Estimation Method	Coefficient	Coefficient	Coefficient	Coefficient	Odds Ratio	Coefficient	Odds Ratio	Coefficient	Odds Ratio
<i>certification</i>	0.04292** (0.01524)	0.05287** (0.02275)	-0.04418 (0.08031)	0.2637*** (0.09531)	1.30174*** (0.12407)	0.33888** (0.1431)	1.40337** (0.20082)	-0.40277 (0.53261)	0.66846 (0.35603)
<i>score</i>			0.00099 (0.00079)					0.00766 (0.00531)	1.00769 (0.00535)
Firms' fixed effects?	Yes	Yes	Yes	Yes		Yes		Yes	
Time fixed effects?	No	Yes	Yes	No		Yes		Yes	
Firms Cluster-robust standard errors?	No	No	No	No		No		No	
Observations	3,529	3,529	3,529	3,529		3,529		3,529	
Number of firms	361	361	361	361		361		361	
Log-likelihood value	—	—	—	-1171.4115		-1121.6366		-1120.5852	
R-squared (within)	0.0025	0.0287	0.0292	—		—		—	
Pseudo R-squared	—	—	—	0.00327		0.04562		0.04651	

Standard errors are in parentheses below all coefficients or OR. The LPM is estimated using OLS, and the logit model is estimated using the maximum likelihood estimation (MLE). The coefficients are statistically significant at the level *10%, **5%, ***1% against a two-sided alternative. For these models, 834 firms (11,218 observations) are excluded from the estimation: 832 firms never disclose any funding round; 2 companies reveal at least one funding round every year since their foundation. Thus, such data points contain no information for estimating the coefficients of the explanatory variables.

The results of *Table 7* reveal that the inclusion of year dummy variables increases the values of estimated coefficients and OR. The first three regressions refer to a linear model that is built using the within transformation to remove the unobserved heterogeneity, and their R-squared is based on the within transformation as well. Estimating the regression in column (1) without

adding time dummies, gives an estimated coefficient of roughly 0.043 on *certification*. This result is statistically significant at the 5% level: the B Corp certification is estimated to increase the probability of disclosing one's financing round by nearly 4.3%. Including time fixed effects to the regression in column (2) increases the magnitude of the estimated coefficient on *certification* without affecting its previous statistical significance. The year dummies in column (2) are jointly significant at the 1% level (the F statistic for this test is 4.48). Thus, the result from the first regression seems to suffer from omitted variable bias. The estimated coefficient in column (2) tells that the B Corp certification increases one's probability of revealing its capital raised by almost 5.3%. Column (3) examines if the effect of the B Corp certification depends on improvements in the B Impact Assessment score over time. The negative coefficient on *certification* measures the impact of the B Corp title when the B Impact Assessment score equals zero, which is not interesting (a firm cannot be a B Corp with a score less than 80). The two estimated coefficients on *certification* and *score* are jointly significant at the 5% level. The *p-value* for the F test of this joint hypothesis is 0.0305. To estimate the partial effect of *certification* on the response probability, we must plug-in interesting values of the score. The mean value of *score* in this sample of 361 firms is 98.362, so the APE of *certification* on the probability of disclosing one's funding round is $-0.04418 + 0.00099(98.362) \approx 0.05287$. It is worth to notice that this APE is equivalent to the partial effect reported in column (2). The estimated coefficient on *score* is positive and tells that improving a company B Impact Assessment score by 10 points increases further its probability of disclosing its funding round's amount by almost 1%. For instance, a firm that scores 80 increases its response probability by $-0.04418 + 0.00099(80) \approx 3.5\%$. If the same firm succeeds to improve its B Impact Assessment score by 10 points over the following years, then its probability of disclosing its funding rounds becomes $-0.04418 + 0.00099(90) \approx 4.5\%$. Eventually, for the LPM, clustering standard errors by firm does not lead to a critical loss of significance in estimates. In

column (2), the coefficient's t statistic on *certification* becomes 2.06, and it is still significant at the 5% level; also, the time dummies are still jointly significant at the 1% level. In column (3), the coefficients on *certification* and *score* lose one degree of significance, but they are still jointly significant at the 10% level (the p -value for this F test becomes 0.0693).

