Master Thesis U.S.E

THE ROLE OF THE B CORP CERTIFICATION IN EARLY-STAGE INVESTORS' DECISION PROCESS[1]

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The B Corp certification is adopted by an increasing number of early-stage ventures to present themselves favourably to investors and increase their funding chances. The current understanding of the processes underlying this relationship is however lacking. This research provides further insights by analysing the role of the B Corp certification in early-stage investors' decision process. Based on an exploratory abductive approach, 22 interviews with impact and traditional investors were conducted and analysed using process frameworks by Gompers et al. (2020) and Huang (2018). The B Corp certification is found to have minor effects on the decision process based on both ideologic and economic perceptions. Its role is much larger when cognitively evaluated within itself in terms of costs and benefits than as a source of quality signalling. The certification only significantly impacts the final selection decision if investors expect it to create a competitive advantage which outweighs the high cost of undergoing the certification process as an early-stage venture. These findings call into question the predominant assumption of a positive effect of the B Corp certification on funding chances due to quality signalling and highlight the need for further research into the relationship between voluntary sustainability certification and early-stage investors' sensemaking.

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CONTENTS

1. INTRODUCTION

Accessing the necessary funding to operate and grow is one of the major challenges faced by early-stage ventures (Clough et al., 2019). The large information asymmetry between these investors and ventures, and the uncertainty and risk it creates, presents an obstacle for both parties trying to reach a beneficial agreement (J. H. Kim & Wagman, 2016; Navis & Glynn, 2011). Social ventures, which do not only pursue financial profits but also aim to create social returns by acting societally responsible and sustainable, are particularly hampered by this issue (Battilana, 2018). The dual goals and their integration into ventures' business models, as well as the introduction of social values, add further complexity to the dynamic (Paelman et al., 2022). The complication this causes for investors' sensemaking is likely to make them more hesitant to invest (Wesley et al., 2022). Social ventures are therefor continuously seeking strategies to present themselves favourably to investors and optimise the way they are perceived and made sense of (Cao et al., 2017).

According to the organisation issuing it as well as an emerging stream of literature, the B Corp certification presents a possible solution (Cao et al., 2017; Gehman et al., 2019; Kirst et al., 2021; Moroz et al., 2018; Paelman et al., 2022). The NGO B Lab assesses the social and environmental performance of corporations, supports their sustainable transition and ultimately certifies them. The aim of the "B Movement" around this global cross-industry certification is not only to support the sustainable transition of individual corporations but to facilitate a wider change from a profit-maximising shareholder to a holistic stakeholder perspective and subsequently achieve a more societally beneficial economic system (B Lab, 2023a; Gehman et al., 2019; S. Kim & Schifeling, 2022; Villela et al., 2021). The B Corp certification at its core is distinguished from conventional certifications by significantly higher requirements regarding social and environmental performance, accountability and transparency (Cao et al., 2017). Consequently, it is not uncommon for corporations to significantly change their inner workings over the course of years to pass the necessary impact assessment (Villela et al., 2021). Becoming a certified B Corporation not only requires integrating social returns into business models but also a legal commitment to implement a stakeholder governance structure (B Lab, 2023a).

As the movement gains increasing members and global attention, more and more early-stage ventures are joining by getting certified or using the tools provided by B Lab to take the first steps (B Lab Global, 2022; Diez-Busto et al., 2021). Among their largest motivators is the B Lab founders' core aim of improving their financial viability and funding chances while still following their social mission (Cao et al., 2017; S. Kim & Schifeling, 2022; Villela et al., 2021). The assumption on which this strategy is built is that the third-party assessment and endorsement provided by B Lab makes the B Corp certification an effective source of quality signals (Conger et al., 2018; Plummer et al., 2016; Svetek, 2022). Venues with low sustainability performance and flawed internal organisations would likely not be able to pay the high costs of restructuring to acquire this certification (Cao et al., 2017). It is therefore theorised to decrease the information asymmetry regarding a venture's ideology and sustainability performance and favourably facilitate investor sensemaking (Navis & Glynn, 2011; Plummer et al., 2016). Given that early-stage ventures have limited resources and are not unlikely to be negatively affected by the demanding certification process, understanding how this choice will actually affect investors' decision processes is highly important to them (Parker et al., 2019; Pollack et al., 2021). This is already important to ventures who are currently only considering the option of certification. Getting certified may not be the ideal path for all entrepreneurs, even for those deeply committed to sustainable ideologies Being aware of the impact on investors' funding decisions enables entrepreneurs to weigh costs and benefits and make an informed decision on pursuing certification (Villela et al., 2021). Understanding the role of the certification in the investor decision process furthermore enables both existing and potential B Corps to develop strategies to optimally present themselves and maximise their funding chances (Wesley et al., 2022).

Unfortunately, understanding of the relationship between the B Corp certification and early-stage venture financing, especially regarding its role in investor sensemaking and funding decisions, is currently lacking as researchers have paid limited attention to it (Cao et al., 2017; Diez-Busto et al., 2021). As the B Movement has been taking up speed in recent years, academic interest has increased but studies are still dispersed, particularly when focusing in on investor decisions (Diez-Busto et al., 2021). There are some quantitative studies which find a positive effect of B Corp certification on funding but do not provide insights into the underlying processes (Cooper & Weber, 2021). This research gap means that a major assumption among both scholars and practitioners, an assumption underlying business decisions which significantly affect the development and growth of ventures, remains largely unproven (Parker et al., 2019). This is especially problematic as there are several factors which may cause the role of the B Corps certification in early-stage investors' decision process to be less beneficial than expected. Firstly, the effects of the logistic difficulties of the B Corp certification process for early-stage ventures are not sufficiently taken into account. The resource demand and distraction from other business objectives likely impact early-stage ventures differently and may lead to detrimental consequences which are perceived negatively by investors (Paelman et al., 2020; Parker et al., 2019; Pollack et al., 2021). Secondly, investor sensemaking and decision processes when faced with the complexity of B Corp certifications are not sufficiently understood. Most studies do not significantly examine the role of sustainability factors, not even in light of the growing trend of impact investments (Agrawal & Hockerts, 2021; Block et al., 2021; Wesley et al., 2022). As the emotions surrounding ideologies and social returns do not follow the same rational logic as the pursuit of financial returns, this leaves theoretical frameworks insufficient to analyse social ventures or differences based on an investor's approach to impact (Baron, 2008). Given that disregarding these concerns carries the risk of misjudging the processes as play, a need for more focused research into this issue arises.

To fill this gap, this study examines *what the role of the B Corp certification in early-stage investors' decision process is*. The first step to answering this question is analysing *how investors perceive the B Corp certification*. After establishing these different ways through which the certification may lead to an effect, I examine *where in the decision process these effects come into play*. To do so, I utilise Gompers et al.'s (2020) conceptualisation of investor activities as well as Huang's (2018) framework of investor sensemaking. Lastly, I examine *what the impact on the final decision is*. By analysing investors' perceptions and determining their effects throughout the decision process, this research shines a light on underlying mechanisms and creates a fuller understanding of the role of the B Corp certification in investors' decision-making.

Based on 22 interviews with impact and traditional investors, I find that while both ideologic and economic perceptions of the B Corp certification play a role, only the latter has a significant impact on the final decision. In contrast to traditional investors, impact investors consider ideologic aspects not just affectively and informally but also cognitively and formally. While sustainability aspects play a larger role in their sensemaking and decision process, the B Corp certification does not. This is because the role of signals is negligible as investors prefer to gather relevant information from different sources and do not take the certification into account when assessing the ideology or sustainability performance of a venture. Instead, investors economically evaluate the certification itself based on the estimated costs of acquiring it and the potential competitive advantage derived from it. Whether the resulting perception is positive or negative, depends on the industry context within which the venture operates. Only if investors consider the competitive advantage to outweigh the downsides which include the high resource demand and risk of distracting from further growth, does the B Corp certification significantly affect investors' decision. The B Corp certification is therefore considered during the decision process but in most cases does not affect investors' decisions. This leads to practical implications for early-stage B Corps or those considering becoming ones. Being aware of investors' perceptions enables them to estimate responses and develop strategies to beneficially present the certification.

This paper provides insights into the understudied relationship between voluntary sustainability certification and early-stage financing. It highlights the flaws in the assumption that B Corp certifications have by default a positive effect on investors' perceptions and funding decisions. It contributes to signalling research on investors and certifications by highlighting the importance of taking the relevant context and investor attributes into account. Specifically, the logistical difficulties of early-stage certification, the industry context in regard to sustainability and the investors' approach to impact need to be considered when estimating the impact of B Corp signals. This study contributes to the sensemaking literature by expanding on the complex case of early-stage sustainability certifications and the varying role of ideology for different investor types. Furthermore, the role of the B Corp certification as a feature of a venture rather than a source of signals is highlighted.

The remainder of this paper is structured as follows. The literature review provides an overview of the state of the art of relevant entrepreneurship, signalling and B Corp research. After establishing the academic context, I proceed to the theoretical framework. In this section, I will expand on the frameworks by Gompers et al. (2020) and Huang (2018) and explain their application in this research. In the methodology section, I will describe my empirical strategy based on elite interviews and outline my data collection and abductive analysis methods. I then present the findings by expanding on the themes identified through the interviews. In the theoretical discussion section, I connect these themes to answer the research question. Based on these insights I draw practical implications for early-stage B Corps before lastly reflecting on the limitations of this research.

2. LITERATURE REVIEW

B Corp Certification

When discussing this field it is important to make a differentiation between certified B Corps, Benefit Corporations and social ventures. Social ventures, sometimes also referred to as hybrid organisations, are a type of firm which aims to contribute to socially and environmentally beneficial impacts (Battilana, 2018; Tabares, 2021). A benefit corporation has integrated these social aims into its governance structure. However, confusing and inconsistent standards and a lack of testing have made this term rather vague (Stecker, 2016). The lack of standards to identify as a benefit corporation makes it important to not simply transfer research findings on them to B Corporations. A B Corporation distinguishes itself by voluntarily undergoing an assessment of its social and environmental performance by B Lab and making a legal commitment to these governance changes (Moroz et al., 2018).

This certification process is characterised by its high demands and can place a significant strain on ventures. The B Impact assessment encompasses the dimensions of environment, workers, customers, community, and governance (B Lab, 2023b). To reach B Lab's performance standards and score the required 80 out of 200 points in this assessment, substantial efforts are likely to be necessary (Moroz et al., 2018; Parker et al., 2019). Assessment standards are so high that it tends to require not only significant resources but also internal restructuring (Villela et al., 2021). Additionally, after this check is successfully passed, further documentation for B Lab's review has to be provided and ventures are required to undergo random audits. Certification is only valid for two years after which a venture has to exert further resources to be recertified (B Lab, 2023a; Cao et al., 2017). This rigorous process calls for time, effort and money. The small size of early-stage ventures makes particularly the former two resource types obstacles as manpower is a scarce resource while fees are revenue-based and relatively small (Conger et al., 2018; Moroz et al., 2018; Parker et al., 2019).

The research field around B Corps is still young but quickly developing as more and more corporations join the movement (Cao et al., 2017; Diez-Busto et al., 2021). Its growing momentum is demonstrated by the increasing numbers and work of B Academics, an organisation of academics aiming to support said research (B Academics, 2023). Research specifically into B Corps has especially focused on entrepreneurs' motivations to get certified and the economic and social effects becoming a B Corp has (Diez-Busto et al., 2021). Kim et al. (2016), for instance, examined B Corps' ideology while Parker et al. (2019) discovered a short-term decrease in firm growth upon getting certified, particularly in early-stage ventures. Attention to early-stage financing, particularly investment decisions, is so far however limited (Diez-Busto et al., 2021).

Entrepreneurial Resource Mobilisation

When studying the role of the B Corp certification in the decision process of investors, the wider research field around entrepreneurial resource mobilisation provides valuable insights (Clough et al., 2019). This field examines the process through which entrepreneurs collect the assets which they will then use to undertake their entrepreneurial opportunity. Research is often focused on ventures in their early stages, but already developed enough to have a team and initial ties in place (Clough et al., 2019). As the main providers of capital in this lifecycle stage, venture capitalists (VCs) and angel investors are often centred. Gompers et al. (2020), for instance, examine the workings of VCs and point out the difference to angel investors which implies differences in decision-making and criteria priorities. While a lot of studies have been conducted in this area, the field is overall fragmented with researchers using inconsistent frameworks, concepts and terminology (Clough et al., 2019). The stage addressed by this study is that of resource access where entrepreneurs gain the attention and support of resource holders, which will then enable them to move on to the next stage in which resources are transferred (Clough et al., 2019). There is substantial quantitative research studying the correlations between a wide range of activities and the likelihood of gaining financial support (e.g. Shane & Cable, 2002; Wuebker et al., 2015). Clough et al.'s (2019) review however warns that while these studies are valuable for identifying factors which potentially influence investor decisions, they do not shed light on the processes underlying these phenomena. This lack of qualitative process-oriented research could hinder theoretical progress in understanding investment decisions.

Signalling

A key issue in the access stage revolves around ventures' efforts to signal their underlying quality to investors to reduce the information asymmetry between them and improve their likelihood of gaining funding (Clough et al., 2019). Particularly in the early stages when ventures are small and have little past performance to draw information from, investors are faced with large uncertainties (Plummer et al., 2016; Svetek, 2022). Signals present a potential source of information for early-stage investors to include in their sensemaking of an investment opportunity (Wesley et al., 2022). While it is still not very often explicitly applied in early-stage entrepreneurship research, signalling theory can provide further insights into how investors make sense of potential investment opportunities (Huang & Knight, 2017). It seeks to explain signal receivers' decisions based on the signal sender's attributes and actions, specifically in the context of information asymmetry (Svetek, 2022). Most relevant to examining B Corps are the theories focused on the signals sent by certifications and affiliations. Certifications are considered a source of underlying quality signals and a path to gaining legitimacy through an endorsement of a reputable third party (Navis & Glynn, 2011; Svetek, 2022). Cooper and Weber (2021) find endorsements to make signals more reliable and decrease information asymmetry. Investors particularly value this as ventures have an incentive to beneficially misrepresent themselves by sending misleading signals (Svetek, 2022). Plummer et al. (2016) particularly highlight the importance of endorsements in early-stage investing as they improve the interpretations of other signals that would otherwise have gone unnoticed among the multitude of signals from competing ventures. Quality signals are particularly important for social ventures. Due to the goal conflict of pursuing both financial and social returns, the best way to present themselves to investors is particularly crucial to them (Battilana, 2018; Navis & Glynn, 2011). The B Corp certification is often presented as a way of mitigating this particular problem by signalling underlying quality as well as category membership as a certified social venture and B Corp (Cao et al., 2017; Conger et al., 2018; Navis & Glynn, 2011).

Problematisation

Based on these dominant theories, the B Corp certification is expected to play a positive role in early-stage investors' decision process and increase the likelihood of ventures gaining financial support (Gehman et al., 2019; S. Kim & Schifeling, 2022; Moroz et al., 2018). Villela (2021) even finds that this hope is the key reason for many ventures to even become B Corps. Literature has however not produced sufficient in-depth evidence to support this claim (Kirst et al., 2021). Making such a large assumption is especially risky because the relationship between sustainability certifications and early-stage financing is understudied overall. In addition, B Corp-focused research is still limited in many areas including investors' decision-making, having not been substantially studied yet (Diez-Busto et al., 2021). So far, Cooper and Weber (2021) have conducted a quantitative study which found a preference of investors for benefit corporations. However, they do not dive into investors' underlying reasons beyond noting that they perceive their sustainability disclosure as reliable and expect higher sustainability performance. Such findings are too limited to support a broad assumption of positive effects, especially since there are significant reasons to doubt it. One such reason is that specific logistic circumstances of B Corporations, particularly in the early stages, are not sufficiently taken into account (Parker et al., 2019). As previously outlined, the certification process is highly strenuous, to the degree that it is likely to negatively impact the growth of a venture (Moroz et al., 2018; Parker et al., 2019; Villela et al., 2021). Such a decrease in performance or growth would likely negatively affect investors' perceptions and subsequent decisions (Block et al., 2021; Gompers et al., 2020). As the B Corp certification requires even higher effort to acquire than other sustainability certifications, this concern is likely to play a particularly large role (Moroz et al., 2018). This results in a need for specifically B Corp-focused research.

