

WHAT ARE THE ATTRIBUTES OF DE-CERTIFIED B CORPS? PRELIMINARY

RESULTS

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Abstract

Third-party certifications as a form of private regulation have been proliferating to guide the behaviour of for-profit businesses in social and environmental areas. While much scholarly attention has been paid to explain the phenomenon of certification programs, their diffusion, and dynamics, we need a more nuanced understanding of the decertification trends among firms. Using a sample of 3,741 companies, we examine the non-financial performance attributes of certified and decertified B Corps. Our findings show that overall, decertified firms outperformed certified firms in their social-environment performance. Specifically, while higher scores in employee wellbeing and governance practices are negatively correlated with decertification status, a firm's value to its customers and consumers is positively correlated with decertification.

Keywords: Third-party certifications, decertification, B corporation, social-environmental performance

INTRODUCTION

Third-party certification has been a growing phenomenon as the recent trends point to the rise in the number of new certifications events every year across industries (*The State of Sustainable Markets 2018: Statistics and merging trends*, 2018). Scholarly attention to third party-certification and standards has also increased. The current standards literature primarily focuses on the antecedents (Delmas & Montiel, 2008; Delmas, 2002), processes (Boiral, 2003; Corbett, 2006), and outcomes (Christmann & Taylor, 2006) of standards adoption and their diffusion (Brunsson, Andreas, & Seidl, 2012; de Nadae & de Carvalho, 2019; Marshall, McCarthy, McGrath, & Claudy, 2015; Melnyk & Sroufe, 2009; Parisi, 2013; Terlaak, 2007). For example, some of the drivers of standards diffusion are isomorphism (Brunsson et al., 2012), efficiency (Terlaak, 2007), and institutional environment of a given country (Delmas, 2002). Other scholars, however, have offered a more expanded view on standards. For instance, the 2012 Special Issue of Organization Studies on “The Dynamics of Standardization” introduces studies on areas such as production, evolution, and negotiation of standards, issues around diffusion and implementation of standards, and markets of standardization (Brunsson et al., 2012).

Scholars have conceptualized sustainability management standards as norm-like institutions that help guide the unobservable behaviours of firms (Terlaak, 2007), and a form of self-regulation of corporations in a given industry to behave in a socially responsible way (Campbell, 2007). Specifically, in the area of environmental sustainability standards, Prakash and Potoski (2006) view voluntary certification programs as one of the environmental policy tools among others such as market-based permits and mandatory information disclosures. Prakash and Potoski (2006) define voluntary environmental programs as “green clubs,” that are

“codified programs and practices that firms pledge to adopt and follow” (p. 17). Thus, membership in a “green club” represents an excludable benefit that only members enjoy. According to (Prakash & Potoski, 2006) “brand image” - the excludable benefit of “green clubs,” includes positive image, goodwill, legitimacy and reputation for environmental stewardship. Similarly, B certification can also be viewed as a “green club” that offers such benefits to its members, B Corps. Specifically, it offers an image that is associated with a business that “balances purpose and profit,” and creates value by considering environment, community, customers, workers, and governance (B Lab website, 2019). From this perspective, the role of third-party certification can be crucial in communicating a firm’s commitment to improve corporate policies and practices in both quality and sustainability management to both its internal and external stakeholders.

Given the weight placed on third-party certifications, relatively little scholarly attention has been paid to decertification trends among for-profit businesses. Up to date, few studies have looked into the antecedents of decertification and its effects on firm outcomes. For example, in the case of ISO 9000 decertification has been attributed to factors such as decoupling from work and professional identity of employees (Sandholtz, 2012) and lack of economic benefits (Cândido, Coelho, & Peixinho, 2016). Having a deeper understanding of decertification trends specifically in the area of social and environmental certification programs is crucial.