The regressions of columns (4)-(6) contain the estimates from a fixed effect logit model. The FE logit estimated coefficients represent the partial effect of each variable on the log-odds ratio of the probability of disclosing one's financing round. In column (4), estimating the FE logit without the inclusion of time fixed effects gives an estimated coefficient of roughly 0.26 on *certification*, with it being statistically significant at the 1% level. This result suggests that the B Corp certification has a positive effect on the probability of disclosing one's financing round. The OR of *certification* is about 1.30. It means that, if a company becomes a B Corp, its odds of getting financed and disclosing its capital raised are multiplied by about 1.30. Column (5) modifies column (4) by adding time fixed effects. This regression gives a higher estimated coefficient of about 0.34 on *certification*, but it lowers its statistical significance to the 5% level. Also, the OR in column (5) is roughly 1.40. Performing a Likelihood ratio (LR) test on the year dummy variables, we find that these factors are jointly significant at the 1% level (the LR statistic is 99.55). Thus, the result from the first regression seems to suffer from omitted variable bias. Column (6), examines if there is any interaction between the B Corp certification and improvements in the B Impact Assessment score. The estimated coefficients on *certification* and *score* are jointly statistically significant at the 5% level. The p -value for the LR test of this joint hypothesis is 0.0211. The estimated coefficient on *certification* is negative, and its OR is about 0.67. If a firm becomes a B Corp and it scores 80 at its B Impact Assessment, its odds of revealing its capital raised are multiplied by nearly $0.66846 * e^{(0.00766*80)} \approx 1.234$ times. The OR on *score* is roughly 1.0077, and this value represents the incremental OR of B Corps that improve their score over time.

3.3 Analysis of Firms' Capital Raised Over Time

According to Crunchbase data, B Corps have received significant funding since certification (*Appendix 2, Figure 4*). This section presents an analysis of the B Corp certification and its interaction with improvements in the B Impact Assessment score, using the natural logarithmic of *Raised* as the dependent variable. We use a sample of 284 companies to study the impact of these factors on firms' capital raised (expressed in US dollars) over time.

Table 8. Panel Data Models for the logarithmic form of Companies' Capital Raised Over Time.

	(1)	(2)	(3)
Estimation Method	Coefficient	Coefficient	Coefficient
<i>certification</i>	1.04215*** (0.2479)	1.11034*** (0.36969)	-1.45622 (1.31869)
<i>score</i>			0.02607** (0.01286)
Firms' fixed effects?	Yes	Yes	Yes
Time fixed effects?	No	Yes	Yes
Firms Cluster-robust standard errors?	No	No	No
Observations	2,822	2,822	2,822
Number of firms	284	284	284
R-squared (within)	0.0069	0.0278	0.0294

Standard errors are in parentheses below all coefficients. These regressions are estimated using the within transformation model. The coefficients are statistically significant at the level *10%, **5%, ***1% against a two-sided alternative. For these models, 911 companies (11,925 observations) are excluded from the estimation: 754 companies (10,342 observations) have never participated in any funding round over time; 78 firms (867 observations) have never released information about their funding rounds' amounts; also, 79 companies (716 observations) that have limited data available about their capital raised' amounts are excluded from the estimation.

In column (1), the estimated coefficient on *certification* is about 1.042, and it is statistically significant at the 1% level: it is estimated that on average, the B Corp certification increases a firm capital raised over time by more than 100%. (The more precise estimate is 183.53%.) Including time fixed effects to the regression in column (2) increases the magnitude of the estimated coefficient on *certification* without affecting its previous statistical significance.

Moreover, the year dummies in column (2) are jointly significant at the 1% level (the F statistic for this test is 2.85). Column (3) examines if the effect of the B Corp certification depends on improvements in the B Impact Assessment score over time. The estimated coefficients on *certification* and *score* are jointly statistically significant at the 1% level. The *p-value* for the F test of this joint hypothesis is 0.0014. In this sample of 284 firms, the mean value of *score* is 98.5. Thus, the APE of the B Corp certification on the dependent variable is $-1.456 + 0.0261(98.5) \approx 1.11034$, which is equivalent to the partial effect reported in column (2). The estimated coefficient on *score* is positive and tells that, on average, a company that improves its B Impact Assessment score by 10 points increases further its capital raised by nearly 26.1%. (The more precise estimate is 29.78%.) For instance, a firm that becomes a B Corp and scores 80 increases its capital raised by roughly $-1.456 + 0.026(80) \approx 63\%$. If the same firm improves its score by 10 points over the following years, then it increases its capital raised by approximately $-1.456 + 0.026(90) \approx 89\%$. The difference between these two values is the additional effect of improving one's score. It is worth to notice that using cluster-robust standard errors (where we cluster by firm) does not lead to any loss of significance in the estimates.