A further problem arises because the literature does not sufficiently consider how investors incorporate potentially non-rational considerations around sustainability into their decision process. While much of resource mobilisation research operates under an assumption of economic rationality, researchers such as Kahneman et al. (2002) and Hodgkinson and Sadler-Smith (2018) have increasingly identified the importance of not strictly rational considerations. Based on this realisation, researchers like Huang (2018) have established frameworks of decision-making processes to explain the role of emotional or affective influences. While inconsistent concepts and terminology such as “intuition” or “gut feel” present a convoluted picture, researchers collectively have found emotional components to play an important role (Baron, 2008; Hartzmark & Sussman, 2019; Heeb et al., 2023). This is especially significant regarding early-stage ventures for which uncertainty is higher and informal interactions play a larger role (Huang & Knight, 2017; Plummer et al., 2016).

While research into investor sensemaking is expansive, frameworks tend to be focused on traditional investor types and not applied to more complex signals around sustainability (Block et al., 2021). Studies by Miller and Wesley (2010) and Bauer et al. (2021) find that investors prefer making sustainable investments due to their social preferences and a desire for social return. How exactly they balance such social returns with financial returns is however still largely unclear (Block et al., 2021). This issue becomes even more severe when considering different types of investors. An increasing number of investors label themselves as impact investors and aim to achieve a positive environmental or sustainable impact through their investments, thereby explicitly going beyond traditional investors' sole focus on financial returns (Agrawal & Hockerts, 2021; Miller & Wesley, 2010). In fact, researchers like Barber et al. (2021) have found them to often accept lower financial returns to support societally beneficial impacts. Research on these investors is however still limited (Agrawal & Hockerts, 2021; Heeb et al., 2023). This is highly problematic as Block et al.’s (2021) assessment of their prioritised selection criteria indicates a highly complex process and meaningful differences from traditional investors. Both signalling theory overall and Wesley et al.’s (2022) impact-investor-focused study highlight that the interpretation and impact of a signal do not only depend on the attributes of the sender but also on those of the receiver (Svetek, 2022). The lack of attention to social considerations and differences between investor types in current sensemaking research indicates that it is insufficient to fully understand investors' decisions on social ventures overall and B Corps specifically.

3. THEORETICAL FRAMEWORK

To determine the effect of the B Corp certification on investors' decision-making process, I first establish a framework to form an overview of all investor activities. This avoids dismissing emerging information as it does not fit into a narrowly-set frame while still enabling a focus on a specific aspect. While I adjust it to fit the purpose of this research, Gompers et al.'s (2020) conceptualisation of VC activities form a good basis. As I aim to look more deeply into how investors make sense of the B Corp certification, I then introduce a second, more focused framework. Huang's (2018) process model of investor "gut feel" links up well by comprehensively exploring the workings behind the investment selection decision, which Gompers et al. (2020) only address on a more superficial level. These two frameworks serve to structure insights on the influence of the B Corps certification and allow me to comprehensively link them to different aspects of the overall process. This is essential to enable comprehensive, meaningful analysis and interpretation.

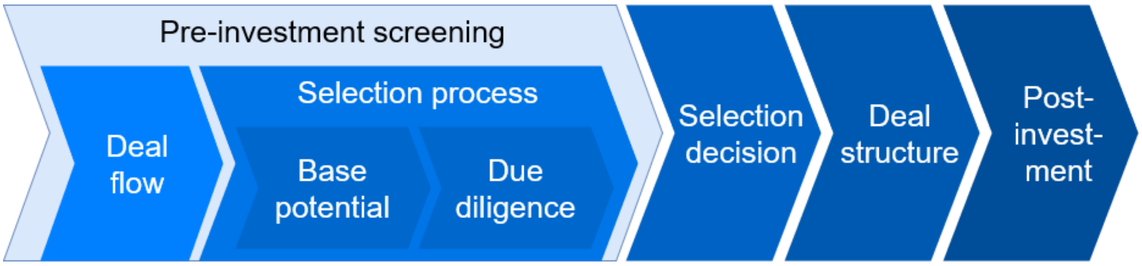
3.1 INVESTOR ACTIVITIES

Gompers et al. (2020) conduct a large survey of venture capitalists resulting in numerous insights into the inner workings and activities of VC firms. They analyse their findings following the chronological involvement of investors and ventures. In doing so they present a comprehensive outline of phases in which decision-relevant factors may occur. Because their categorisation is more detailed in areas central to their research, which differs from mine, I slightly adjust it for the context of this study. A further reason for adjustments is to make the framework more applicable to angel investors. Activities can be broadly separated into "Pre-investment screening", "Selection decision", "Deal structure" and "Post-Investment" (Figure 1). While this research aims at understanding pre-investment considerations, the latter two categories are important to include since investors may be influenced by expected issues or advantages during these phases.

Within the screening phase, Gompers et al. (2020) first highlight activities around generating deal flow, in other words, bringing investment opportunities to the VC's attention. They then turn towards the multi-stage selection process, often known as "deal funnel", in which investors narrow down the range of possible investments by rejecting more and more ventures. The exact steps within this process vary even between VCs, but the general approach is shared. Maxwell's (2009) findings of an elimination-as-you-go approach by business angels imply that they also share this process. For the sake of clarity within this research, I further divide this process into "base potential" and "due diligence". Due diligence is an established, widely shared term referring to a predominantly formal process of information gathering and close analysis of a venture. Before this process is however officially initiated, investors need to consider an investment opportunity to have potential. As this is a very vague term and details likely differ per person and firm, I have labelled this stage simply "base potential". A more rudimentary understanding could be that a venture simply has to meet the base requirements to fit an investor's desired portfolio. Gompers et al. (2020) then consider the selection decision itself by examining which criteria are most critical. While their findings do give interesting, while broad, insights into this aspect, they do not look more deeply into how investors actually make sense of these relevant factors. An in-depth analysis of this process is however highly important to understand the influence of individual factors, such as specific certifications. For this reason, I introduce a second framework focused on sensemaking.

Figure 1

The investor activities framework



Note: Based on Gompers et al. (2020)

3.2 THE SENSEMAKING PROCESS

When investors consider funding a venture, they are confronted with a vast amount of information and factors to take into account before reaching a final selection decision. While the information which they build on is collected during the pre-investment screening, sensemaking comes predominantly into play while making the final selection decision. Especially for VCs in which the screening is conducted by other individuals than those making the final decision, it is valuable to examine the sense-making as happening during the selection decision (Gompers et al., 2020).

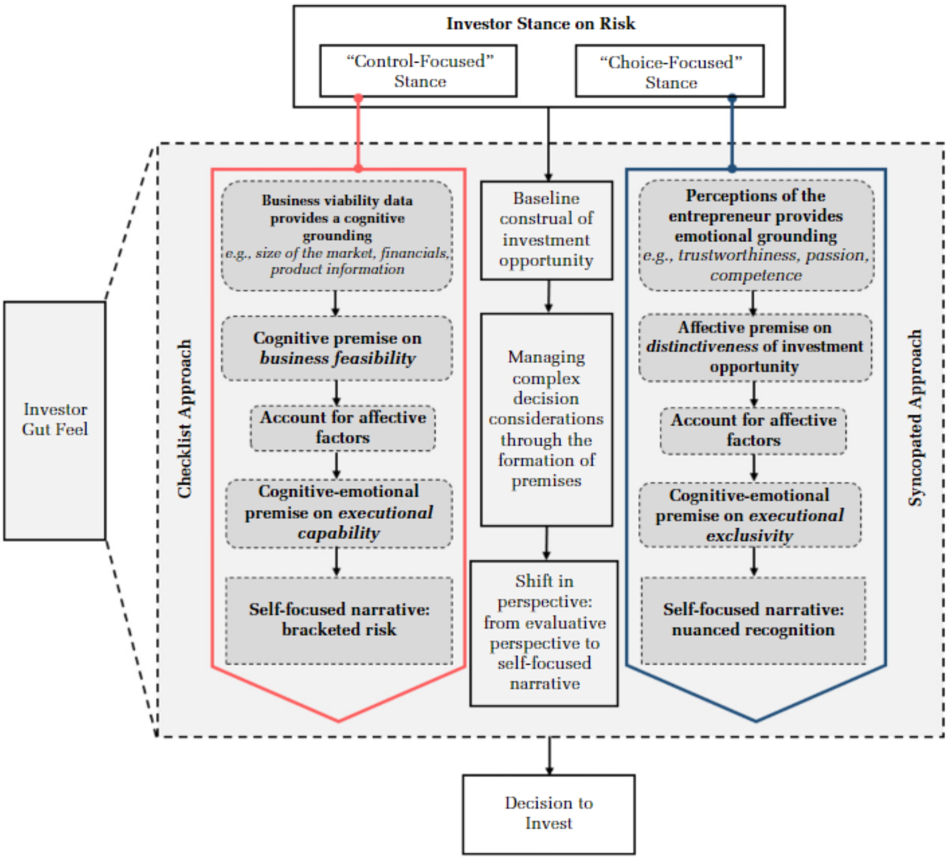
To conceptualise how they prioritise these factors, two different approaches are considered. Which one investors follow, depends on their stance on risk. The first type of investor takes a "control-focused" stance on risk and subsequently follows a checklist approach. The second type takes a "choice-focused" stance and follows a syncopated approach. This differentiation, as established by Huang (2018), is visualised in Figure 2. A control-focused stance implies that the investor focuses on quantifying and actively managing risks. They consider entrepreneurial investments calculated risks. On the other hand, a choice-focused stance implies that the investor first and foremost considers the potentially large rewards of an investment. They consider risk the price to pay for this chance and focus on their personal choices to reach this success. Another way of putting it is that control-focused investors prioritise avoiding large losses, while choice-focused investors prioritise not missing large successes.

In a checklist approach, investors first consider information on the business which enables them to form a cognitive premise about its feasibility. They then move on to cognitively-emotionally evaluate the entrepreneur, or the management team, and estimate their executional capability. In other words, they consider whether they believe the entrepreneurs can and will successfully run their businesses. Taking both aspects into account and drawing their confidence from their ability to recognise and control risks, they then make their decision. On the other hand, in a syncopated approach, the investor's emotional perceptions of the entrepreneur form the basis of their decision. These investors prioritise distinctiveness as they are looking for an exceptionally successful investment opportunity. They then integrate business validity data as they cognitive-emotionally evaluate the entrepreneur's executional exclusivity, which is their ability to generate exceptional business outcomes. These investors draw their confidence in their subsequent decision from their ability to recognise exceptionality.

Both approaches use a combination of cognitive and emotional considerations to finalise their decision but the important initial evaluation of the business is approached very differently. "Cognitive" refers here to rational and data-driven considerations, while "emotional", or "affective", refers to considerations which are based on feelings and are less analytical (Huang, 2018). Huang summarizes both processes as the investor's "gut feel". While she expands further on this phenomenon, I primarily utilise her concepts of the checklist and the syncopated approach. They have the benefit of clearly illustrating the focal points of considerations and the role of cognition and emotion while still providing a coherent overview. The model is however based on the assumption that investors are solely seeking financial returns and does not consider how social returns, like those promised by B Corps, play into the decision. While Huang (2018) highlights the impact of an investor's stance on risk, she does not consider other attributes which are relevant for social ventures, most concerningly investors' approach to impact. This further demonstrates the insufficiency of current literature in explaining the relationship between sustainability certifications and investors' sensemaking. I therefore allow for expansions or adjustments to this framework, while I seek to more fully understand the role of the B Corp certification in early-stage investors' decision process.

Figure 2

The investor sensemaking process



Note: Excerpt from Huang's (2018) process model of investor gut feel

4. METHODOLOGY

Given the limited but present state of relevant existing research, I take an exploratory approach using abductive methods. I explore the different ways in which the B Corp certification is perceived using grounded theory methods. While there are existing applicable theories, particularly around signalling, they are incomplete as they were not previously used in this context. An abductive approach enables utilising these insights while enabling new insights beyond them. Utilising process models from entrepreneurial resource mobilisation research prevents the added uncertainty of developing an entirely new framework for this context. An abductive approach makes it possible to use the frameworks to structure findings and place them within context while adjusting them throughout to be an optimal fit. Overall, this research therefore refines existing theory by utilising it within the context of the B Corp certification.

Given the focus of the process-oriented research question on understanding underlying mechanisms, a qualitative approach is best suited. This approach makes it possible to take both the context of the process as well as the interpretations that the examined actors give to the relevant factors into account (Rich et al., 2018). By interviewing investors regarding their decision process, I am able to collect more complete data on these mechanisms. The abductive approach makes it possible to build on existing frameworks to infer explanations of the observed processes (Richardson & Kramer, 2006). Using grounded theory enables me to discover new theories beyond these frameworks and brings the added benefit of reducing confirmation bias (Gioia et al., 2013).

4.1 EMPIRICAL STRATEGY

To collect primary data about investors' decision process, I conduct semi-structured expert interviews with early-stage investors. This type of interview yields valuable insights into the specialised field of investing while allowing for a balance of comparability and continuous development of interview questions (Rich et al., 2018). Purposive sampling to identify such specific interviewees allows for enough interviews containing relevant information to generate viable findings. To increase the scale of findings and feasibility within the short timeframe, the social network of investors is accessed through snowball sampling (Rich et al., 2018). The sample is restricted to investors primarily operating in central Europe to avoid bias due to cultural or institutional differences. To be more representative and enable insights into the whole investment industry, the sample includes impact and traditional investors as well as those falling in between these categories. Previous investment in a social venture or an expressed interest in doing so is however still a selection criterion. This aims to avoid a large share of interviewees with little to no familiarity with B Corps or sustainability considerations overall and therefore few additional insights. On an individual level, the sample largely consists of investment firm employees who are involved with investment decision-making. They have the benefit of insights into the subject to provide valuable insight while being more accessible to interview compared to high-ranking partners or owners.

4.2 DATA COLLECTION

In total, 22 interviews were conducted. As Table 1 indicates, 16 respondents work at a VC, while 5 interviewees are categorised as angel investors and one respondent works as a policy expert within a prominent investor network. In cases in which respondents had experiences in different types of organisations, I questioned them about the position they are currently most active in. The information provided in the table follows the same approach. Of the interviewees, ten demand some form of sustainability as a base requirement for investment and are therefore categorised as impact investors, while four state that sustainability is no criterium for them and are categorised as traditional investors. These four interviewees however indicated an interest in investing in social ventures in the future and have experiences with sustainability considerations by largely investing in industries in which it is a prominent issue. Seven interviewees cannot definitively be sorted into either category and follow a more mixed approach as they explicitly assign value to sustainability but not in the same official capacity as impact investors. All interviewees are predominantly active in central European EU countries, eleven in the Netherlands, nine in Germany and two in Italy. I conducted the interviews with Germans in our shared native language to increase the comfort and openness of interviewees and translated the quotes used in this paper into English.