Among the increasing number of businesses certifying as B Corps, there is also a parallel trend of “decertification” or withdrawal from B certification. Previous research on B Corps suggests that B certification serves as collective identity enactment and validation (Gehman & Grimes, 2016). In addition, B certification represents a resource-intensive process for firms given the initial assessment, certification fee, modification and verification of company policies

culminating in the change in legal structure of a company to a benefit corporation. Given the potential reputation risks and sunk costs, we need a better understanding of the factors that are at play in decertification. From this perspective, this study answers the question: What are the non-financial performance attributes of for-profit businesses that choose to decertify? The aim of this paper is to answer this question in the case of decertified B Corporations. Over the past 10 years, there has been an overall increase in the number of B Corps across countries and industries (Chart 1). Since its inception with the first cohort of 45 companies in 2007, B certified companies today total to over 2,900 companies across 150 industries in 60 countries.¹ B certification represents a larger trend of certification and standard-adoption in the environment, social, and governance (ESG) field. Specifically, B Corp status is usually associated with a firm's commitment to ethical practices and policies in areas such as community, customers, workers, governance, and environment.

By exploring the non-financial performance of decertified B Corps along the five socio-environmental impact dimensions - governance, environment, workers, community, and customers, this paper lays out some common attributes of the companies that withdrew from B certification. This paper contributes to the standards and certification literature, and broadly private regulation and governance literature by highlighting a more nuanced understanding of the dynamics of standardization, specifically on the demand side in terms of adoption and attrition of a standard. The paper builds upon and extends the previous studies on B Corps examining the motives of adoption of B certification and conducts comparative analysis of certified and decertified B corporations. Our analyses are based on the data from B Corps who went through

¹ B Lab website <https://bcorporation.net/> accessed August 26, 2019.

the certification over the course of 12 years which captures the inception of B certification. Based on the data from 3,741 companies, this paper shows that decertified firms actually outperformed certified firms on overall social-environmental performance for the duration they held B Corp status, thus indicating complex dynamics among the recognition, award, and sanction aspect of certification (Prakash & Potoski, 2006).

In the following pages, first, the paper reviews the existing literature on B Certification, and third-party decertification more broadly, highlighting some of the common attributes recurrent in decertification of firms across industries. Then, the Method section describes the sample and statistical techniques that we use to explore the empirical evidence on decertified B Corps and reports the results of our analysis. Finally, the paper discusses implications of these results for B certification specifically, and third-party sustainability standards broadly.

LITERATURE

Voluntary sustainability standards and quality management certifications have received much attention in the literature. Scholars across disciplines have studied third-party certifications and standards, and specifically the drivers, processes, and outcomes of their adoption.

Third-party certification and consumer preference

Darnall, Ji, & Vázquez-Brust (2018) studied third-party certification in relation to consumer choice and consumer trust of a given ecolabel, and found that consumers who trusted the credibility of environmental information given by governments and NGOs were more likely to engage in green purchasing behaviour regardless if the product was third-party certified or not. Another finding of the same study shows that consumers who distrusted the credibility of the environmental information given by private businesses were more likely to engage in green

purchasing behaviour if the product was third-party certified. Extending consumer preference approach further, Hartlieb & Jones (2009), suggest that in the case of UK certifications and labels were seen instrumental to mainstreaming ethical consumerism.

Third-party certification and performance

Overall, the economic aspect and financial performance are of the central themes in third party certifications. De Jong, Paulraj, & Blome (2014) find that environmental certifications such as ISO14001 relate positively to financial performance in the long term. In the context of forest certification, Bouslah, M'Zali, Turcotte, & Kooli (2010) find a negative long-term impact of certification on a firm's financial performance. Notably, however, the authors suggest that this impact depends on a certifying body; while certifications such as ISO 14001 produced by industry were penalized, NGO-produced certifications were not. Recent research examining B certification and firm growth also found that B Corps experience a temporary slowdown in their growth following the year of certification (Parker, Gamble, Moroz, & Branzei, 2019).

Decertification and related factors

Although to a limited extent, scholars have studied decertification across disciplines and industries such as agriculture, coffee, fishery, engineering and several others. Some of the recurring factors in this literature relate to the costs of certification, lack of economic value or instrumentality, and perceived difficulty of certification process.

Certification costs and subsidization of recertification

Heras-Saizarbitoria, Boiral, & Arana (2016) found that companies who had their certification subsidized by a public grant were more likely to not renew their certification. In the

case of agricultural certification program, Holzapfel & Wollni (2014) examined whether a farmer continued compliance with the certification after donor withdrew their support. They found that support from exporters and the scale of the farming operation were crucial in the decertification decision. Specifically, although the size of a farm did not have a significant effect on initial adoption of the standard, the study found that compared to small size farms, large ones were more likely to recertify after the certification subsidy by grant support ended. In the case of ISO 9001 decertification Kafel & Simon (2017) found that financial strains at the company, lack of added value and a high cost of certification were the three top reasons that the companies reported as their reasons to decertify.