The results of *Table 8* limit the analysis to those companies that raise capital and reveal all their funding rounds. We exclude from this study 78 firms that have never released information about their financing's size, and 79 companies that have limited data about their capital raised (*Appendix 3, Table 9, and Table 10*). The estimated partial effects are most likely upward biased because this sample of 284 firms includes only the most successful companies, that have always revealed their financing rounds over time.

4. Reverse Causality Issue

Our findings in *Table 6, Table 7, and Table 8* tell that the B Corp certification and its interaction with the B Impact Assessment score positively impact firms' funding rounds. To shed light on the mechanism of this relationship, we denote $k=0$ the event year at which a firm becomes

certified. Then, we study the probability of participating in a funding round, and the amount of capital raised over time in an event time framework:

$$(4) \quad y_{it} = \left(\sum_{k \in \{-7+, -6, -5, -4, -3, -2, -1, 0, 1, 2, 3, 4, 5, 6, 7+\}} \gamma_k D_k \right) + \delta_t + a_i + e_{it},$$

where γ_k is the coefficient vector of interest on event time indicators; δ_t are year fixed effects, a_i are firm fixed effects, and y_{it} represents either the dummy *Funded* or the natural logarithm of *Raised*. We plot the coefficients on the event time dummies γ_k (*Appendix 4, Figure 5*, and *Appendix 5, Figure 6*). The results suggest that reverse causality is a factor in the process: the increase in funding and capital raised come before, not after, certification. Parker et al. (2019) identified that becoming a B Corp requires substantial internal re-organization costs. Our results suggest that firms use part of their funding to pay these costs and obtain the certification.

5. Discussion and Conclusion

Our findings reveal that the B Corp certification has a positive relationship with organizations' funding rounds over time. We have also found that this association positively depends on the degree of companies' social and environmental impact improvement over the years.

The first binary outcome that we have tested is the probability for firms to participate in a funding round. The findings in *Table 6* reveal a consistent pattern: obtaining the B Corp certification increases a company's probability of raising capital. Moreover, this partial effect rises further if the organization improves its B impact assessment score over time.

The second binary outcome that we have tested is the probability for firms to disclose their funding rounds. The findings in *Table 7* reveal that becoming a B Corp increases a company's probability of announcing its capital raised. Moreover, this relationship positively depends on the B Impact Assessment score and its changes over time.

In the analysis of the funding rounds, this paper has also investigated companies' capital raised over time. Our findings reveal that obtaining the B Corp title is estimated to increase, on

average, the firms' amount of money raised by more than 150%. Moreover, we have found that improving one's B Impact Assessment score has a positive and statistically significant impact on this partial effect. However, we have explained that these last results suffer from sample selection upward bias because funding amounts are by definition missing for firms that have decided not to disclose their financing rounds, and our sample includes only the most successful companies that have always chosen to reveal their capital raised. It is worth to notice that impact funds and traditional VCs have both a role in generating the additional investment in B Corps. According to Crunchbase data, impact investors increase their financing by almost 129% after that companies obtain this certification, while traditional investors increase their investments by roughly 40.44%. However, in absolute numbers, traditional investments are considerably more than impact investments (*Appendix 5, Table 11*).

Eventually, we have built an event time framework to shed light on the mechanism of the relationship between the B Corp certification and funding rounds. The results suggest that reverse causality is a factor that must be considered: participating in funding rounds and raising capital over the previous years have an essential role in determining the certification as a B Corp. Thus, firms most likely get certified for other reasons besides access to funding, and they use part of their financing to pay the internal re-organization costs required to obtain the certification. In light of our findings, this study contributes to enriching the discussion of the B Corp label and its impact on organizations over time. The main limitation of our research is that we do not control for other time-varying variables than the year dummies. If at least one of these unobserved factors that impact funding rounds were correlated with the B Corp certification, there would still be inconsistent results.

We encourage future research to explore in detail the reverse causality discussed in this paper. Furthermore, more comprehensive sets of data may be used to obtain more consistent estimates of the relationship between the B Corp certification and companies' capital raised over time.