I reached out to potential interviewees through several channels. From the outset, I focused on reaching investors who match the sampling criteria through existing network connections while actively expanding my network to form such relevant connections and maximise response rates. Furthermore, I reached out to suitable individuals directly through email and social media. They were identified through their firms' published information as well as individual publications, for instance, their stated interests on LinkedIn. As snowball sampling was used, interviewees were identified throughout the research process. Response rates were significantly higher when using a referral by such mutual contacts. Cold calls led overall to fewer positive responses but did successfully reach several more junior VC employees. Mentioning B Corps or sustainability certifications appeared to make potential interviewees cautious as they were concerned that detailed knowledge was expected of them. I adjusted my approach by stating a more general research focus on social ventures in interview requests. This increased response rates and decreased selection bias as those with lower interest and knowledge of sustainability felt more comfortable participating.

Following the exploratory approach, the interviews are of a semi-structured nature. I created an initial interview guideline, but revised and updated it throughout the research process, based on intermediate findings (see Appendix A and B) (Gioia et al., 2013). To maximise consistency and reliability while still enabling an explorative approach, the conditions and methods of the interviews, including general structure, are kept as similar as possible (Rich et al., 2018). The interviews were conducted remotely through video calls and lasted approximately 30 minutes, with only a few exemptions lasting 45-60 minutes. Interviews 17-21 were set up and conducted by a fellow student under similar conditions. The initial interview guide was shared by both of us but further changes were made independently. Transcripts were written by the respective interviewer while all coding happened independently. I conducted all aspects of the analysis, including changes in interview focus due to intermediate findings, alone. The evolution of focus points is clearly documented and taken into account during the analysis. In addition to shifting research focus points, most changes to the interview guide were made to facilitate a flowing conversation which encourages interviewees to share information more comfortably (Rich et al., 2018).

Interviews began with a quick reminder of the research purpose and the anonymity practices to orientate interviewees and encourage honest responses (Rich et al., 2018). What followed were several questions aiming to establish the investor's relevant characteristics. This refers to factors which impact how B Corp signals might be interpreted as well as the likely decision-making approach taken. The main section of the interview consisted of grand tour questions about their decision-making process when considering a social venture investment. These questions are supported by prompts to gain information about previously identified factors. Particularly questions about the role or potential role of sustainability and certifications such as the B Corp certification were asked. If interviewees were not familiar with the certification, a short outline was given before asking further focused questions. An emphasis was placed on avoiding leading the interviewee but rather focusing on the factors they themselves highlight (Rich et al., 2018). I therefore also assured interviewees that a low interest in sustainability is acceptable and they will not be judged. This reduced the pressure to give socially acceptable answers which interviewees perceived to be particularly high given my sustainability-focused academic background.

Table 1

Overview of interviews

Nr	Investor type	Position	Impact focus	Region
1	Angel investor	-	Mixed	DE
2	Corporate VC, forestry focus	Managing Director	Mixed	DE
3	Investor association	Director of Research and Policy	-	NL
4	Angel investor	-	Mixed	DE
5	Corporate VC	Manager Mergers & Aquisitions	No	DE
6	VC & Startup accelerator, energy focus	Startup mentor	Yes	DE
7	VC, agriculture focus	Sustainability Analyst	Yes	NL
8	Angel investor	Member of an investor collective	Mixed	NL
9	VC, regional development focus	Manager Investing	Yes	NL
10	VC & Startup accelerator, tech focus	Accossiate	No	NL
11	VC, healthcare focus	ESG/Impact manager	Mixed	DE
12	Angel investor	Impact Funds Development Coordinator	Yes	NL
13	Angel investor	President of consultant association	Mixed	DE
14	VC & Startup accelerator	Scout Lead	Mixed	NL
15	VC & Startup accelerator, biotech focus	CFO	No	DE
16	VC, AI focus	Investor	No	NL
17	VC, regional development focus	Investment Analyst	Yes	NL
18	VC, regional development focus	Impact Investment Associate	Yes	IT
19	Angel investor	CFO	Yes	NL
20	VC	Impact Venture Builder	Yes	DE
21	VC & Startup accelerator	Investment Analyst	Yes	IT
22	VC, regional development focus	Investment Associate	Yes	NL

4.3 DATA ANALYSIS

In line with the abductive approach, I use these pre-existing frameworks to structure and conceptualise my data. The research process is characterised by a method of constant comparison, in which I alternate between collecting and analysing data to steer the research focus and direction (Suddaby, 2006). To do so, transcripts are written and analysed using grounded theory coding soon after each interview (Gioia et al., 2013). This allows for more accurate transcription and interpretation of statements. The data analysis software NVivo is used to streamline the analysis and increase its accuracy while still leaving me as the researcher in control of the process. Initially, the analysis consists of open coding aimed at identifying first patterns in the observed data. Once these patterns, these relevant factors, are identified, they shape the following interviews and overall research, following the abductive method (Richardson & Kramer, 2006). As later rounds of analysis orientate themselves on the initial codes, they shift towards selective coding. The coding schema is finalised when the data collection process is concluded. Using the determined patterns in the data, the relevant factors and their role in the decision-making process are identified.

Initial open coding quickly establishes the importance of adopting two sets of codes for the explicit purpose of cohesively linking further emerging codes and themes to Gompers et al.'s (2020) and Huang's (2018) frameworks (Figure 3) (Skjott Linneberg & Korsgaard, 2019). Firstly, a combination of descriptive and attribute codes related to the interviewee's general approach to investment decisions are used to determine whether they behave in line with Huang's model and if so, which approach they follow. Secondly, a set of descriptive codes is created in line with the conceptualisation of investor activities derived from Gompers et al.'s (2020) paper. These codes are used directly to determine at which point in the process model sustainability plays a role but also, using double coding, to determine where specific themes play a role. While these sets of codes do not constitute emerging themes but are instead a deliberate tool to structure and situate further findings, their composition was developed and refined alongside and using the same methods as applied to these themes.

Using the finalised coding schema, I examine factors which are relevant to both investors' decision-making process as well as the B Corp certification in more detail. An overview of the coding scheme can be seen in Figures 3 and 4 while further descriptions and representative quotes to clarify these codes and themes can be found in Appendix C. I then determine the factors' position in the established framework based on the findings of the primary data analysis in combination with previous academic literature. A particular focus lies here on gathering insights into the varying roles of the certification in the checklist or syncopated approaches. Ultimately, I use the gained understanding of the influence of the B Corp certification and the underlying decision-relevant factors in investors' sense-making to reflect on the applicability of previous literature and propose adjustments to Huang's model.

To ensure the validity of my findings, I closely follow interview guidelines (Rich et al., 2018). As subjective sensemaking is central to this research, I specifically keep in mind to consider the statements made by interviewees as an indication of their perception and not as factual objective truth. I furthermore consider the number of interviewees from which a particular finding arises to assess its viability. Opinions shared by only a few interviewees are viewed critically and, if not dismissed entirely, clearly marked as such. I furthermore follow the tested grounded theory approach to coding while using the NVivo data analysis software to increase accuracy (Gioia et al., 2013). The research process and relevant information about interviewees are comprehensively documented to improve credibility and establish enough knowledge of the context for readers to determine the transferability of the findings to their context.

Figure 3

Descriptive and attribute coding sets

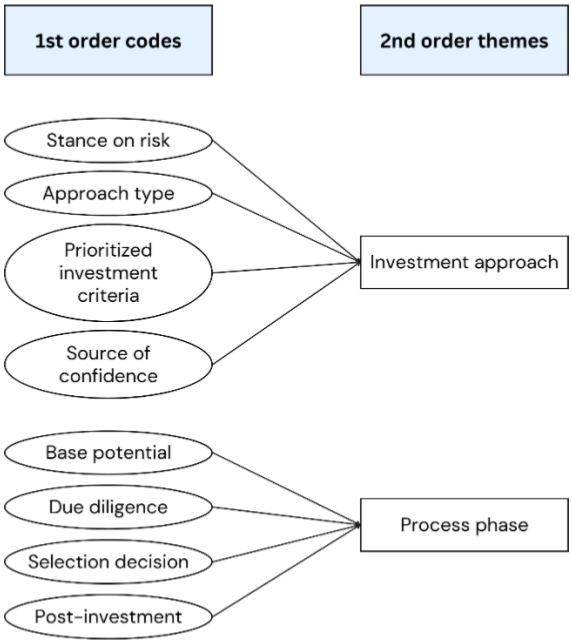
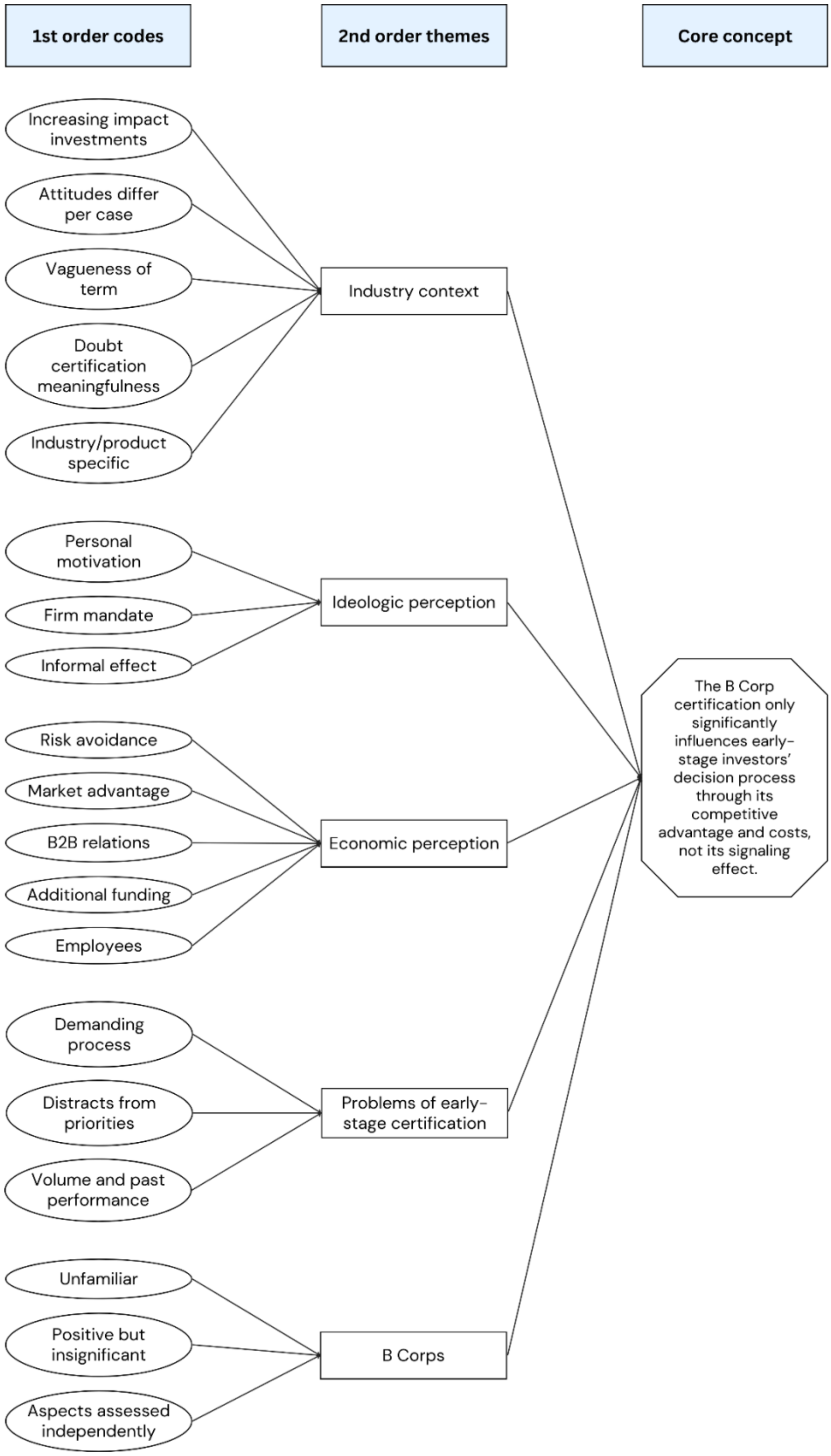


Figure 4

Finalised Coding Scheme including axial and selective coding



5. FINDINGS

The analysis is structured following the coding scheme. The selective coding phase of the grounded theory approach identifies the underlying core concept of "The B Corp certification only significantly influences early-stage investors' decision process through its competitive advantage and costs, not its signalling effect". To give this statement meaning, I elaborate on the codes and themes from which it is drawn. Firstly, I focus on the two sets of descriptive and attribute codes which I use to link emerging themes to Huang's (2018) and Gompers et al.'s (2020) model. Then I expand on the context given by interviewees on attitudes in their field regarding sustainability and certifications. After establishing this background, I expand on different perceptions and mindsets towards sustainability or sustainability certifications, which are categorised by their ideologic or economic nature. I then turn completely towards certifications as I explore the repeated statements regarding the downsides of pursuing them in the early stages of business development before reviewing statements explicitly about B Corps. The findings section examines the discovered themes and sets the stage to elaborate on their connections and deeper connections to literature in the discussion section.

5.1 INVESTMENT APPROACH

To determine which, if any, part of Huang's (2018) framework applies to each interviewee, a set of codes around the characteristics of the two different sensemaking approaches to investment decisions to it is established. The interviewee's *stance on risk* was often determined by asking about the growth they are looking for in investments. This elicited answers like "*the next big thing*" (Interviewee 10), which implies a choice-focused stance on risk as well as a search for distinctiveness in line with a syncopated approach (Huang, 2018). Interviewee 12 provides insights into this relationship and highlights the differences between investor types:

> *"Well, that depends on the fund and the fund mandate. Some funds are really strong on "we want to go big"(...) They can take on a bit more risk because they already calculate that some [investments] will fail. But to compensate for some failing, you need to have those that can make a really big, big, big difference. Funds that go for that model usually tend to have deeper pockets, because this model demands follow-on investments. So small funds having this model, I tend to find less believable. Because these are the models that are often related to tech and online tech. Then you can say "We go for the Unicorn" (...) which means you need to invest a lot to scale to the next level. So deeper pockets and a good network of potential co-investors becomes really, really important."*

Their *source of confidence* in being equipped to make the right decision also provides insights into their investment approach. Interviewee 10 for instance highlights the importance of experience when considering entrepreneurs which is in line with the nuanced recognition narrative of a syncopated approach:

> *"Because we've done that for like 10-11 years, we also just have a view of what good looks like. I think it helps a lot to figure out who are the good teams and who are the people who should break up."*

The *prioritised investment criteria* in their decision, be it management team or business model, brings further insights into investors' process. In cases in which the *approach type* is not explicitly enough indicated, these codes, therefore, bring additional insights. A possible example is Interviewee 10 who further explains that their VC is "*[not] really focused on investing in a specific company, but more so in investing in specific people who we think are really exceptional and who we think should be founders.*".