Size and lack of Economic benefits

The next category is related to the material/economic benefits of certification. Examples from studies such as effects of certification on net household income of farms or increase in revenues demonstrate this category. It is important to note that, increase in economic value would act as a necessary condition for maintaining certification, whereas no change in the rate of sale increase, for example, would still as a factor leading to decertification. Relatedly, a common attribute that emerges from the literature is the relatively smaller size of decertified establishments compared to certified businesses. Cândido et al. (2016) studied companies that lost their ISO 9001 quality certification. Controlling for similar sized companies with similar financial indicator such as return on assets they found decertified firms neither underperformed nor overperformed financially after losing their certification. Torres & Marshall (2018) studied decertification among USDA Organic certification among fruit and vegetable farmers in the United States. Their findings show that small size farms were significantly more among

decertified farmers than certified ones, whereas larger farms had lower rates of decertification. Comparing decertified B Corps with certified ones, Cao, Gehman, & Grimes (2017) did not find a significant difference in the social-environmental performance between the two groups of companies, whereas decertified companies were smaller and had lower average sale. Ragasa, Thornsbury, & Joshi (2017) found that economic factors such as market differentials, unit price, access to credit had a significant impact on the decision to maintain certification in fishery industry. Specifically, firms who reported difficulty accessing credit were 42% more likely to discontinue certification than the companies who did not report such difficulty. Being active in an association also explained likelihood of decertification decision. Active firms were 70% less likely to decertify compared to firms who were not active in an association.

Perception

The perception of certification process is another important factor in the decertification literature. If viewed as a spectrum of rigor, being able to meet the requirements of certifications seems to be relevant to maintaining or discontinuing certification. Torres & Marshall (2018) measured perception among farmers in terms of certification process, and found that the perception of certification process as a barrier to certify was higher among decertified farmers than certified ones. Among the decertified farmers, certification process as a barrier was ranked as the most important reason to certify. Notably, after decertification 72% of decertified farmers maintained organic practices. In their case study Forestry Stewardship Council (FSC) among eight forestries and industry experts in New Zealand, Bowler, Castka, & Balzarova (2017) found that firms that engage in negotiations with the FSC about operational difficulties and future uncertainties of the certification are more likely to intend decertification. In addition, firms with

proactive attitude to the certification were more likely to continue adhering to FSC requirements even after the formal withdrawal from the certification. In the context of ISO 9000 is a case study by Sandholtz (2012) analysing conditions under which adoption of standard leads to tight coupling with and decoupling from work. The study shows that an engineering unit of a company eventually abandoned certification as a result of decoupling. The engineers of this unit perceived the standard to be in conflict with their professional identity and authority. In addition, the perceived benefits and satisfaction of companies with the certification are also among the main determinants of a company's intention to maintain their certification (Heras-Saizarbitoria et al., 2016).

METHOD

Background

Similar to third-party sustainability standards B certification aims to measure nonfinancial performance of companies in ESG areas by closely scrutinizing practices and policies of these companies. Certified B Corporation status usually indicates a strong social-environmental mission and commitment to using business as a “force for good” (B Lab, 2019). The comprehensive nature of B certification also means resource-intensive processes for an organization. Previous empirical research on B Corps finds the alignment of values promoted by the B certification with those of a firm to be the primary motivation to certify (Gehman & Grimes, 2016; Stubbs, 2016). In addition, becoming a B Corp is also an enabler of a community of like-minded businesses and collective identity that advocates stakeholder paradigm in defining the purpose of a businesses (Kim, Karlesky, Myers , & Schifeling, 2016).

Kim & Schifeling (2016) conceptualize emergence of B Corporations as a social movement of actors who are in opposition of shareholder/profit maximization paradigm through two mechanisms. The first mechanism of emergence is for B Corps to signal an oppositional view on shareholder-centric practices and policies of corporations. The second mechanism of the emergence of B Corps as a socially-oriented firms, according to Kim & Schifeling (2016), is their differentiation from “insincere imitation” of incumbent corporations practicing mainstream corporate social responsibility (CSR), and to claim authenticity of B corps as stakeholder-centric organizations.