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Appendix 1

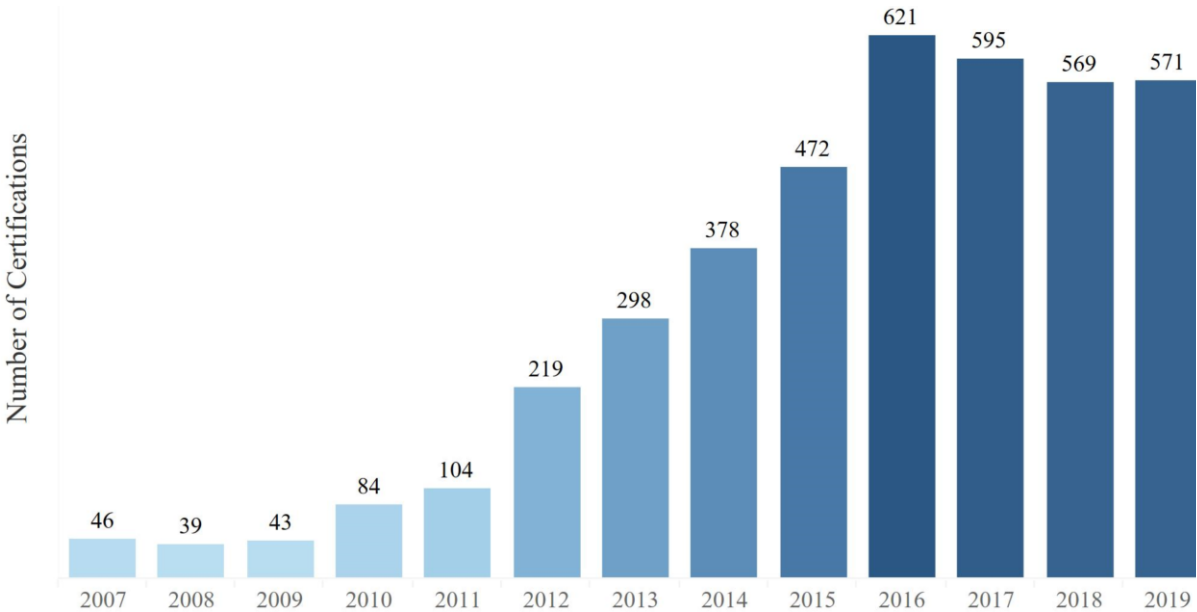


Figure 1. Sum of the number of companies that have become B Corps for each year since this movement began in 2007. The marks are labeled by the sum of the number of annual certifications. The data refer to the period from 15-May-2007 till 31-Dec-2019.

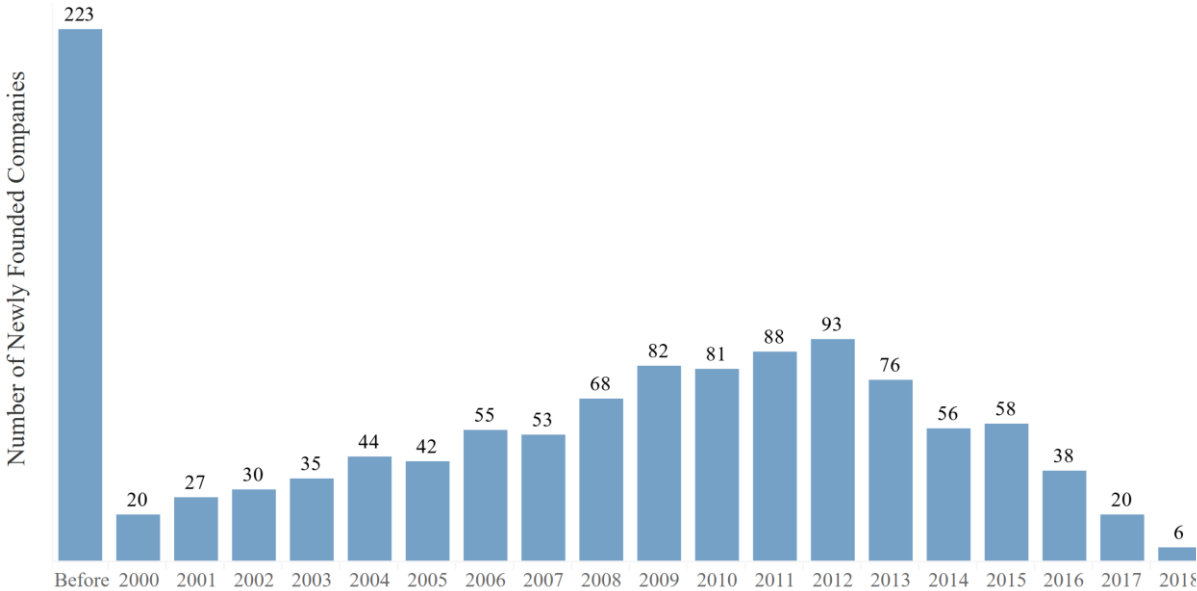


Figure 2. Founding years of each of the 1,195 companies in the sample. The marks are labeled by the sum of the number of annual foundations. The first column (Before) groups the companies that were founded before 2000. It tells that 223 firms in the sample were established before that year.