Most interviewed investors, both business angels and venture capitalists, fall neatly into one of Huang's categories, supporting the applicability of her model. Slight incongruities were expected and found for VCs and those describing investments in further-developed ventures. These differences are however too small to require the use of a different model and can be accounted for using a broader understanding of her concepts. The difference highlighted by interviewees is the higher availability of business viability data in later-stage ventures and which leads to higher expectations and attention paid to it. The treatment and prioritisation of such business model criteria compared to management team criteria remains however unchanged. Interviewee 9 for instance describes the different expectations for certifications:

> *"Probably all the small companies probably are doing a better job but do not have the financial backgrounds and the funds to get it arranged. We are small investors, but I know of course if you play with the millions then it's going to be different because then you get companies that do have the money to get certification and then you expect that they have."*

VCs feature a much more formalised and structured evaluation process compared to business angels, which is in line with the findings of previous studies (Gompers et al., 2020). Interviewee 22 gives an impression of the formal criteria which may be part of this process:

> *"When evaluating social enterprises, I follow a rigorous investment process. It typically involves conducting thorough due diligence to understand the social and environmental impact the enterprise aims to achieve, as well as assessing its financial viability. I analyze the organization's mission, business model, competitive landscape, and growth potential. I also evaluate the management team's experience and commitment to their social goals. Furthermore, I examine the scalability and sustainability of the enterprise's impact, ensuring it aligns with our investment criteria and has the potential to generate long-term positive change."*

Such a structured process with more extensive due diligence goes hand-in-hand with an initial focus on collecting business viability data to create a baseline construal (Huang, 2018). Consequently, VCs tend to follow a checklist approach.

Given that VCs are organisations, compared to angel investors who operate more independently, a further difference is the distribution of activities and sensemaking across several VC employees rather than one individual (Gompers et al., 2020). While this necessitates explicit communication and collaboration among employees, the overall process remains coherent and in line with Huang's model. This coherence is often mediated by the standard practice of explicitly stating the company's sustainability mandate as well as its mission, which indicates its stance on risk. Interviewee 12 describes how this plays out in the case of impact investors:

> *"Most impact funds and most companies that do impact tend to include the impact metrics and the potential impact in their strategy. So you can see: does that make sense and does that fit the mandate of the fund you're representing? Usually with impact funds or with impact investors, there's a specific focus, which is the strength of such a fund. That's also the weakness. You need to cut out a lot of good deals because you want to focus on a certain area. But it also brings in the expertise. So usually the fund manager has a certain expertise. If you focus on clean energy that would be a clean energy expert. These experts can look into "Does this actually makes sense?"*

While the investment approach of VCs is therefore not a consequence of an individual's mindset but rather of a firm's internal organisation and explicit strategy, it nonetheless follows the same process.

5.2 PROCESS PHASE

To place emerging factors and themes within Gompers et al.'s (2020) framework of investors' activities and subsequently determine their position within the decision process, a set of descriptive codes is essential. These codes do not present a theme within themselves but rather are a tool for structuring and comparing interview findings. After several iterations, the finalised codes follow the most relevant phases of Gompers et al.'s (2020) framework. While investors do not necessarily share the same terminology for theses phases or even explicitly state the, they are nonetheless discernible during interviews.

Firstly, during the stage I refer to as *base potential*, investors determine whether a venture presents a potential investment opportunity which is of interest to them. All interviewees express some form of base requirements that ventures have to meet before are more closely examined and considered. The strictness and nature of these requirements vary between firms and may include aspects such as venture size, industry but also sustainability. Taking this stage into account is highly important to understand to which ventures investor sensemaking is even applied. As Interviewee 12 states: "*If you're in an investment committee position, the companies that are being presented to you fit the requirements of the fund. Otherwise, they do not present them to you.*" Interviewee 9 provides an example of what this process can look like:

> *If a company comes to us, the first thing we do is ask them for a pitch deck or a presentation. My team members will have a look at that, assess whether it fits with our sector criteria, whether they are in our region (...) If they fit these criteria, we will invite them for an explanation of the business plan in our office. We'll have that discussion, go through their business plan, understand what's happening, and then if we're still interested, we will proceed to write what we call a quick scan (...) which we sent to our investment committee for analysis. Whether we should dedicate resources and time but also external resources, which typically cost money, to further investigate this lead, which is the due diligence process.*

This *due diligence* forms the second relevant phase. While base potential and due diligence are both parts of the pre-investment screening, the previous quote by Interviewee 9 nicely outlines the difference. During the due diligence process, investors gather more in-depth information on ventures and entrepreneurs, which they later use in their sensemaking to ground their construal of the investment opportunity and form premises (Huang, 2018). Information sources include both aspects like conducting formal assessments of business viability data as well as conversations which enable informal perceptions of an entrepreneur. How exactly the due diligence process is constructed depends on the investor. Interviewee 5 for instance explains that they *"have different due diligence teams (...) One team is the financial team, one is the legal team and then we have a commercial team"*, while Interviewee 7 highlights the role of their formal risk assessment: "*First of all, we make a risk assessment (...) on all aspects, environment, social, health things. And see where it lacks, where there are issues, and then based on that we develop an action plan."*

Thirdly, in the phase of the *selection decision*, the consideration of identified criteria in investors' sensemaking is analysed. This code is particularly important to avoid confusion between the role of factors during the pre-investment screening and their role in the final decision. Especially if the decision-makers are not conducting the screening themselves, this distinction has to be made to analyse their sensemaking. Interviewee 5 describes this separation within their firm: "*The supervisory board is not involved in the operational business at all. They are responsible for social issues and major strategic decisions. They are then the authority that has to approve the whole thing."* Such a division is not uncommon in organisations like VCs and therefore important to take into account (Gompers et al., 2020).

Finally, the *post-investment* activities are explicitly taken into account. While they occur after the decision has been made, investors take their expectations of how these activities will transpire into account in their considerations. A wide range of important aspects fall into this category, be it related to the expected sustainability performance of the venture or the investor's explicit relationship with them. As Interviewee 9 points out: "*Everybody can make an investment. The more important part is the monitoring phase.*".

5.3 INDUSTRY CONTEXT

While exploring investors' attitudes towards sustainability and certifications, a large number of factors arose concerning the context in which B Corp certifications are perceived and evaluated. These factors include the attitudes of interviewees themselves focused on the wider concepts of sustainability in business but also their estimations of their colleagues' attitudes towards such topics.

Investors consistently stress the increasing importance of sustainability in relation to business. In line with previous studies, they particularly point out the consistent *increase in impact investments*, describing it as "*booming, tremendously*" (Interviewee 3) (Agrawal & Hockerts, 2021; Block et al., 2021). This development towards a larger role of sustainability is also expected to influence the considerations in the selection decision as Interviewee 5 notes:

"At some point that also becomes a must-have criterion: Do they have that, can they even do that at all? So this is becoming more and more important, we have to be honest and say that in the past it was certainly not seen as such an elementary part of the field."

When speaking about current attitudes among fellow investors, interviewees do not provide an overall estimation but rather express that *attitudes differ per case* and point towards the differences between individuals and investor types, particularly in their approach to impact. Interviewee 3 notes that while many investors make steps towards more sustainable investments, differences between individuals play a large role in determining their ultimate impact on decisions.

"The UN PRI [Principles of Responsible Investment] is an important one for VCs and private equity. We see that the adoption rate is getting quite large. But it's a very voluntary label so I think the implementation can really differ per fund manager."

Interviewee 12 provides an example of such differences while pointing towards the age of impact investors:

"Impact-wise, I see it in young fund managers, for example, they go for B Corps. I think that that helps. This might be me but I'm not sure if it's always the right focus to have in the early stage, but a lot of the fund managers do it because they are demanded to do it."

This statement also preludes to the different expectations for impact and traditional investors due to their commitments, which I will expand on the following Section 5.4.

While seeking to learn about others' attitudes towards sustainability, the question that inevitably arises is what either of the conversation participants understands under the concept. The *vagueness of the term* that is so widely used can even cause it to lose some of its meaningfulness as Interviewee 4 shares: *"Sustainability is also such a killer phrase [original "Todschlagwort"] for me (…) It's like mindfulness, something else that has become a killer phrase and actually needs to be defined a bit more precisely, what is meant by it."* The vagueness of this concept also extends to the understanding of what constitutes social returns or social ventures:

"We try to support companies that have some kind of societal impact, typically on regional economy. But we're also obviously looking a little bit beyond that. And then the question is: What is your definition of social enterprise? We have three focus sectors at the moment: Media and gaming, and we also consider that quite social since we're looking at Web 3.0 fake news prevention (...) So all of them have some kind of societal impact and therefore the definition is a bit difficult." (Interviewee 9)

In combination with the rising interest in sustainability in business, this vagueness makes it easier and more common for ventures to claim sustainability of some sort. Interviewee 2 in particular highlights this issue by describing their experience at a recent event for suppliers in the furniture industry:

"There was definitely one touch to be felt: Everyone, everything wants to be sustainable. And I'll start like this, I'm actually someone who studied forestry and knows wood and sustainability. I only give the word sustainability as an example for you, that's used by everyone right now, that's an incredible buzzword. Most people don't even know what that actually means, you just have the feeling of being sustainable, it means I'm environmental or green (...) [specific competitor] are completely unsuitable as a company from my point of view. They may want to go green, but that's still miles away. Because they produce hazardous waste (...) and yet they

are allowed to advertise sustainably. They don't have certifications, except ISO [International Organisation for Standartisation]. They have of course certified some processes in their company in order to be considered as a customer or as a supplier for other users."

While this presents the exact situation in which literature places certifications as a source of legitimacy, investors also indicate that their doubts extend to certifications as well. Interviewee 13 expresses *doubt about the meaningfulness of certifications* overall: *"You can also certify bad quality. It just has to be consistently bad."* In light of greenwashing concerns, investors make it particularly clear that they consider certifications to not be synonymous with a venture's true handling of sustainability factors. They instead consider and evaluate the choice to go through the certification process separately.

"I think overall it helps to improve the world but it is a bit of a tick-the-box exercise whereby a company that is destroying the planet but has nice written down governance policies can get a higher score than a company that is helping the planet but has not written down its policies carefully yet." (Interviewee 19)

Finally, a factor which arises strongly throughout interviews is the importance of *industry and product type* in determining investors' attitudes. The specific role of this industry context for investors' perceptions is further examined in the latter focused section 5.5. Interviewees tend to reference the prevalence of the topic of sustainability among industry players and their customers as a major deciding factor in its importance. Interviewee 6 for instance highlights its prevalence in the field of energy transitions, pointing out that "*there it's always such a big topic anyways, it's of course easy to argue based on sustainability*". A specific aspect of this prevalence is how central to business operation sustainability is considered. Particularly IT-focused investors, like Interviewee 4, consider it a negligible factor in their daily activities:

"*In the environment in which I move, sustainability is not really the central topic. So in IT firms, in the office, I've got a few computers and a bit of brain (...), there's nothing being produced, nothing harming the environment.*"

In regards to sustainability certifications specifically, the applicable public policy in the industry is highly relevant. Especially in situations in which ventures legally need to acquire certain certifications to operate at all, attitudes towards additional voluntary certificates, such as the B Corp certification, are strongly affected. This context plays a particularly large role in determining the potential of voluntary certification as a competitive advantage: "*Yes, it can be a distinguishing factor. It depends of course on how strict the government rules are.*" (Interview 3). Interviewee 2 further explains that high requirements would mean that further certifications would only be pursued if absolutely necessary.

"If that [required certifications] would increase too much, i.e. escalate even more, I'll say, then it will be very borderline, because then, of course, many will say "It's good, I have now fulfilled this and I think that should be enough". Then there has to be a very mercilessly hard reason to do more. So if you are now talking about those who have already done so."

Sustainability factors in the industry in which a venture operates or which are relevant to their product type therefore are important contexts for investors' perceptions and considerations.

5.4 IDEOLOGIC PERCEPTION

The perceptions investors have on sustainability aspects and use to make sense of them can be divided into two overarching categories: Ideologic and Economic. I first expand on the findings regarding the ideologic approach. Specific motivations or formulations differ but the relevant ideology is broadly formed around wanting to contribute to a better world, or at least not cause further harm. As such, the most prevalent interpretations are a focus on actively doing good or, more passively, doing no significant harm.

Investors often express a *personal motivation* based on their ideology of valuing sustainability to preferably invest in sustainable or societally beneficial ventures. Interviewee 1 for example explains:

> "*I mean, we really wanted to do something (...) We have children and we kind of expect that it's going to be a bit warmer on this planet in the future, so if we can help contribute with that, that's definitely a main consideration in our business decisions.*"

Such sentiments, which are predominantly affective in nature, are widely shared among interviewees. Differences arise in how strong this personal motivation is, particularly when weighed against other factors, such as prioritised investment criteria. Interviewee 16 describes this balance of their ideology:

> *"I think in the end for us, a good deal is a good deal, and it has to be correct in multiple aspects. I think kind of unconsciously we might be biassed to be more likely to do the deal because we care as people. But having said that, they would still need to have the total package for it."*

Another source of ideology lies not within the individual investor but comes from a sustainability *firm mandate* of the VC, fund or other applicable organisation. As previously addressed, VCs and funds tend to explicitly state their company mission and values, including their approach to sustainability. This ideology is often solidified by commitments to stakeholders and official classifications which also clearly state the approach to sustainability as Interviewee 3 explains:

> "*I see the most impact now from coming from SFDR, the reporting regulation, which gives you either Article 6, 8 or 9 classification - that is really about the relationship between you as a fund manager and the investors in your fund. So what kind of product are you marketing to those investors in your fund. (...) So Article 6 funds, they say they make no promise about sustainability issues. Article 8, you say, ´Well, we do no harm´. Article 9 is ´we do good´.*"

Given this additional weight, this form of ideological perspective, which often establishes a formal role of sustainability in the decision process, could be argued to go beyond affective and include cognitive considerations. Considering to neglect this commitment to sustainability could in this case constitute breaching company policy on a personal level and breaching formal commitments or contracts on a company level (Block et al. 2021). Interviewee 15 describes the difference between their VC, which does not have a sustainability mandate, and others who have made such formal commitments:

> *"We do have very similar investment principles, but we don't have the pressure that a fund has after selling such fund conditions to its investors at the beginning and saying "I will do this and that with these principles". That's also where ESG comes very, very strongly into play in these*

investor models, because the financiers, in turn, have corresponding obligations to their financiers, given the EU regulations in the background."

Particularly VC employees highlight the *informal effect* of ideology. Whether their mandate sets high sustainability standards or none at all, the personal motivation pointed out earlier still affects attitudes towards and possibly decisions about an investment opportunity. Investors such as Interviewee 16 make it apparent that this influence is affective and tend to formulate their responses in a manner that implies that their colleagues share their sentiments.

> "*Yeah, I think that's only something we applaud, right? Like it's something that you find nice. I think it's good to know that we aren't an impact investor per se. So it's not something that we require which some other investors do. But I think that doesn't mean that we don't care, right? And I think we can make a return while having a good impact on the planet. Then that's only a great plus to have.*" (Interviewee 16)

While such an informal effect appears to be very common, the size of its role in selection decisions could however not be conclusively determined within the scope of these interviews.

5.5 ECONOMIC PERCEPTION

The other lens through which investors view sustainability and certifications is focused on economic factors. As opposed to ideologic considerations, those taken from an economic perspective are of a cognitive nature and focus on either increasing financial returns or preventing financial losses. During the interviewing process, five main economic benefits of taking at least some sustainability into account have taken shape. I have noticed that the previously-discussed differences between industries and products are particularly relevant and dominant aspects within this theme.

The most common motivation to include sustainability aspects in due diligence or further considerations is *risk avoidance*. Particularly given the expected further increase in legal sustainability requirements, investors are very conscious of the various risks that can arise from lacking ESG performance or scandals like "*reputational risks, but also financial risks. If you face a lawsuit that also costs money, you know? But even if not that, if the community gets angry and destroys your crop, that doesn't help either.*" (Interviewee 7). By being aware of such potential risks, investors give themselves the opportunity to weigh the severity of the problems and avoid them altogether if they deem them too significant. Interviewee 7 therefore elaborates: "*It's flagging these things and seeing: Can you work with it or is the risk they impose too big?"*. Gathering at least some information on sustainability, therefore, allows them a more complete risk assessment in which low performance on selected sustainability topics represents financial or reputational risks. This implies that they consider a minimum level of sustainability performance to be necessary for business feasibility.

