CHAPTER 2

Financing Sustainable Goals: Economic and Legal Implications

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2.1 Introduction

The 2030 Agenda on Sustainable Development Goals (SDGs) leaves open the question of how best to consider alternative forms of economy, social relations and governance (Bowen et al. 2017). In this context, policy makers, development practitioners and scholars are increasingly focusing their attention on the potential roles that the myriad types of investors and enterprises that make up the social and

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solidarity economy (SSE) can play in addressing future development goals as well as any other complex social and ecological challenges.

In the delivery of social impact, the commitment of private actors has generally been limited to the nonprofit hemisphere, broadly speaking (NGOs, philanthropy, charities). Thus, there has always been a clear distinction, a trade-off, between social concerns and profit (Zingales 2000). Nonetheless, to confront future social and environmental challenges effectively and efficiently, economic resources are needed (Mawdsley 2018). Currently, the welfare state seems to be experiencing a major crisis, and nonprofit entities lack adequate resources (Karanikolos et al. 2013). Therefore, the idea that for-profit companies should contribute to solving major social problems—which they are often assumed to have caused—has gained widespread consensus (see, among others, Stout 2012; Elhauge 2005). Sustainable entrepreneurship that is involved in the generation of social and environmental impacts has repeatedly pointed to the critical need for impact investments. However, despite the growing attention to and interest of organizations and institutional investors in channelling private capital into sustainable ventures and products, there remain significant barriers and disincentives between mainstream financial actors and sustainable entrepreneurs (Hoogendoorn et al. 2019; McDermott et al. 2018). In this context, finance and economics on one side and corporate law on the other must be indissolubly linked to a greater extent than is customary: the former provides the resources and the latter the legal tools to manage them (Cumming et al. 2017).

Academic discourses around sustainability issues in entrepreneurship, corporate legal models and finance remain fragmented, and each specific discipline analyses this topic from its narrow perspective (Wallis and Valentinov 2017).

Innovative sustainable finance instruments, by pursuing social and financial returns, can serve as effective institutional mechanisms to help finance the SDGs. However, until a few years ago, there was no legal tool to optimize these capitals and allow companies to commit to social problems: conventional, purely profit-driven companies seem insufficiently equipped. Admittedly, the well-known shareholder primacy model, despite being slightly mitigated over time, prevents them—or, at least, discourages them—from also pursuing a “social mission”, at least without their directors risking a breach of their fiduciary duties (McDonnell 2014).

Starting from this perspective, this research adopts a multidisciplinary approach with the aim of proposing a conceptual framework that assumes the multidisciplinary nature of sustainability. The proposed conceptual framework aims to develop an improved understanding of the conditions most conducive to the successful application of sustainable financing to sustainable entrepreneurship. This framework should be useful in investigating how sustainability issues may be aligned across entrepreneurship segments, corporate legal models and sustainable financial approaches. This research, therefore, contributes to the international debate on these topics by providing a multidisciplinary insight into the academic discourse around simultaneous economic and social value maximization within entrepreneurial solutions and financial opportunities in the sustainability arena.

To achieve these objectives, this chapter is organized as follows: in Sect. 2, the research design is described and key sustainability concepts are conceptualized. Section 3 provides an overview about the concept of sustainable entrepreneurship. In Sect. 4, the chapter highlights—from a legal perspective—how corporate models embracing profit, as well as social and environmental concerns, have evolved. Section 5 provides a conceptual map of the interplay of profit and social/environmental returns in finance. In Sect. 6, the chapter provides a conceptual framework useful to understanding how sustainability issues may be aligned across the spectrum of legal models of entrepreneurship and financial approaches. Finally, some conclusions are drawn by highlighting suggestions for further research and implications for entrepreneurs and policy makers.

2.2 Research Design

This study employs an exploratory and qualitative approach to investigate the concept of sustainable entrepreneurship, the associated corporate legal environments and the forms of sustainable finance adaptable to the described phenomenon. This approach aims to clarify the possible interplay of such dimensions in relation to their ability to promote sustainable development objectives, such as SDGs. The use of a qualitative approach is not uncommon in academic work that seeks to shed light on the defining features of a multidimensional phenomenon (Eisenhardt 1989; Patton 2002). In particular, the research design aims to integrate literature on the concepts of sustainable entrepreneurship with those on corporate legal models and sustainable finance and to formulate a conceptual framework based on the resultant new understanding. A conceptual framework is a structure that the researcher believes can best explain the natural progression of the phenomenon to be studied (Camp 2001). Such a framework is linked to the concepts and important theories used to promote and systematize the knowledge acquired by the researcher (Peshkin 1993). The conceptual framework presents an integrated way of looking at a problem under study (Liehr and Smith 1999). This integration is achieved by addressing three objectives: (i) undertaking a critical review of the literature on sustainable entrepreneurship, corporate legal models and sustainable finance and (ii) defining a set of variables to be investigated in order to (iii) construct a conceptual framework of the interface between these disciplines explored from this perspective. This conceptual framework will help organize existing and new insights and help in formulating new research questions regarding sustainable entrepreneurship and its funding.