Appendix 2

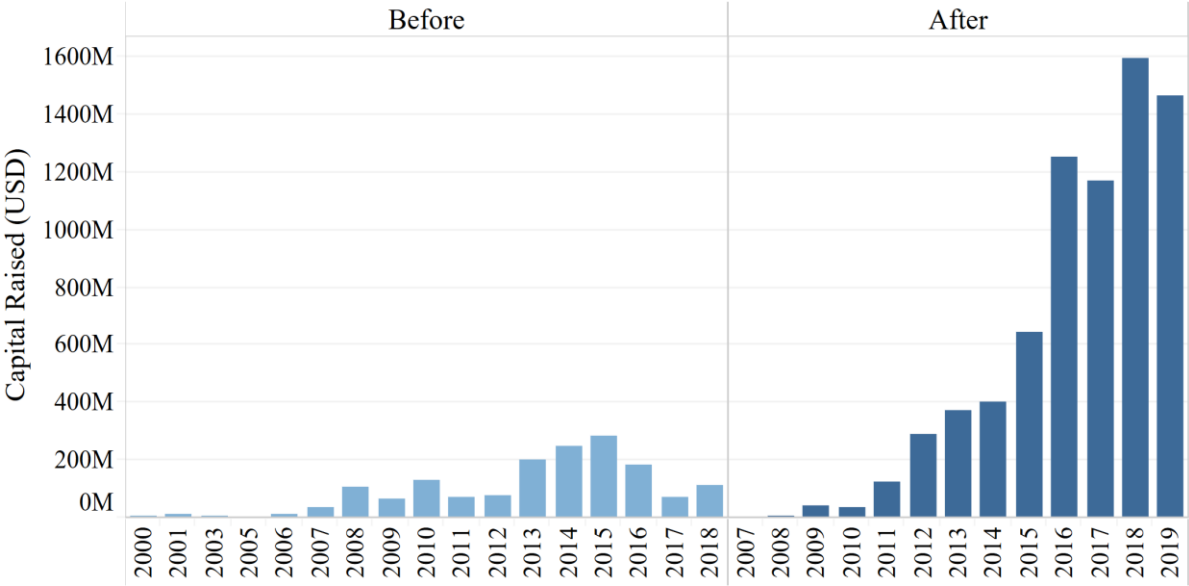


Figure 4. Companies' annual capital raised before and after becoming B Corps. The data refer to the sample of 1,195 firms that are studied in the paper. According to Crunchbase data, only 441 out of 1,195 firms have participated at least in one funding round over their existence. There are a total of 1,134 financing rounds in the period from 15 June 2000 till 17 September 2019. The amount of capital raised is expressed in millions of US dollars. Section "Before" shows firms' money raised before obtaining the B Corp title, and section "After" exposes the amount raised after becoming certified. There is no data available for 257 out of 1,134 funding rounds (133 undisclosed rounds refer to the pre-certification period, and the remaining 124 of them refer to the period after becoming a B Corp).

Appendix 3

Table 9. Companies with sparse data available about their funding rounds.

		<i>Number of yearly funding rounds with no information available</i>	
	<i>Number of Firms</i>	<i>Before</i>	<i>After</i>
	40	47	0
	6	7	6
	33	0	35
<i>Total</i>	79	54	41

There are 79 companies with sparse data available about their funding rounds. This table shows the number of funding rounds that these firms did not disclose and their event time. The section *Before* represents the period before obtaining the B Corp title, while the column *After* represents the period after becoming certified. This table tells that among these 79 companies, 54 funding rounds were not revealed before obtaining the B Corp title, and 41 financing rounds were not disclosed after becoming certified. Specifically, 40 companies have only undisclosed their financing rounds before receiving the certification; six firms have undisclosed seven rounds before their certification and six rounds in the aftermath; 33 companies have only undisclosed their financing after becoming B Corps.