As opposed to simply avoiding losses, some investors consider a venture's explicit focus on sustainability as a potential source of value creation if it occurs in a context in which it leads to a *competitive advantage*. Investors' considerations on whether a specific venture is operating in such a context are especially dependent on their industry. Interviewees particularly highlight the importance of consumer interest in sustainability and their likely response to such a certification being used in marketing strategies. Interviewee 5 describes their assessment of certifications during the due diligence process: "*These certificates will be looked at again and examined again: 'Is this a competitive advantage? How do customers react to the fact that the company is particularly active in this area?*" In fields in which consumer interest is very low, so is investors' regard for sustainability certifications. If there is some consumer interest a certification presents potential "*additional marketing value*" (Interviewee 13), while very high interest might reduce a certification to "*a milestone in order to make the product sellable in the market*" (Interviewee 15). While the former presents an aspect of business distinctiveness, the latter is vital for business feasibility.

Not only the attitude of customers but also that of industry partners plays a role for investors, particularly in regard to certifications. Investors are aware of the value of *business-to-business relations* and the pressure which they may impose. If, for instance, suppliers improve their own sustainability performance and certify this improvement, investors predict that they may raise the standards for their as well partners. This puts ventures in the position of having to weigh the costs of gaining certification against the threat of losing a potentially lucrative B2B relationship, as Interviewee 2 describes:

> "*So, of course, they put the knife to our chests and said: ´As a supplier, we can still lead you if you have successfully carried out this seal or certification system and then submit a certificate to us and thus be allowed to continue selling to us.´, so you are even blackmailed here. Sure, that's the biggest power for now.*"

Other large players which investors consider are later-stage finance providers from which ventures might receive *additional funding* in the future. Many early-stage investors indicate that they expect ventures they support to seek funding from other sources as they develop and grow. While keeping the growing trend of impact investing in mind, investors recognize that independent of their own attitude, high sustainability performance or certificates may be an important factor to those funders. Under the right circumstances, they may therefore bring long-term benefits to a venture. Interviewee 15 speaks about the subsequent importance of considering sustainability factors in later stages:

> *"There is another distinction between real impact start-ups and impact investors. It is written in all fund conditions (...) practically every fund has to follow certain rules, even if it is a classic fund. That's why it's also important for start-ups, which actually have little to do with it at the beginning, but as they get bigger and have to acquire new funds, also for their own development as a company, they simply have to adhere to rules."*

Lastly, investors repeatedly point out the importance of engagement in sustainability to attracting and retaining qualified and motivated *employees*. Along with the rising importance of sustainability in the population, employees consider sustainability important when choosing an employer (Paelman et al., 2022). This is particularly important when one considers employee-treatment and governance as part of sustainability. Interviewee 6 sums up the long-term economic consequences of neglecting this aspect:

> *„Treating employees well is very important because otherwise you won't find any. If you treat employees badly then they are going to leave again and you don't have any anymore and that gets expensive to lose an employee. Because you have invested a lot in building up their*

knowledge until they are able to work productively. That's why it's very important to have a good relationship with employees."

5.6 PROBLEMS OF EARLY-STAGE CERTIFICATION

While investors see such possible competitive advantages in sustainability certifications, responses to questions about such certifications in the early stages of business development prominently revolve around their downsides. Investors are very aware of the costs of acquiring a certification and highlight several reasons problems arise particularly for early-stage ventures.

Investors highlight the *demanding process* ventures have to undergo and are particularly concerned about the manpower required to pursue certification. Even if no major restructuring is necessary, a range of information and data has to be collected and shared. Interviewee 2 points towards the complication that certification has to be "*feasible with manpower, but without revealing big secrets to competitors*". This resource demand has the potential to expand post-certification as well due to audits as Interviewee 6 knows from their own experience:

> *"Well, we have ISO 9000 Quality Management and ISMSA Information Security Management, it's cruel, these audits are cruel, they always go on for almost a whole week by now. It's annoying and cruel, that's why I wouldn't recommend it to any start-up".*

Due to this demanding process, investors go as far as estimating that certification may not be possible for small companies at all. In the early stages, there are simply not many resources which can be spared for such a process. Interviewee 2 shares their concerns while expressing mixed attitudes towards the increasing calls for certifications:

> *"The corresponding services are provided, papers are tested, money is also taken in hand to achieve this standard, and in many cases, it cannot be provided at all by medium-sized small companies. So it's very weird what's going on there now and yet it's a good way, but it will crush one or the other, especially the small companies because from my point of view, they don't have the manpower at all (...) they can't do it at all. "*

The large extent of resources necessary to pursue certification is particularly problematic to investors as they consider it a *distraction from more important priorities*. Interviewees particularly name further development and growth of the venture as being more important in this stage. Interviewee 6 recommends: *"They should first see that they get their products on the streets, that they get customers, that they earn money, and then when they become bigger, then you should definitely take care of such a label."* It is noteworthy that none of the interviewees indicated being aware of the proven decrease in short-term growth of B Corps (Paelman et al., 2020). Nonetheless, they appear conscious of the high likelihood of this consequence. Investors that value sustainability also note that focusing on acquiring such a certification may actually distract from improving on sustainability factors:

> *"So focusing on acquiring a trademark is distracting yourself from the actual business and the impact you are can make and that you need to actually become sustainable as a company.*

Trademarks tend to mean also extra bureaucracy, which is not bad for the larger investments, but can negatively affect the earlier stage type companies." (Interviewee 12)

In addition, there is some indication that choosing to pursue early-stage certification anyways, impacts investors' perception of the mangement. Interviewee 6 describes this effect as follows: "*[they aren't very] focused. This is unimportant and in the beginning, you have to leave everything unimportant to the side. That is the art because you can't really differentiate yet what is important and what is less important."* This additional implication for the management team is however not confirmed by many interviewees.

Investors also note that early-stage ventures' small scale of operations and low production volume present a problem, as the certification *requires volume and past performance*. As there are only limited operations which can even be assessed, this presents a logistical obstacle in the certification process as well as a detriment to its perceived meaningfulness. Interviewee 12 states that "*you need a certain volume to have certifications make sense*" while Interviewee 15 expresses that sustainability is difficult to assess in early stages:

> "*But then ESG is not really a core criterion at the beginning, because first I have to have something to which I can apply. (…) A start-up begins with a few hundred thousand euros. There aren't that many possibilities to somehow bear additional costs."*

Acquiring certification is therefore particularly challenging for early-stage ventures which are faced with more challenges while having fewer resources to overcome them.

5.7 B CORP CERTIFICATION

The previous two sections give a good impression of early-stage investors' perceptions of sustainability certifications like B Corps, but they also gave statements which specifically address B Corps. Interviewees however provide limited opinions on B Corps overall, with many being entirely *unfamiliar* with the certification and even fewer mentioning them without prompting. Even those familiar with the certification state that there has not yet been a case in which a B Corp has sought funding from them. Especially among non-impact investors interactions were often similar to that of Interviewee 6:

> *Interviewer: "I am looking into a sustainability certificate which covers this as well: B Corps or the B Corps certification. Have you heard about it before?"*
>
> *Interviewee 6: "No, I only know the CO2 emission certificates. Or the electricity certificates, when green electricity is being certified."*

In such cases, I shortly outlined the core aspects of the certification before asking for opinions. Responses overall, both among those familiar and unfamiliar, are somewhat superficial and indicate a *positive but insignificant* role. Investors show a positive affective response but often clarify right away that a B Corp certification has little impact on their decision. Most attitudes follow along similar lines as Interviewee 16's:

"I think for us it doesn't matter that much. We're not, like I said, super impact focused. I think for us it's nice to have. It's not something that we ask or require. (...) I think for us it's not a big thing. We applaud it. Again. But it's also not something that we require of our companies."

More concrete opinions are on the rare side but if they occur they generally take the form of references to previously described themes. Interviewee 8 for instance brings up concerns of greenwashing which were mentioned as industry context:

"It would be a positive impression because they're really taking it [sustainability] into account and work with it. But I do not see it as if when they have a B Corp certification that they really are way better than the rest. So it's good that they have it. But because I don't know the reason they have to become a B Corp, they could have been greenwashing. And that's what makes me cautious."

The most common reference is to different problematic aspects of early-stage certifications with investors like Interviewee 12 pointing towards this topic relatively quickly, even after stating a very positive attitude:

"I like to B Corps movement because it's more a movement than a trademark alone, right? I don't even know the exact specifics of it. I know it's really a movement that has grown large and has really become this stamp of approval. If you are a B Corp that means that you've definitely been taking into account some really good, good steps. So yes, I think in general, the B Corps movement is great. I sometimes wonder indeed again, if early-stage companies that are not, you know financially to a certain extent sustainable… I think it's quite a process to get into this B Corp certification and because it's such a status thing some might aim for it too quickly."

Noteworthy is also that investors describe their processes for gathering information on aspects which are related to or covered by the B Corp certification without taking the certification itself into account. Formal due diligence processes already include the aspects of sustainability performance to the extent that a specific investor is interested in it which means that these *aspects are assessed independently* of the certification. As the existence of the B Corp certification makes no difference, it adds little in practice. Interviewee 11 expresses the dynamic most clearly by describing the added comfort which however does not change the process itself.

"B Corp is one of the better ones out there, and it also means that the company has done the exercise of just gathering a lot of data that they can also share with us. And I think it's also good if another party has looked at the company and if it's another company that knows what they're talking about, then it's of course even better.

"It doesn't really influence our decision. It does gives us a little bit more comfort, but we'll still do all of the checks for red flags because we just need to make sure that it's a good fit with the fund and that it's not a regulatory breach, because for an Article 9 fund, the company can't do any significant harm. So we have to go through our process."

Having a standard approach to gathering information which does not include certifications also applies to more abstract aspects. Interviewee 13 for instance describes how they form a picture of the ideology and values of both an entrepreneur and a venture:

"You can already see in the pitch deck to some extent if it [sustainability] is taken into account. Then it's the case that I would never go further if I don't go out to dinner with people in the

evening, for example (…) Then you notice something in the conversation and that's also where you can talk about 'what do you do'. It's a difference whether you have someone who has always been societally engaged…"

"A company that thinks about: Is the glue of the label vegan? So it's not made from the bones of cattle, yes or no? If someone has thought about this, then you can tell he has thought about it [sustainability]. So in the end, when you have a little experience, it's relatively easy."

Interviewees speak clearly about collecting information on sustainability factors during the due diligence process to reduce the information asymmetry they face but also definitively express that they do not turn towards the B Corp certification as a source of such information.

6. DISCUSSION

Having examined the individual themes and already indicated connections to the theoretical frameworks, I now tie them together as I answer the research sub-questions. I do so by using the two sets of descriptive and attribute codes to link themes to Gompers et al.'s (2020) and Huang's (2018) frameworks. I additionally reflect on their congruence with expectations set by previous literature.

1. How do early-stage investors perceive the B Corp certification?

The interviews make it apparent that investors perceive B Corps through ideologic and economic lenses. In addition, it becomes evident that a clear differentiation has to be made between perceptions of the sustainability performance of ventures, the signals sent by the B Corp certification as well as the certification as a feature within itself. While both sustainability and certification are found to be valued to a significant extent by investors, the signal effect plays a negligible role as it is drowned out by other, more preferred sources of information.

Ideologically approached, the B Corp certification is perceived as a signal of an entrepreneur's or a venture's overall sustainability values. Both impact and traditional investors react positively to indications of such values which is in line with the literature on the relevance of sustainability criteria (Block et al., 2021; Hartzmark & Sussman, 2019). The impact of this signal is however small as investors do not consider the certification a cause of sustainable ideology but rather a consequence of it. Their view is that sustainable values cause ventures to pursue certification rather than certification causing sustainable thinking. This concern is at least partially confirmed by Villela et al.'s (2021) study of several B Corps with high initial sustainability performance but no drive to further improve after certification. Investors' positive response therefore appears to be to the underlying ideology rather than to the certification. It would still be possible that the certification acts as a signal of this ideology, but for this mechanism to be effective, investors would need to consider it a significant reliable source of information (Svetek, 2022; Wesley et al., 2022). Investors however indicate preferences for different channels to reduce information asymmetry, namely conversations with entrepreneurs and business data. Industry-specific concerns about the meaningfulness of certificates contribute to the tendency to rely on different sources. This is supported by Cao et al.'s (2017) and Gehman and Grimes' (2017) research on the importance of sustainability aspects in the industry context. Overall, the B Corp certification is therefore perceived as a label on top of the relevant ideology which, while positive, carries little meaning for investors.

Economic perceptions of sustainability performance and certifications have to be examined separately. The integration of sustainability considerations in business activities and strategies of a venture is perceived as a potential factor in the long-term development of a venture (Hartzmark & Sussman, 2019). The positive value assigned to such sustainability performance is again in line with past research (Block et al., 2021; Hartzmark & Sussman, 2019). Investors however also evaluate this performance by using different sources, which negates the signal effect of the B Corp certifications (Svetek, 2022). Instead, investors perceive and evaluate the certification primarily within itself, based on its costs and benefits. Investors first and foremost consider the costs associated with acquiring it which confirms the concern that ignoring this often underestimated factor may lead to misunderstandings of the true processes (Parker et al., 2019). The evaluated costs include both the resource demand and the distraction from higher priorities that are particularly harmful to early-stage ventures as research like Parker et al.'s (2019) and Paelman et al.'s (2020) identifies. The counterweight to these concerns consists of the potential competitive advantage created by the certification, which in turn highly depends on the industry and product type context. Investors particularly highlight the advantages regarding marketing or B2B relations. This is in line with Cao et al.'s (2017) outline of promotional strategies for B Corps. In a context with few B Corps, they point out the "positive deviance" compared to competitors which would not only imply increased business feasibility but also distinctiveness. If sustainability claims and certifications are more common, so is the risk of greenwashing accusations which implies that the certification serves better as a "stamp of approval" and "hidden badge of honour" to increase legitimacy (Cao et al., 2017; Gehman & Grimes, 2017). This would particularly come into effect in B2B relationships. Whether investors ultimately form a positive perception, depends on the outcome of this estimation.

2. Where in the decision process does the certification have an influence?

Investors repeatedly point out the rarity of certifications in early-stage ventures, which particularly includes the B Corp certification. Given this situation, there is often no formal place for them within the decision process. While the literature does not point to this lack of standard consideration, it is noteworthy that certifications often are not mentioned at all by scholars examining investor decision-making such as Gompers et al. (2020) or Huang (2018). Both interview findings and literature indicate that this is a smaller issue for business angels as their formal and informal considerations are more likely to overlap (Huang, 2018; Maxwell et al., 2009). Meanwhile, VCs are generally more bound to a formal process and subsequently require a distinction between formal and informal considerations (Gompers et al., 2020).