Sample and data

The outcomes of third-party certification have been studied on different levels of analysis, however, there seems to be more focus on firm level outcomes where scholars examined organizational performance along financial and nonfinancial dimensions (de Jong et al., 2014). For this study, we constructed my sample using a public version of a dataset made available by B Lab on data.world² which is an online platform that hosts datasets from different organizations. This dataset includes B Impact Assessment (BIA) scores of 3,741 firms spanning from 2007-2019. At the time of writing, 23% (879) of these companies are decertified. The original dataset includes 113 variables such as company name, location, industry, size, impact topic and impact area assessment scores. For the purpose of this paper, we used the aggregate impact area scores of companies.

Dependent Variable

² B Corp Impact Data , B Lab, data.world/blab/b-corp-impact-data, Accessed 7 August 2019.

The dependent variable is a string variable *currentstatus*. It indicates whether a company holds a B certified status or not. We encoded this variable to enable dichotomization, thus assigning the values of “0” (negative outcome) showing that the current status of company is certified, and the value of “1” indicates the “positive outcome” indicating that the company lapsed its B certification and its current status is decertified.

Explanatory Variables

The explanatory variables include the mean values of the scores in five impact areas measured in the B impact assessment survey. *IA_Gov* measures the extent to which B Corp certified firms engage with their mission and external stakeholders. It includes themes such as ‘mission engagement’ (feedback solicitation from stakeholders, internal mission engagement practices such as inclusion of social/environmental mission in employee training, inclusion of S/E goals in performance review of management, CEO compensation ties to SE metrics and objectives), ‘corporate accountability’ (board composition, independent directors, voting seats, management of company’s growth, shareholder engagement), ‘ethics’ (written policies such as Code of Business Conduct, Code of Ethics, whistle-blower policy etc.), ‘transparency’ (customer communication, public reports, access of employees to investors), governance metrics such as financial earnings, and institutionalization of the companies social/environmental mission such as legal structure. Community (*IA_Comm*) measures themes such as job creation, contribution to local and national economic development, diversity and inclusion in corporate governance, civic engagement and giving, poverty alleviation, and workforce development practices. Worker (*IA_Work*) metrics of the assessment includes issues such as the composition of a firm’s labour structure, difference between highest and lowest compensated individuals, and metrics on any

gender pay gap. *IA_Env* includes level of integration of environmentally conscious practices in transportation, distribution and supplier operations, metrics on water conservation, and energy use. *IA_Cust* is a performance dimension that addresses the company's orientation in providing products and services for underserved segments of population.

Control Variables

Size (*size2*) of companies was included in the analysis as a control variable. It is measured by the number of employees in full-time equivalents taking the values from 1 to 7 (firms with 0 employees or sole proprietorship are coded as "1", firms with 1-9 employees are coded as "2" and so on).

Data Analysis Methods

To explore the overall characteristics certified and decertified firms, I conducted a difference of means test between the two groups of firms based on their current certification status. I further explore the effect of impact areas on certification status using logistic regression analyses. Logistic regression is a common model used for binary outcomes (Freese, 2014), and prior studies on third-party certifications have used this approach (Carlos & Lewis, 2017; Darnall et al., 2018).

RESULTS

Table 1 shows descriptive statistics and the results of t-test that compares the mean scores of certified and decertified B corps in five impact areas. The results show that decertified B Corps are characterized with higher performance in overall social-environmental, and specifically customers area. No significant difference exists between mean community,

environment scores of these two groups. Certified firms outperform decertified ones in workers and governance areas. Some preliminary characteristics of the de-certified companies also show that the majority (81%) of companies abandon certification after the first or second round of certification (Chart 3). Table 2 includes the results of the logistic regression to explain the dependent variable certification status. The results of the regression show impact scores on customers, governance, and workers are associated with decertification status of B Corps. For each unit increase in Workers impact score and Governance impact score, the odds of being decertified decrease by 3%. For each unit increase in customers, the odds of being decertified increase by 1%.