Table 10. Companies with no data available about their funding rounds.

		<i>Number of yearly funding rounds with no information available</i>	
	<i>Number of Firms</i>	<i>Before</i>	<i>After</i>
	37	39	0
	12	12	12
	29	0	37
<i>Total</i>	78	51	49

There are 78 companies with no data available about their funding rounds. This table shows all the funding rounds where these companies participated and their event time. The section *Before* represents the period before obtaining the B Corp title, while the column *After* represents the period after becoming certified. This table tells that among these 78 companies, 51 funding rounds happened before obtaining the B Corp title, and 49 financing rounds happened after becoming certified. Specifically, 37 companies have only participated in financing rounds before receiving the certification; 12 firms have participated in 12 rounds before their certification and 12 rounds in the aftermath; 29 companies have only received funding after becoming B Corps.

Appendix 4

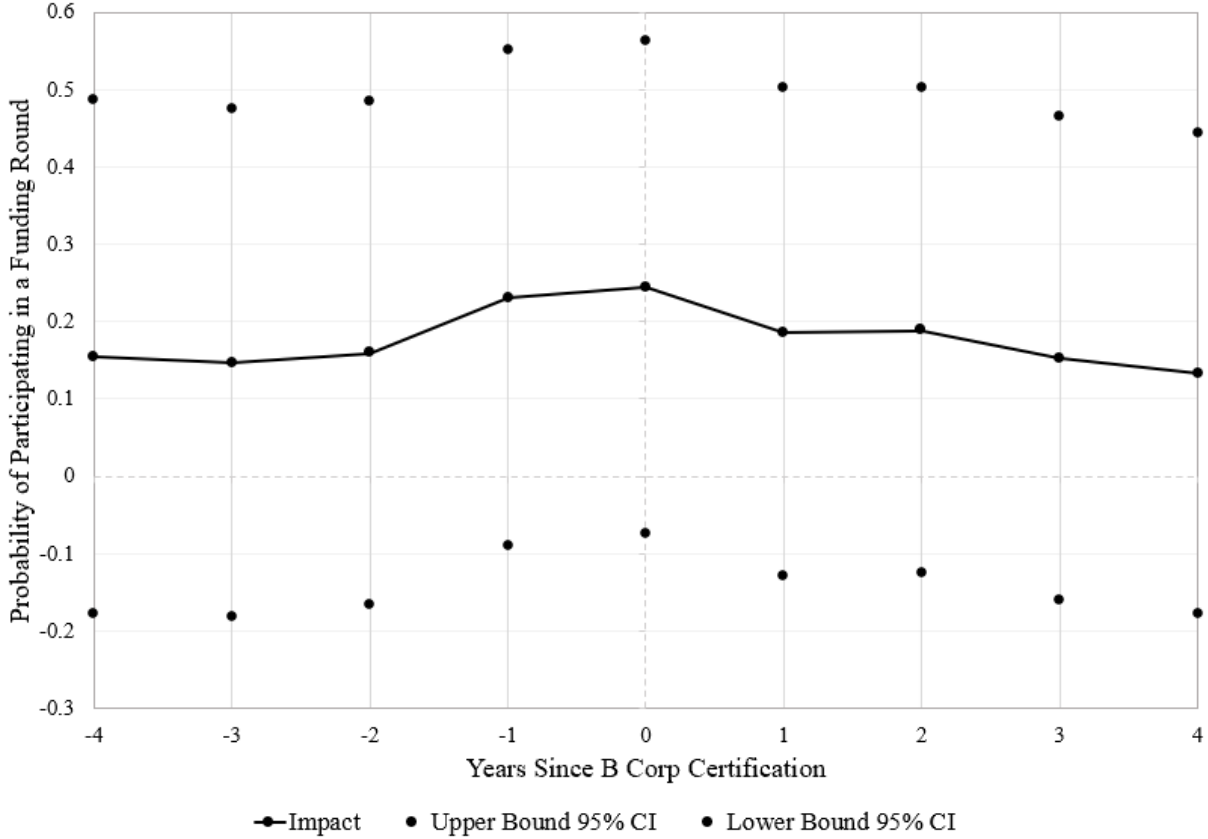


Figure 5 plots the impact of the event time dummies on the probability of participating in a funding round for a sample of 439 firms (4,396 observations). The graph shows an increase in funding in the two years before the certification, and a fall starting from the following time period.