In the first stage, in which the base potential of an investment opportunity is evaluated based on only the most fundamental requirements, this research finds the B Corp certification to play no role. Traditional investors do not include sustainability among their basic requirements and therefore do not consider it, or its certifications, during the initial assessment (Gompers et al., 2020). While impact investors do have strict requirements for sustainability, at this stage they primarily focus on the presence of social returns of some sort and, as indicated by Block et al. (2021), make this initial choice very quickly. These findings align with Heeb et al.'s (2023) research which indicates that the extent of societal impact plays a significantly smaller role than its mere existence. There is no demand to further prove such a fundamental aspect of a business model, which makes the B Corp certification's signal of high sustainability performance irrelevant. Even the requirements of those taking a mixed approach to impact investing are too fundamental and apparent without taking certifications into account. Since investors are not interested in an additional source of information and B Corporations are assessed independently of their certification, signals of any kind do not have an impact at this stage (Svetek, 2022).

Sustainability factors play a larger role in the due diligence phase. This is the stage at which investors gather more in-depth information on entrepreneurs, ventures and their context (Gompers et al., 2020). The collected business validity data and perceptions of an entrepreneur are the information used to form baseline construals and further premises during the sensemaking process (Huang, 2018). This research finds that the information particularly relevant when examining the B Corp certification is about ideology, integration of sustainability in the business model, the industry context, and the costs of acquiring certification. Informal interactions, for instance casual conversations, particularly play a large role as information sources, as Huang and Knight (2017) predict regarding early-stage ventures. Formal processes however also play a significant role with interviewees indicating, for instance, risk assessments which include a check for a minimum degree of sustainability performance. Most important for the B Corp certification is however the information collected to estimate its cost and competitive advantage as this perception will later have the largest impact.

During the selection decision, investors attempt to make sense of the gathered information. Here, ideological factors come into play in the same place as affective factors in both checklist and syncopated approaches to form cognitive-emotional premises (Huang, 2018). Investors largely state a positive attitude towards investment opportunities with high sustainability performance which aligns with previous studies (Bauer et al., 2021; Heeb et al., 2023; Riedl & Smeets, 2017). Their reasoning is based on their own ideology which could fall into the realm of affection or emotions as this terminology is characterised by vagueness (Baron, 2008). This interpretation is also chosen by Hartzmark and Sussman (2019) to explain their finding of investors' preference for sustainable investments. The most straightforward option to integrate these considerations into Huang's (2018) framework is to broaden the interpretation of "affective factors". Ideologic considerations are of an informal nature which means that, while they are an important part of investor sensemaking, they are not part of the official decision criteria and their role is subsequently less observable (Huang, 2018). Matters are somewhat different for impact investors whose sustainability mandate sets certain standards which ventures have to reach (Block et al., 2021). Due to the need to evaluate ventures' performances, these ideologic considerations could be argued to extend into the cognitive realm. Reidl and Smeets (2017) however claim that investors making sustainable investments are motivated by their social preferences and Hartzmark and Sussman (2019) point towards the role of affect. Research more in-depth than this study is necessary to determine where precisely the balance of affective and cognitive consideration lies for impact investors. These findings are however substantial enough to confirm that the exact role of ideology in investors' sensemaking depends on their attributes, namely their approach to impact, as signalling theory indicates (Svetek, 2022).

Economic considerations also play a large role during the selection decision, as the costs and potential competitive advantage derived from the certification are cognitively evaluated. These considerations are largely focused on the business, not the entrepreneur. While this was not commonly indicated by interviewees, the possibility has to be noted that investors may perceive an entrepreneur's competence less favourable if they consider their decision to pursue certification as ill-advised. This would come into play throughout the syncopated entrepreneur-focused approach and when evaluating executive capability in the checklist approach (Huang, 2018). The larger role of economic perceptions is however found in evaluations of business feasibility and distinctiveness. Which of these concepts the B Corp certification plays into largely depends on the particular perspective and sensemaking approach of the investor (Huang, 2018). A marketing advantage may be construed as distinctiveness or it may be seen as essential to value creation and therefore part of business feasibility. Investors estimate the expected competitive advantage and costs based on the information they gathered during the due diligence process. They particularly take the context and conditions under which a venture operates into account as it heavily influences their expectations of the responses of consumers and industry partners. In line with literature findings, investors expect the industry context to have a significant impact on the competitive advantage which can be derived (Cao et al., 2017; Gehman & Grimes, 2017). The post-investment role of sustainability is here taken into account largely concerning the benefit which may be derived from the certification at a later stage. Investors are aware of the increasing interest in sustainability and the changing context this brings (Agrawal & Hockerts, 2021; Cao et al., 2017). In regard to the costs, investors consider the size of a venture to be most relevant. They indicate awareness of the same larger problems faced by earl-stage ventures that Parker et al. (2019) determine, namely the difficulty of meeting the certification process's resource demands and the risk of distraction from business development. Investors focus their economic evaluations therefore largely on the factors which might influence the costs and competitive advantages of the certification in the case of the specific venture they are examining.

3. What is the impact on the final decision?

Now that the potential influences of the B Corp certification's influence are established, I will examine their extent and impact. First and foremost, the impact of signalling, whether regarding ideology or sustainability practices, is negligible. Investors do perceive such a signal positively as they indicate an informal preference for investments in social ventures. The ultimate effect on investor decisions is however insignificant as investors gather information primarily from other sources and conduct their assessments independently of the certification (Svetek, 2022). The positive impact of quality signalling which prominent literature assumes is therefore not found (Gehman et al., 2019).

The far larger impact on the final decision comes from the economic evaluation of the certification itself. The extent of this impact, whether positive or negative, depends on the size of the estimated costs and benefits given the context within which the venture operates (Cao et al., 2017; Parker et al., 2019). Investors only state that it would significantly impact their decision if it creates a strong competitive advantage that significantly outweighs the cost of acquiring it. It is important to note that even if investors consider a certification ill-advised, they express no significant detriment to funding chances. At most, they consider such a choice to reflect somewhat negatively on an entrepreneur's competence. This research, therefore, does not find the certification to have a significantly negative impact on the decision in any of the examined contexts. Ultimately, this implies that the B Corp certification only significantly influences early-stage investors' decision process through its competitive advantage and costs, not its signalling effect.

7. THEORETICAL IMPLICATIONS

Based on my findings, the B Corp certification plays a role in several ways during early-stage investors' decision process but its impact on the final selection decision varies depending on context and is usually insignificant. Investors include considerations based on ideologic perceptions, similar to affective factors, informally in their sensemaking. Economic perceptions of the certification are considered cognitive and most influential when focused on the certification itself. Overall, signals sent by the B Corp certification have little to no impact on investors' estimation of base potential or on their final decision as investors do not turn to the certification as an information source. Instead, the B Corp certification only has a significant impact if investors expect it to create a competitive advantage which outweighs the substantial costs of the certification process.

This research provides relevant insights into the understudied relationship between sustainability certifications and early-stage financing by highlighting the flaws of the assumed positive effect on investor decisions. It particularly contributes to the understanding of the mechanisms underlying investor sensemaking on B Corp certifications by providing insights into their evaluation of the certification within itself. Firstly, this research highlights that the high demands of the certification process on early-stage ventures, which the literature largely ignores, are at the forefront of investors' minds (Gehman et al., 2019; Parker et al., 2019). When formulating premises on business feasibility or distinctiveness, investors weigh the costs associated with gaining the B Corp certification against the competitive advantage it is expected to bring. A particular focus is put on the risk that the certification process will distract from and hinder the development of the venture. While investors are not aware of Parker et al.'s (2019) findings of decreased short-term growth, their own past experiences are considered enough to validate their concerns. Secondly, this research highlights the importance of the context in which a venture is operating on investors' estimation of both costs and advantages. The role of sustainability in the respective industry particularly influences the potential competitive advantage investors see in the B Corp certification. Investors' opinion, therefore, supports Cao et al.'s (2017) findings on the relevance of context for B Corp promotional strategies. Thirdly, this research points out the avenues through which investors largely expect the B Corp certification to lead to an advantage. They largely consider and look out for a marketing advantage towards consumers or beneficial B2B relations going forward, which again is in line with Cao et al.'s (2017) findings. This research therefore indicates that investors are taking factors which literature has previously examined into account although they are not necessarily aware of it (Cao et al., 2017; Gehman & Grimes, 2017; Paelman et al., 2020). Particularly important is that this includes research on the downsides of the B Corp certification, such as Parker et al.'s (2019) study, which further indicates flaws in the assumption of a default positive effect of certification on funding chances.

In regard to signalling theory, this research contributes to the understanding of the signal effect of certifications. In particular, the B Corp certification is not found to have a large influence through quality signals, which contrasts with the prevailing theory (Svetek, 2022). While the interviewed investors themselves acknowledge that it might successfully act as a quality signal towards other actors such as later-stage investors or consumers, I find that it does not have a large effect on them. This acts as a reminder to keep the attributes of the receiver in mind while estimating the impact of signals (Navis & Glynn, 2011; Svetek, 2022). In the context of early-stage certifications, this particularly means investors’ standard sources of information and to what extent they consider other sources should they arise.

Furthermore, this research contributes to the understanding of how investors make sense of social ventures overall. It highlights the importance of considering social returns in addition to financial ones in sensemaking frameworks by indicating that investors experience an informal positive effect based on ideology (Bauer et al., 2021; Miller & Wesley, 2010). The attributes of an investor are the largest determinant factor of the strength of this effect. This affirms the concern that a significant difference exists in the B Corp certification’s role in traditional and impact investors’ sensemaking (Svetek, 2022; Wesley et al., 2022). This research therefore points towards the importance of including further aspects of sustainability and social values in further research into investor sensemaking.

This research focuses on the role of the B Corp certification in gaining funding from early-stage investors. While the findings imply that it does not significantly increase the chances of mobilising financial resources in this context, this should not be taken as an indication of other stakeholder reactions or as a dismissal of other reasons for certification. There is a possibility that decisions on non-financial support, such as mentoring, would be influenced differently. Resource mobilisation research distinguishes these types of resources and indicates different underlying processes (Clough et al., 2019). Particularly noteworthy is also that this finding does not necessarily transfer to later-stage financing. The difficulties which Parker et al. (2019) found to mainly affect early-stage ventures play a major role in investors’ perceptions which suggests that the role in later-stage investors' decision process differs. Further research is however necessary to definitively confirm this theory.

8. PRACTICAL IMPLICATIONS

The findings of this research carry several important implications for early-stage ventures which are already, or are considering to become, B Corps. First and foremost, the findings imply that the B Corp certification is unlikely to significantly impact early-stage investors’ decision to fund a venture. This is particularly relevant to the large share of B Corps which state a desire to improve investors’ perceptions as a major motivation to get certified (Cao et al., 2017; S. Kim & Schifeling, 2022; Villela et al., 2021). Based on my findings it is not advisable to pursue certification on the assumption that it will by default lead to a more positive perception and increased funding chances. When solely considering the effect on investors’ perceptions, it is more advisable to acquire the B Corp certification at a later stage, once the venture is more established. Investors note that having substantial past performance to assess also causes them to perceive the certification as more meaningful. My findings align with the findings of Parker et al. (2019) by highlighting the same issues specifically faced by early-stage ventures. Interviewees particularly reason that at later stages, ventures have more resources to spare, are less likely to be distracted from priorities and have more past performance which can be assessed. This reduces the costs of the certification process and makes it more attainable (Parker et al., 2019).

Insights into the relative role of ideologic and economic perceptions create concrete implications for early-stage B Corporations which seek the best way to present themselves to access investor funding. This research implies that it is most beneficial to present the certification as a source of competitive advantage rather than quality signals. Ventures should be aware that while they may benefit from an informal ideology-based effect, this will primarily occur due to their ideology or sustainability performance as assessed through different information sources, independent of the B Corp certification (Svetek, 2022). As investors are highly conscious of the logistical problems of early-stage certification, ventures should expect to be questioned on this issue and prepare themselves to present a competitive advantage which compensates for these costs.

Being aware of investors' higher focus on evaluating the certification in terms of economic cost and benefits enables ventures to make more informed predictions of investors' responses. By assessing the certification through the eyes of investors, ventures can identify areas of concern beforehand and prepare their presentation of both their business and the B Corp certification accordingly. Particularly already certified B Corps are already aware of the high demands of the certification process and have made their own assessment of the certification's value (Parker et al., 2019). What sets the here recommended calculation apart is the focus on investors' criteria rather than the venture's own priorities. Based on this research this means paying little attention to ideology-related considerations and instead focusing on economic considerations. When considering the costs of certification, ventures should particularly consider the resources the process would demand in their specific case and to which extent this may negatively impact their other business activities or growth (Paelman et al., 2020; Parker et al., 2019; Pollack et al., 2021). Regarding the certification's benefit, it is particularly important to ground calculations in the context of the venture's business model. A positive distinction is often drawn between ventures in which sustainability is at the core of their value creation and ventures in which add it as an additional feature (Stecker, 2016).

This research also highlights the importance of considering the context in which ventures are operating. The prominence of sustainability in their industry, of other sustainability certifications and of B Corps specifically, influences which strategies are most beneficial to create value (Cao et al., 2017; Gehman & Grimes, 2017). While industries with few certifications are suitable for using the B Corp certification as a differentiation in marketing, environments with more B Corps do not lend themselves to this strategy (Cao et al., 2017). In such cases, ventures risk being accused of greenwashing and may benefit more from using the certification as a hidden badge of honour to increase their legitimacy in B2B relations (Gehman & Grimes, 2017). If an investor prefers that the venture seeks funding again at a later stage from a different source, a potential benefit could also arise through increased funding chances at this stage. Including a suitable strategy to create a competitive advantage in the presentation of a venture facilitates investor sensemaking by providing additional favourable information on an aspect which they would have otherwise assessed through other information sources (Cao et al., 2017; Svetek, 2022). While this study provides insights into the major factors investors take into account, the insufficient research into the role of B Corps in specific industries means that ventures likely have to evaluate their relevant conditions themselves (Diez-Busto et al., 2021).

9. LIMITATIONS

While every effort has been made to maximise the validity and reliability of this research, there are still limitations which should be taken into account. The logistic restrictions of arranging and conducting interviews within a limited time period lead to several problems. Firstly, while twenty-two interviews provide a good base of primary data, this number is still relatively small when considering generalisability. This research therefore provides enough reliability and validity to highlight several relevant factors but further research using larger samples is necessary to fully determine the true impact of these factors. Secondly, the short duration of interviews allowed for significant insights but reduced opportunities to dive deeper into specific examples or uncover more hidden mechanisms. In addition, interviews were conducted remotely which may have further hindered the development of comfort and trust. This implies that there may be deeper mechanisms, particularly in the area of sense-making which is less straightforward, that were missed. Further research using longer interviews or several interview rounds could further insights or alleviate concerns about this issue.

Furthermore, the sample is relatively diverse in regard to relevant investor attributes, namely investor type, impact approach and industry specialisation. This has the benefit of allowing the formation of a fuller picture which is the aim of this research. The downside however is that the sample on which insights into specific attributes are based is even lower. Particularly noteworthy is that only five of the interviewees are primarily active as angel investors. This means that the reliability of the findings about this specific investor type is lower. This research findings furthermore aligns with previous studies' finding of significant variations in perceptions and evaluations of sustainability and certifications due to industry context (Cao et al., 2017). Most of the interviewees focus at least somewhat on a particular industry to maximise the benefit of their own expertise. The more specialised an investor is, the more they pointed out factors which are heavily dependent on their sector. Given that I only spoke with at most one or two investors per industry specialisation, it is not possible to gain reliable insights into them. This research can therefore only determine that variations between investors play a significant role and encourage further specialised research into different investor types and specialisations.