DISCUSSION

Theoretical Implications

The preliminary results about decertified firms show some intriguing findings. For example, the fact that they choose decertification rather quickly can be counterintuitive because one could expect that companies want to establish their position, identity, and commitment to the B Lab values for a prolonged period of time. Although cases like Etsy, Danskø that have received much media attention as B corps, and whose B certification lapsed after 3 and 5 rounds of (re-)certification, the majority of de-certified companies decided relatively quickly not to pursue the certification anymore.

De-certification can be susceptible to the size and growth stage of B corps. Although B Lab initiated Multinationals & Public Markets Advisory Council to address the complexities of certifying public companies, after going public, Etsy framed its decision to decertify largely around structural and legal impediments to incorporating as a benefit corporation. Notably,

however, the majority of the de-certified firms are small in size (with 1-9 employees). The findings of Parker, Gamble, Moroz, & Branzei (2019) might be relevant that young ventures might find it taxing to keep up with the requirements of B corps in terms of resource availability (or lack thereof). For example, Farmigo, one of the de-certified companies that was founded in 2012, terminated one of its services following its 2015 assessment. As such, young social ventures might be in an iterative process of finding the right business model to stay financially viable while remaining committed to their social mission. During this iterative process the co-occurring requirements of B certification might be a relevant factor leading organization to abandon the certification.

Findings of this research also speak broadly to social evaluations literature, and the case of B Corps present an interesting domain to study status and reputation, and the fluidity of status (George, Dahlander, Graffin, & Sim, 2016). Specifically, overall outperformance of decertified firms might potentially exemplify the findings by Prakash and Potoski (2006) in the case of ISO 14001, another sustainability certification that unlike average performers, firms with low and high performance did not attempt to attain certification status.

This paper also extends previous research that examined the question of strategic silence or selective choice of firms to publicize their certification status. B Corps have been found to use the “B certified” in a manner that shields them from being perceived as hypocritical (Carlos & Lewis, 2017; Gehman & Grimes, 2016).

Axel (2014) raises concerns about legitimacy of third-party certification systems. One of these challenges is related to input and output legitimacy. Input legitimacy means the extent to which standard setting is transparent and inclusive of stakeholders, or in simple terms, who is setting

the standards. The second challenge is related to output legitimacy which indicates the extent to which the implementation of standards is effective, or, how the standards are implemented.

While the above discussed legitimacy challenges are crucial, such an approach overlooks the role of decertification and its contribution to the legitimacy challenges. Given the role of size among decertified firms, smaller and younger companies B certification may face input legitimacy challenges to ensure inclusiveness of younger ventures.

Practical Implications

Our findings offer several implications for practitioners and policymakers. Although there is a growing number of new certifications, decertification might undermine the legitimacy and broadly instrumentality of B certification among the pool of socially-oriented businesses. More broadly, our findings relate to the role of private regulation in cultivating ethical norms and practices among for-profit organizations. Our findings can inform certifying bodies in identifying potential decertification and design policies and processes that supports retaining certified firms.

Directions for Future Research

Future research can focus on more granular approach to the mechanisms that instigate decertification. Specifically, in depth interviews with the decertified firms can provide a richer picture of events and experiences of former B Corps leading up to their decision to certify. Given the benefits of “brand image” future research can investigate why a firm would risk and voluntarily opt out of these benefits through in-depth case studies.

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Table 1. Descriptive statistics and correlations

	Certified Mean (St.D.)	Decertified Mean (St.D.)	t-test Statistic	p-values
Overall_score	94.80 (14.49)	95.95 (15.24)	-2.03	0.04*
IA_Comm	31.41 (14.57)	32.27 (15.75)	-1.44	0.15
IA_Cust	13.88 (15.78)	17.64 (18.53)	-5.40	0.00**
IA_Env	17.53 (13.24)	17.01 (13.11)	1.03	0.31
IA_Gov	12.09 (3.58)	11.75 (3.69)	2.41	0.02*
IA_Work	23.09 (8.72)	18.60 (11.39)	10.44	0.00**