Appendix 5

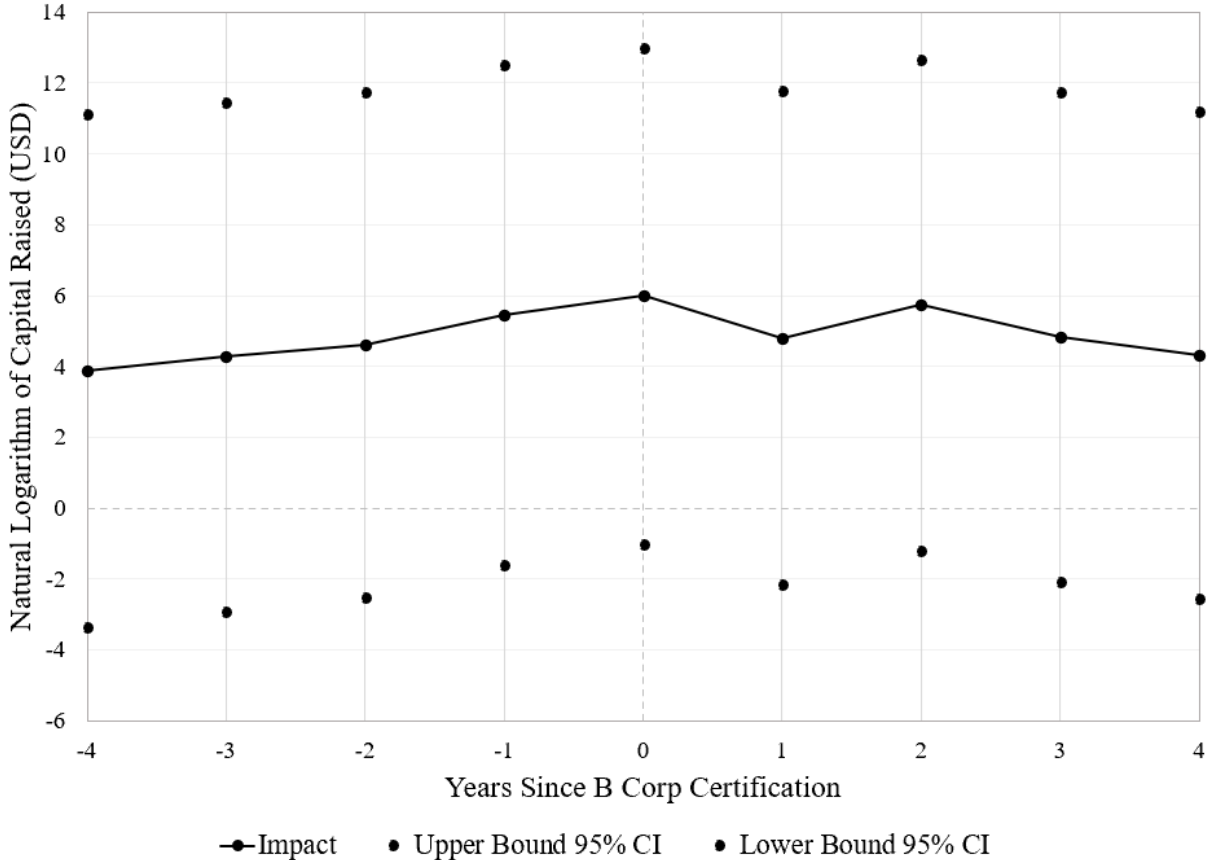


Figure 6 plots the impact of the event time dummies on the natural logarithm of firms' capital raised for a sample of 284 companies (2,822 observations). The graph shows an increase in capital raised till the year of the certification and an overall decline in the following time periods.

Table 11. Source of the additional investments in B Corps.

	<i>B Corp</i>	<i>Impact Investment</i>	<i>Number of Companies that got Funded</i>	<i>Number of investments</i>	<i>Number of Investors</i>
	<i>No</i>	<i>No</i>	273	1,004	588
	<i>Yes</i>	<i>No</i>	297	1,410	852
	<i>No</i>	<i>Yes</i>	27	38	27
	<i>Yes</i>	<i>Yes</i>	51	87	44
<i>Overall</i>	—	—	441	2,539	1,315

There are 269 out of 2,539 investments (136 for not B Corps, and 133 for B Corps) with no data about investor's identity. Thus, the column about the number of investors only includes the 1,315 investors whose identity is known.