Further limitations arise from the theoretical frameworks this research utilises. Both Gompers et al. (2020) and Huang (2018) did not design their frameworks to be used in the context of B Corp certifications. In addition, Huang's sense-making model was designed based on angel investors, while Gompers et al. studied venture capitalists. The broadening of their concepts which is necessary to apply the same frameworks to all interviewees also causes them to be less fitting for each of them. This means that while comparability increases, the depth of insights per individual decreases. Furthermore, neither of their studies considered sustainability factors such as social returns, which carries the risk of missing insights into these aspects (Agrawal & Hockerts, 2021). This is especially the case when examining differences between impact and traditional investors (Block et al., 2021). While the previously outlined adjustments make them well-suited to apply here, these adjustments are novel and untested. Particularly due to the complexity of sustainability considerations, it is advisable to further test them before establishing them as a standard analysis framework for social ventures (Miller & Wesley, 2010). As this is beyond the scope of this study, I focus on pointing out the shortcomings of the frameworks in this context and highlight the importance of further research into the role of voluntary sustainability certifications in investor sensemaking but do not claim to offer a solution.

10. CONCLUSION

This research aims to determine the role of the B Corp certification in the decision process of early-stage investors. By utilising Gompers et al.'s (2020) framework of investor activities and Huang's (2018) sensemaking framework, I find that investors perceive the certification through both ideologic and economic lenses. While investors gather information around sustainability factors during their pre-investment screening, perceptions of the B Corp certification come into play during the sensemaking which determines the selection decision. Ideological considerations result in a positive informal influence, which occurs alongside affective factors but does not significantly impact the final decision. Instead, the B Corp certification plays a larger role when economically and cognitively evaluated within itself rather than as a source of quality signalling. Investors are very aware of the difficulties of pursuing early-stage certifications, particularly the demanding process and threat of distraction from higher priorities, and require significant benefits to compensate for it. Particularly relevant in their evaluation is the role of sustainability in the industry context of the venture. This research finds that the B Corp certification only significantly impacts early-stage investors' selection decision if they consider the competitive advantage it creates to outweigh the cost of acquiring it

A contribution is therefore made to research into the relationship between voluntary sustainability certification and early-stage financing. The findings highlight the flaw in assuming a positive effect of the B Corp certification on the perceptions and decisions of early-stage investors. A contribution to signalling theory is the found importance of investor attributes and the industry context when considering the interpretation of signals sent by the B Corp certification. This research contributes to both investor decision-making and B Corporation research by shedding light on underlying processes and highlighting the importance of different perceptions, both ideologic and economic, of the B Corp certification.

Based on these findings, it is not advisable to pursue B Corp certification as an early-stage venture based on the assumption that it will always positively affect funding changes. Instead, it indicates that ventures can benefit from evaluating the competitive advantage the certification can create in their specific context and the costs the certification process would cause them, independently of their own ideology. This knowledge enables early-stage ventures to make more informed decisions on whether to acquire a B Corp certification and more beneficially present themselves to investors by focusing on the certification's economic benefits rather than its signalling effect.

Due to the scope of this study, it merely highlights relevant factors but is not sufficient to definitively determine their exact impact. Due to the diversity within the interviewee sample, it is not possible to draw definitive conclusions about the effect of specific investor attributes on their perception of B Corps but their importance is determined. To increase the generalisability and depth of findings, I recommend further studies into specific investor groups using increased samples and potentially longer interviews. Furthermore, it is advisable to consider further development of theoretical models to prevent bias due to the use of Gompers et al.'s (2020) and Huang's (2020) frameworks. This research highlights that quality signalling is not the only role of B Corp certifications and opens the doors to pursuing further insights into these mechanisms.

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APPENDIX A: INITIAL INTERVIEW GUIDE

Introduction

1. Request permission to record this interview.
2. Inform interviewees that their anonymity is assumed by default.
3. Offer to send the transcript to the interviewee for approval before usage.
4. Give a short outline of the research aim: Gaining a fuller understanding of how the B Corp certification influences investor decision-making.

Background

1. What is your position in your company?
    a. What is your role in decisions about investments in companies?
2. What is your experience in the field of investing?
3. What do you know about B Lab or the B Corp certification?
    a. How much experience do you have working with social ventures?
    b. Note: No additional information about B Corps is provided to interviewees to avoid influencing later answers.

Attributes of the investor

1. What is your attitude towards risk in investment decisions?
2. What is your attitude towards sustainability in investment decisions?
    a. How much do you value social returns (in comparison to financial returns)?
3. Note: The focus lies on the overall company attributes and decisions rather than the individual.

Decision-making process

1. Open-ended main question: What is your process when making decisions about investing in social enterprises? Is there a recent example that you could talk me through?
    a. Follow-up questions: Is there a recent example of a venture that you made a different decision about at this stage? For what reason?
2. Which are the most important or deciding factors for the final decision and why?
3. Throughout this section, questions regarding what role a B Corp certification plays when considering a specific factor will be asked
    a. Which aspects of B Corps play the largest role?

Emotions and internal decision-making

1. What role does gut feeling, or instinct, play in your decisions?
2. What is the role of trust?
    a. The trust in the competence of the entrepreneurs and success of the entrepreneurship
    b. The trust that entrepreneurs will avoid opportunistic behaviour which harms the investor
3. How important do you consider the authenticity of the values of the entrepreneurs?
4. What role do social network connections play?
    a. Specifically, what role does being part of the B Corp network play?

APPENDIX B: UPDATED INTERVIEW GUIDE

Introduction

1. Request permission to record this interview.
2. Inform interviewee that their anonymity is assumed by default.
3. Give a short outline of the research aim: Gaining a fuller understanding of how the B Corp certification influences investor decision-making.

Background

1. What is your experience in the field of investing?
2. What is your current position in your company?

Decision-making process

1. Open-ended main question: What is your process when making decisions about investing in social ventures? Is there a recent example that you could talk me through?
    a. Follow-up questions: Is there a recent example of a venture that you made a different decision about at this stage? For what reason?
2. Which are the most important or deciding factors for the final decision and why?
3. Regarding stance on risk: What type of returns are you looking for from an investment: Stable growth or “the next big thing”?
4. Throughout this section, questions regarding what role a B Corp certification plays when considering a specific factor will be asked

Sustainability

1. What is your attitude towards sustainability in investment decisions?
    a. To which extent do sustainability factors play a formal role?
2. What is your attitude towards sustainability certifications? How do you perceive a venture seeking funding that has such a certification?
3. Note: These questions are ideally asked as opportunities arise during the previous section. If this is not the case, they are asked directly afterwards.

B Corps

1. How familiar are you with the B Corp certification?
    a. Note: If the interviewee is familiar, no additional information about B Corps is provided to avoid influencing later answers. If they are unfamiliar, a short outline of the certification is given.
    b. Have you been approached by B Corps seeking funding before?
2. How would you view a B Corp approaching you for funding?

APPENDIX C: CODING SCHEME AND INTERVIEW DATA

Table C1

2nd order theme Investment Approach: Aspects of an investor's type mindset and decision process which indicate their positioning in Huang's model

1st Order Codes	Representative Quotes
Stance on risk ***Description: Investor's attitude towards risk associated with investment opportunities and their balance of risk and returns***	Interview 8: But [partner] mainly goes for loans, so not the shareholder part because that's more risk. And the other guys are more into the shareholder part because the rewards are bigger. And we decide that we go for the secure. Because it's our main income right now, you cannot gamble with that too much. Interview 10: Next big thing. No one ever says that at the company but like in theory. If I had to say a man's name: Elon Musk? Like that, just that type of founder profile. "Well, that depends on the fund and the fund mandate. Some funds are really strong on "we want to go big"(...)They can take on a bit more risk because they already calculate in that some [investments] will fail. But to compensate for some failing, you need to have those that can make a really big, big, big difference. Funds that go for that model usually tend to have deeper pockets, because this model demands follow-on investments. So small funds having this model, I tend to find less believable. Because these are the models that are often related to tech and online tech. Then you can say "We go for the Unicorn" (...) which means you need to invest a lot to scale to the next level. So deeper pockets and a good network of potential co-investors becomes really, really important."
Approach type ***Description: Aspects of investors' decision process which indicate either a checklist or a syncopated approach***	Interview 10: We're trying to create a new category of investing which isn't really focused on investing in a specific company, but more so in investing in specific people who we think are really exceptional and who we think should be founders. Interview 21: what the most important thing is always the team is the guys are gonna make the work. You have to believe that they are the people that gonna make the project happen. (...) That's why it's the most important part. Probably because, like, it takes really a bit of empathy and a bit of emotional. Like, it's kind of a soft skill even to grasp if they're the right people to do it. And it's the hardest part for this reason. Interview 9: A very formal process taking quite a bit of time, but typically aligned with other VC investors. Typical VC investors will take four to six months. We might be a little bit longer, but not that much longer.

Prioritised investment criteria ***Description:*** ***The relevance of different criteria, especially regarding business model and management team, as well as their relative importance***	Interview 14: Actually the very first thing that we are having consideration in is the team. Because we believe that, OK, even if you do have the technology, you also need a strong team to take it further, to support the growth and the scaling of a startup. Interview 6: Well, the business idea has to be promising, that's very clear, the business idea is of course of no use, if you don't have a kind of entrepreneurial character. And the entrepreneurial character means that they can be stubborn, that is, perseverance, in very positive terms, and that they don't give up right away. That they are also prepared to take risks. And that they never lose sight of their goal. Interview 13: Business model is important. But the team is also important. A good business model with a bad team works just as badly as a good team with a bad business model. So both are a requirement.
Source of confidence ***Description:*** ***The source of an investor's confidence in the correctness of their decision***	Interview 11: And that's just an example, because my colleagues over the years have gathered so much experience also on the interpersonal stuff that they have like this thing fits in the fond. Yeah, for, you know, shadiness so. So it's the experience that really comes in there I think. Interview 8: We trust the financial guy that's in the middle. He's doing the double-check, the background-check Interview 10: Because we've done that for like 10-11 years, we also just have a view on what good looks like. So I think it helps a lot to figure out who are the good teams and who are the people who should break up.

Table C2

2nd order theme Process Phase: Phases of the decision procress in which instances of sustainability playing a role occur

1st Order Codes	Representative Quotes
Base Potential ***Description: Instances of sustainability playing a role before a venture starts being considered in-depth as an investment, usually as a base requirement***	Interview 12: If you're in an investment committee position, the companies that are being presented to you fit the requirements of the fund. Otherwise they do not present them to you. Interview 17: since we have a transition fund, one of our important criteria is to have a societal impact. If you don't have any impact, we're not going to invest in it. So there needs to be at least some parts of positive impact which can be social or environmental. Interview 9: If a company comes to us, first thing we do is we ask them for a pitch deck or a presentation. My team members will have a look at that, assess whether it fits with our sector criteria, whether they are in our region (...) If they fit these criteria, we will invite them for an explanation of the business plan in our office. We'll have that discussion, go through their business plan, understand what's happening, and then if we're still interested, we will proceed to writing a what we call quick scan (...) which we sent to our investment committee for analysis. Whether we should dedicate resources and time but also external resources, which typically cost money to further investigating this lead, which is the due diligence process. When we receive confirmation on that end, we go into the due diligence process and then after due diligence we report back to our investment committee with the findings. If that's still positive, we get into contracting and close the transaction. Typical process. Interview 20: We invest in Small and Medium sized companies in developing countries that satisfy a number of sustainability criteria that qualify them as Social Businesses. By definition, a Social Business is a business that has been created with the intention (!) to solve a social or environmental problem through a business approach. It usually uses all of its proceeds to further grow the company and with that, it´s impact. Stakeholder value replaces shareholder value in this sense.
Due diligence ***Description: Instances of sustainability playing a role during the due diligence process or other in-depth formats of information gathering***	Interview 7: First of all, we make a risk assessment. So when we acquire a new firm we have to go and make this risk assessment on all aspects, environment, social, health things. And see where it lacks, where there's issues, and then based on that we develop an action plan. Interview 5: We have different due diligence teams (...) One team is the financial team, one is a legal team and then there is a commercial team. The commercial team basically [covers] the whole market situation and I assume that these certificates will be looked at again and examined again: "Is this now a competitive advantage? How do customers react to the fact that the company is particularly active in this area?" That's where I would classify it now.

	Interview 22: When evaluating social enterprises, I follow a rigorous investment process. It typically involves conducting thorough due diligence to understand the social and environmental impact the enterprise aims to achieve, as well as assessing its financial viability. I analyze the organization's mission, business model, competitive landscape, and growth potential. I also evaluate the management team's experience and commitment to their social goals. Furthermore, I examine the scalability and sustainability of the enterprise's impact, ensuring it aligns with our investment criteria and has the potential to generate long-term positive change.
Selection decision ***Description: Instances of sustainability playing a role during the final decision on whether to select a venture for investment***	Interview 5: ...the supervisory board, which then approves the big decisions. And that's the nice thing (...) for the family [leading the board], the issue of sustainability and social aspects are very, very important. And there you also get critical questions. We would never get something through that was deliberately not sustainable. So, if it drifts into any areas that are not compliant, we will of course be completely beaten about the head beforehand, but at the latest by then. Interview 5: The supervisory board is not involved in the operational business at all. They are responsible for social issues and major strategic decisions. They are then the authority that has to approve the whole thing. Interview 11: It wouldn't really change our decision-making per se. Because if you look at ESG and then Article 9, for example. The only reason we would not invest in a company is if there's a big controversy. So RepRisk [ESG risk software] basically has these red flags. If a red flag comes out, we don't invest. If a red flag comes out of our ESG survey, maybe on like the product quality and safety and we can't really mitigate it. And it was the company's fault or something? Then we wouldn't invest.
Post-investment ***Description: Instances of sustainability playing a role after the selection decision. This includes contracting as well as monitoring and advising***	Interview 9: Everybody can make an investment. The more important part is the monitoring phase. Interview 16: We will create a workshop after the investment to work on things that we think aren't good enough. So we think you should track diversity. For example, we think you should have like responsible AI policy.

Table C3

2nd order theme Industry Context: Information relevant to the wider context of sustainability in businesses and certifications

1st Order Codes	Representative Quotes
Increasing impact investments ***Description: Investing in ventures with social returns is becoming increasingly common and is expected to continue spreading***	Interview 3: It's booming, tremendously. We have quite a few members who are impact investors. Interview 5:So that is also a must-have criterion at some point, do they have that, can they even do that at all? So this is becoming more and more important, we have to be honest and say that in the past it was certainly not seen as such an elementary part of the field.
Attiudes differ per case ***Description: Attitudes towards and views of sustainability and social returns differ per investment organisation and individual investor***	Interview 12: Yeah, it depends on what you mean with process, but because indeed (...) every fund has a certain, I don't know what they call it, like an investment doc. So does it fit the requirements of the fund? Interview 3: Yeah, the UN PRI [Principles of Responsible Investment] is an important one for VCs and private equity. We see that the adoption rate is getting quite large. But it's a very voluntarily label so I think the implementation can really differ per fund manager.
Vagueness of term ***Description: There is a lack of common understanding of the term 'sustainability' due to its vagueness***	Interview 4: Sustainability is also such a killer phrase [original "Todschlagwort] for me, so generally we as a community can do something sustainable yes. It's like mindfulness or something else that has become a killer phrase that actually needs to be defined a bit more precisely, what is meant by it. Interview 9: We try to support companies that have some kind of societal impact, typically regional economy. But we're also obviously looking a little bit beyond that. And then the question is: What is your definition of social enterprise? We have 3 focus sectors at the moment: Media and gaming, and we also consider that quite social since we're looking at Web 3.0 fake news prevention, these kind of things (...) So all of them have some kind of societal impact and therefore the definition is a bit difficult. Interview 2: I'm just coming from the Inter in Cologne, which is the supplier fair of the furniture industry and there was definitely one touch to be felt: Everything wants to be sustainable. And I'll start like this, I'm actually someone who studied forestry and knows wood and sustainablity. I only give the word sustainability as an example for you, that's used by everyone right now, that's an incredible buzzword. Most people don't even know what that actually means, you just have the feeling of being sustainable, it means I'm environmental or green.