Table 2. Odds of certification status

currentstatus	Odds Ratio	Std. Err.	z	P> z	[95% Conf. Interval]
IA_Comm	.9981153	.0036537	-0.52	0.606	.9909797 1.005302
IA_Cust	1.011048	.0033055	3.36	0.001	1.00459 1.017548
IA_Gov	.9666312	.0116782	-2.81	0.005	.9440112 .9897931
IA_Work	.9743595	.0059724	-4.24	0.000	.9627239 .9861357
IA_Env	1.001067	.0039883	0.27	0.789	.9932804 1.008914
size2					
0	2.286826	.3748761	5.05	0.000	1.658429 3.15333
_cons	.7070719	.2158387	-1.14	0.256	.3887123 1.286171

Chart 1. Certification events 2007-2018

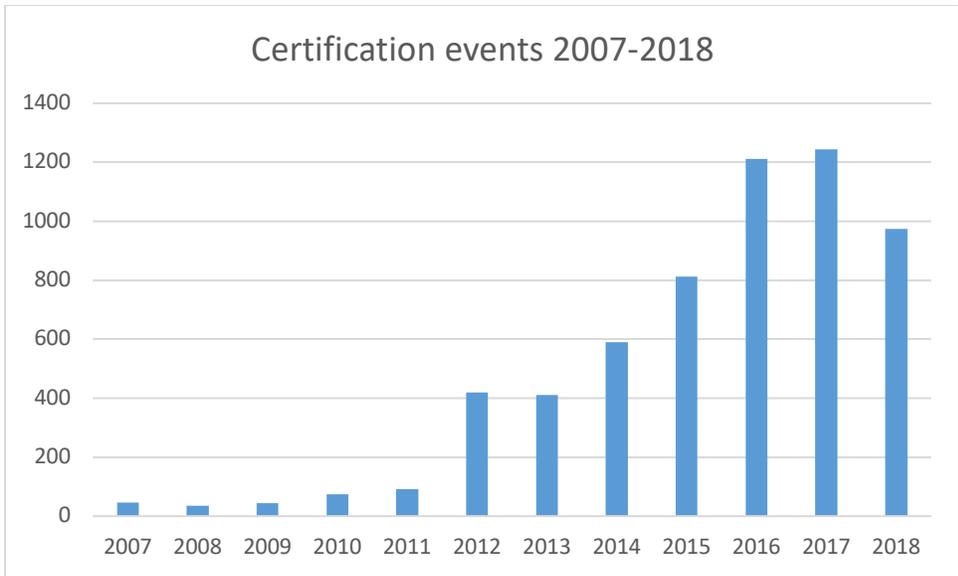


Chart 2. Decertified firms by industry

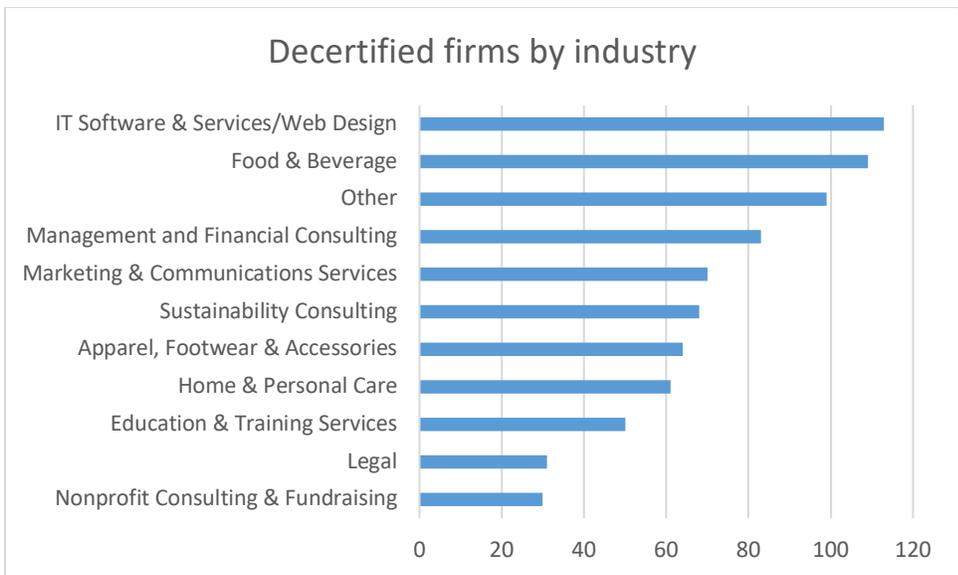


Chart 3. Percentage of re(certified) firms by certification cycles/rounds