Doubtful certification meaningfulness ***Description: The meaningfulness of sustainability certifications differs and the sustainability claim of certified ventures is unreliable.***	Interview 13: In the past, people used to say, I'm just saying ISO certification, yes we had such a nice saying 'you can also certify bad quality. It just has to be consistently bad'. Interview 19: I think overall it helps to improve the world but it is a bit of a tick the box exercise whereby a company that is destroying the planet but has nice written down governance policies can get a higher score than a company that is helping the planet but has not written down its policies carefully yet. Interview 8: If there is no reward, it's not worth to get certified because it's quite costly, generally speaking, to get certified. The small companies that have better intentions are most of the time not certified, because they do not have the money and the backgrounds checks Interview 9: And we also see that certification processes take a lot of time and not all certifications are as valuable as they could be.
Industry/product specific ***Description: The attitude towards and role of sustainability and certifications depends on the industry and product type***	Interview 3: [regarding voluntary certifications] "Yes, it can be really a distinguishing factor, of course. Yeah, it depends of course on how strict the government rules are." Interview 6: In my field, in the energy transition, there it's always such a big topic anyways, it's, of course, easy to argue based on sustainability. In my own company, I have also tried to consume green energy in the office, although we consume relatively little energy: Only for our notebooks, lighting and heating. Interview 4: In the environment in which I move, sustainability is not really the central topic. So in IT firms, in the office, I've got a few computers and a bit of brain (...) there's nothing being produced, nothing harming the environment." Interview 2: If that [required certifications] would increase too much, i.e. escalate even more, I'll say, then it will be very borderline, because then, of course, many will say "It's good, I have now fulfilled this and I think that should be enough". Then there has to be a very mercilessly hard reason to do more. so if you are now talking about those who have already done so. The fact that they are now certified in various areas cost time and money.

Table C4

2nd order theme Ideologic Perception: Aspects related to an ideological perception of sustainability and sustainability certifications

1st Order Codes	Representative Quotes
Personal motivation ***Description: The investor personally values sustainability and prefers investing in sustainable or societally beneficial ventures***	Interview 1: I mean, we really wanted to do something, you know, for reducing CO2 so that's a big emphasis on what we are having. We have children, we kind of expect that it's going to be a bit warmer on this planet in the future, so if we can help contribute with that, that's definitely a main consideration in our business decisions. Interview 16: I think in in the end for us, a good deal is a good deal, and it has to be correct in multiple aspects. I think kind of unconsciously we might be biassed to be more likely to do the deal because we care as people. But having said that, they would still need to have the total package for it.
Firm mandate ***Description: The mandate of the firm acts as a morality standard and sets minimum sustainability standards***	Interview 3: I see the most impact now from coming from SFDR, the reporting regulation, which gives you either Article 6, 8 or 9 classification - that is really about the relationship between you as a fund manager and the investors in your fund. So what kind of product are you marketing to those investors in your fund. (...) So Article 6 funds, they say they make no promise about sustainability issues. Article 8, you say, ´Well, we do no harm´. Article 9 is ´We do good´. Interview 11: We just need to make sure that it's a good fit with the fund and that it's not a regulatory breach because for an Article 9 fund, the company can't do any significant harm, as they say, so we yeah, we have to go through our process. Interview 7: No, the sustainability is definitely very important. I mean we do have the sustainability mandate so we advertise ourselves to the investors as, you know, a sustainable company. Interview 15: We do have very similar investment principles, but we don't have the pressure that a fund has after selling such fund conditions to its investors at the beginning and saying "I will do this and that with the principles". That's also where ESG comes very, very strongly into play in these investor models, because the financiers in turn have corresponding obligations to their financiers, given the EU regulations in the background.
Informal effect ***Description: Independent of the formal role of sustainability in the process, it informally influences the attitude towards the venture due to investors' ideology***	Interview 16: Yeah, I think that's only something we applaud, right? Like it's something that you find nice. I think it's good to know that we aren't an impact investor per say. So it's not something that we require which some other investors do. But I think that doesn't mean that we don't care, right? And I think, we can make a return while have a good impact on the planet. Then that's only a great plus to have. Interview 9: We're all people and we will also look (...) at how does this impact and is it something that I can actually tell my shareholders, but also my kids. Is this is something that we should be promoting? So I think we all take that into consideration. It's not that formal…

Table C5

2nd order theme Economic Perception: Aspects related to an economic perception of sustainability and sustainability certifications

1st Order Codes	Representative Quotes
Risk avoidance ***Description: Requirements for ESG are set and checked to detect and avoid potential scandals, fees or reputation harm***	Interview 5: Having a sustainability report, I would actually see that as a must-have criterion next year. If they don't have that and if they can't prove that, that can be a red flag in the purchasing process, because that means that you - don't know what the penalties are or how that works - but it's definitely a requirement that the companies have to map. Interview 7: avoid reputational risks, but also financial risks. Like if you face a lawsuit that also costs money, you know? But even if not, even if like the community gets angry and destroys your crop, that doesn't help either. Interview 7: it's flagging these things and seeing can you can you work with it or is the risk they impose too big? For the financial or the reputational risk, also. Otherwise you flag them and then you work on them.
Competitive advantage ***Description: Sustainability overall or a specific certification is beneficial if it creates an advantage or is necessary to enter the market at all***	Interview 15: If they were to introduce something like that [sustainability certificate] to the market, that would of course be a criterion, but we wouldn't do that out of our own motivation. So I'm not saying that we only invest in start-ups that have a sustainability certificate, but that it is a milestone to make the product marketable. Interview 13: The problem with certification, well I am someone who already knows so much certification, you have to look very closely at whether it really has a value. It can have an added marketing value. Interview 5: These certificates will be looked at again and examined again: 'Is this a competitive advantage? How do customers react to the fact that the company is particularly active in this area? Interview 20: B Corp is the best-known corporate sustainability certification around currently. It has the perceived strongest standards and is increasingly sought after by sustainable companies as they see it as a differentiator
B2B relations ***Description: Sustainability overall or a specific certification is beneficial if it brings a significant advantage regarding B2B relations***	Interview 2: So, of course, they put the knife to our chests and said. As a supplier, we can still lead you if you have successfully carried out this seal or certification system and then submit a certificate to us and thus be allowed to continue selling to us, so you are even blackmailed here. Sure, that's the biggest power for now. Interview 14: I believe that the best startups still nowadays are the ones that are already aware of these regulations and know that they cannot attract investors if they do not have these regulations in place, they know that they cannot work with corporates.

Additional funding ***Description: Sustainability overall or a specific certification is beneficial if it brings a significant advantage in future efforts to secure additional funding***	Interview 18: So companies are trying to make efforts to be more appealing to investors of course, or to the public in general. B Corp is one way to do it. Interview 1: That was one of the things that we pushed [venture name] very hard on, that they would have a certificate from a formal institute. So that they can demonstrate that they take CO2 or anything else, that they clean the air, etcetera. So that's definitely important to get subsidies. Interview 15: There is another distinction between real impact start-ups and impact investors. It is written in all fund conditions (...) practically every fund has to follow certain rules, so to speak, even if it is actually a classic fund. That's why it's also important for start-ups, which actually have little to do with it at the beginning, but as they get bigger and have to acquire new funds, but also for their own development as a company, they simply have to adhere to rules.
Employees ***Description: Sustainability is important for attracting and retaining a qualified and motivated workforce***	Interview 13: These days, you won't get good, highly motivated employees in the medium to long term if you don't embed ESG in your corporate culture DNA. Interview 17: Governance and employees are always important for a VC because they are the people who are going to build the company up, so if they're doing to correctly or not, incentivised enough to continue with the company? We won't invest, So what we look especially like at the CAP table, how much does the founder have? How does he incentivise his employees really, have like a source or just share appreciation rights? So can they get some shares in the company to be to get like the proper recompense for their work? Interview 6: Treating employees well is very important because otherwise you won't find any. If you treat employees badly then they are going to leave again and you don't have any anymore and that gets expensive to lose an employee. Because you have invested a lot in building up their knowledge until they are able to work productively. That's why it's very important to have a good relationship with employees. Interview 19: They can attract talented individuals who don't want to work for employers who only care about the bottom line.

Table C6

2nd order theme Problems of Early-Stage Certification: Aspects related to the downsides of certifications in early stages, particularly in regards to the difficulty of the certification process

1st Order Codes	Representative Quotes
Demanding process ***Description: The certification process requires large resources including manpower which are especially difficult for early-stage ventures to spare***	Interview 14: because at the end, I don't fully know the whole process, but it's a bunch of criteria. And elements of growth. So it's not easy for the early stage venture or early stage startups to become a B Corp. This requires time and also a certain level of growth and sustainability itself, so it's just not enough having a good idea and contributing for sustainability. You should also have, yeah, financial stability in in in that sense because otherwise one thing doesn't lead to the other Interview 6: Well, we have ISO 9000 Quality Management and ISMSA Information Security Management, it's cruel, these audits are cruel, they always go on for almost a whole week by now. It's annoying and cruel, that's why I wouldn't recommend it to any start-up. Interview 2: Because they [large companies] have to and want to do an incredible amount, but also so that they are up-to-date and now, of course, they expect from all suppliers, no matter who they are. The corresponding services are provided, papers are tested, money is also taken in hand to achieve this standard, and in many cases, it cannot be provided at all by medium-sized small companies. So it's very weird what's going on there now and yet it's a good way, but it will crush one or the other, especially the small companies, because from my point of view they don't have the manpower at all (...) A normal medium-sized company? (...) they can't do it at all.
Distracts from priorities ***Description: Pursuing certification distracts from aspects that are more important in early stages***	Interview 6: They should first see that they get their products on the streets, that they get customers, that they earn money, and then when they become bigger, then you should definitely take care of such a label. Interview 6: [they aren't very] focused. This is unimportant and in the beginning you have to leave everything unimportant to the side. That is the art, because you can't really differentiate yet what is important and what is less important. Interview 12: I sometimes wonder indeed, if early stage companies that are not, you know financially to a certain extent sustainable - I think it's quite a process to get into B Corp and because it's such a status thing as well. And some might aim for it to quickly. I would say first make sure you have your business and your impact in order and have it in good statue and then go for B Corps. Because it's such a status thing and because it's such a good stamp of approval I see with early stage funds for example, the one that I'm coaching is now applying for B Corps. But they're only team of 3-4 people. They don't have enough funding to have the teams sustainable yet. So they hope they can get more money in with the B Corps stamp, but maybe it should be the other way around.

	Interview 12: So focusing on aquiring a trademark is distracting yourself from the actual business and the impact you are can make and that you need to actually become sustainable as a company. Trademarks tend to mean also extra bureaucracy, which is not bad for the larger investments, but can negatively affect the earlier stage type companies.
Volume and past performance ***Description: As early-stage firms have little current or past performance to assess the certification process in logistically difficult***	Interview 15: But then ESG is not really a core criterion at the beginning, because first I have to have something to which I can apply ESG. Yes, you also have to see that a start-up begins with a few hundred thousand euros, yes. There aren't that many possibilities to somehow bear additional costs. Interview 12: [on the role of sustainability certifications] In early stage not necessarily. In early stage it's also a bit difficult sometimes (...) you need a certain volume to have certifications make sense. Interview 6: Yes, the question is such a certificate- For the companies, for the start-ups, which usually have little resource consumption, it's difficult anyways to figure out how you want to certify that they are now on the road to sustainability

Table C7

2nd order theme B Corps Certification: Aspects related to the types of signals sent by the B Corp certification, including those sent by sustainability certifications or sustainability inclusion overall

1st Order Codes	Representative Quotes
Unfamiliar ***Description: Investors have limited past experiences with B Corps and often are not familiar with it at all***	Interview 17: I don't know if we have invested in B-corp companies yet. Transcript 3: And the B Corps we see occasionally. I think for our markets it has less impact. Interview 6: No, I only know the CO2 emission certificates. Or the electricity certificates, yes, when green electricity is being certified.
Positive but insignificant ***Description: The B Corp certification is generally seen positively but does not have a significant impact on the investment decision***	Interview 16: I think again for us. It doesn't matter that much. We're not, like I said, like super impact focus. I think for us it's nice to have. It's not something that we ask or require. Yeah, I think that's. That's, I think what I can say about it. I think also because some companies are very early stage and are just. Getting started. It's often also not a focus. For them. Unless maybe you do something very specific in kind of impact where I think really much like a stem of maybe the work that you're doing, but. I think for. Us it's. Yeah. Not not a big. Thing it's like we we applaud it. Again. But it's also not something that. We require of our companies. Interview 12: I like to B Corps movement because it's more a movement than a trademark alone right now, right? So I don't even know the, maybe I should, but I don't even know the exact specific of it. I know it's really movement that has grown largely and has really become yeah this stamp of stamp of approval. If you are a B Corp that means that you've definitely been taking into account some really good, good steps. So yeah, I I think in general, the B Corps movement is, is great. I sometimes wonder indeed again, like if early stage companies that are not, you know financially to a certain extent sustainable and. And I think it's quite a process to get into this, this B Corp and because it's such a status thing as well in the context of to have it. And some some might aim for it to quickly, I don't know. Interview 9: No, it would not. It would also not be a negative, but it it's it's not something that we. Yeah, we we don't value it as it's something very positive. It's it's just there to us. It doesn't matter that much. Interview 8: It would be a positive impression because they're really taking it in account that they work with it. But I do not see it as if when they got a B Corp certification that they really are way better than rest. So it's good that they have it. But because I don't know the reason they have to become a B Corp, they could have been greenwashing. And that's what makes me cautious.

Aspects assessed independently ***Description: Investors assess the covered aspects which they consider relevant themselves and their additional certification makes no difference***	Interview 17: It's a nice to have, but it's definitely not a must have. So what we do is that when we invest, we ask for monthly reportings from our companies, so on the financials, but also on their impact side. And that is way more important than other certifications than they can have. Interview 13: Of course, that's always the question: Effort. I think that the reason the business model in itself is. And that simply the entire company's DNA sustainable is. That is much more important at the beginning than expensive certification, which eats up a lot of time. Interview 13: You can already see in the pitch deck to some extent if it [sustainability] is taken into account. Then it's the case that I would never go further if I don't go out to dinner with people in the evening, for example (…) Then you notice something in the conversation and that's also where you can talk about 'what do you do'. It's a difference whether you have someone who has always been societally engaged… Interview 13: A company that thinks about: Is the glue of the label vegan? So it's not made from the bones of cattle, yes or no? If someone has thought about this, then you can tell he has thought about it [sustainability]. So in the end, when you have a little experience, it's relatively easy. Interview 11: B Corp is one of the better ones out there, and it also means that the company has done the exercise of just gathering a lot of data that they can also share with us. And I think it's also good if another party has looked at the company and if it's another company that knows what they're talking about, then it's of course even better. Interview 11: It doesn't really influence our decision. It does gives us a little bit more comfort, but we'll still do all of the checks and checks for red flags because we just need to make sure that it's a good fit with the fund and that it's not a regulatory breach, because for an Article 9 fund, the company can't do any significant harm. So we have to go through our process. Interview 21: I don't think it really changes much because you're still gonna analyse the business. You're still gonna analyse the people, you're still gonna analyse the market (…) I don't think the B Corp, the symbol is going to change much.