2.2.1 Setting the Scene: Entrepreneurial and Financial Issues in the Sustainability Arena

In the aftermath of the 2008 financial crisis, concerns relating to market and state failures received increased attention and revealed opportunities to rethink "development". Compared to conventional crisis responses, alternative pathways attracted more attention within mainstream knowledge and policy circles. With the term social and solidarity economy (SSE), academia tried to provide an umbrella term to refer to forms of economic activity that prioritize social and environmental objectives and involve producers, workers, public entities and citizens acting collectively and in solidarity. As perfectly summarized by Utting (2015), "Under the umbrella of 'social and solidarity economy' can be found different world views and understandings of 'development'. Accepting the reality of the capitalist system and its core institutions or 'rules of the game', social economy is primarily about expanding the economic space where people-centred organisations and enterprises can operate" (p. 1). Such a concept fundamentally includes a wide range of practices that span economic, social, environmental, political, communitarian or holistic dimensions. It emphasizes a strong integration between traditional economic structures and the more holistic and alternative approaches of the practices and communities of the solidarity economy. Within this arena, for the purpose of this chapter, we focused on economic and financial issues that conceive of the social and solidarity economy as an ethical and value-based approach to economic development that prioritizes the welfare of people and planet over profit and blind growth.

2.3 Embracing Sustainability Issues in Entrepreneurship: An Overview

The concept of sustainable entrepreneurship is relatively recent in academia, and common consensus on its definition is still lacking. Early definitions stressed the discovery of market opportunity, which detracts from sustainability (Cohen and Winn 2007; Dean and McMullen 2007). In particular, sustainable entrepreneurship is seen as a process of discovering opportunities that are present in market failures derived from sustainability and considers how they can be exploited in future goods and services that initiate the transformation of a sector towards an environmentally and socially more sustainable state. In this vein, sustainable entrepreneurs are increasingly acknowledged for addressing current social and environmental problems (Hall et al. 2010; York and Venkataraman 2010; Tur-Porcar et al. 2018). Sustainable entrepreneurs are motivated to have a positive impact on complex social and ecological problems, such as climate change, unequal access to healthcare and the financial system, and education and poverty.

Sustainable entrepreneurship is closely related to the fields of social and environmental entrepreneurship. The relationship between entrepreneurship and sustainable development concerns has been addressed by two main streams of research defined "ecopreneurship" and "social entrepreneurship". Regarding the former perspective, earlier authors addressing sustainability issues and entrepreneurship have dealt exclusively with environmentally orientated entrepreneurship (among others, Shrivastava 1995; Isaak 2002). In this type of business model, profit remains the end goal of the business, but environmental goals are considered an integrated part of the economic logic of the business. Other authors have focused instead on social entrepreneurship (among others, Mair and Martı 2006; Nicholls 2008; Bull 2008). The social entrepreneurship concept in academic literature is concerned with achieving societal goals and securing funding (or, in other terms, achieving societal goals in a financially sustainable manner). Common to these perspectives is the motivation of entrepreneurs to create value for others by identifying opportunities arising from market failures, in other words, from problems in society that have been neglected or unsuccessfully addressed by public or private organizations (Wagner 2017; Hoogendoorn et al. 2019). In contrast to "regular" entrepreneurs, the aim of social entrepreneurs is not primarily focused on the pursuit of value creation for private gain; rather, it seeks to improve quality of life in order to benefit others (Stubbs 2017; Evans et al. 2017). Moving from this consideration, the motivation of sustainable entrepreneurs pursuing social or environmental goals deviates from the one-sided pursuit of profit that tends to characterize the regular, or traditional, entrepreneur (Dacin et al. 2010). However, some differences may be distinguished in sustainable entrepreneurship. In particular, in the social entrepreneurship model, the creation of social benefits tends to dominate the generation of economic benefits, often in a not-for-profit context (Saebi et al. 2018); in this work, we identified this approach as "mission-centric" entrepreneurship. On the other hand, environmental entrepreneurs tend to protect our natural environment or ecosystem in a for-profit context that combines environmental and economic value creation (in this chapter, we refer to these entities with the expression "mission-related" entrepreneurship). In this vein, recent contributions look at the concept of sustainable entrepreneurship by combining these two fields. Specifically, this evolving concept of sustainable entrepreneurship explicitly focuses on a combination of social, environmental, and economic goals and, therefore, is sometimes considered to also include both social and environmental entrepreneurship (Belz and Binder 2017). Moving from these considerations, sustainable entrepreneurship became, in essence, the realization of sustainability innovations aimed at the mass market and, at the same time, it provides a benefit to large parts of society. Specifically, it is characterized "by some fundamental aspects of entrepreneurial activities which are less oriented towards management systems or technical procedures, and focus more on the personal initiative and skills of the entrepreneurial person or team to realize large-scale market success and societal change with environmental or societal innovations" (Schaltegger and Wagner 2011: 226). Thus, it can be described "as an innovative, market-oriented and personality driven form of creating economic and societal value by means of break-through environmentally or socially beneficial market or institutional innovations" (p. 226). More recently, within the sustainable entrepreneurship concept, some authors have also included those entrepreneurial activities that produce impact, even if by adopting business models not intentionally aimed at sustainability (Nicholls 2008; Maynard and Warren 2014; Lüdeke-Freund et al. 2016). In this chapter, we identified such entities with the term "mission-unrelated".

Academic debate, therefore, appears willing to consider environmental, social and sustainable entrepreneurship as a unique field of research. However, there is a common understanding that social, sustainable, and environmental entrepreneurship should be clearly distinguished from the traditional entrepreneurship domain because they focus on the creation of social value, whereas commercial entrepreneurship is strictly concerned with the creation of economic value.

In the context of this chapter, we define sustainable entrepreneurs as those who are not only driven by the social and environmental needs of society but also engaged in sustainable business (even if unrelated to their mission). Although we distinguish sustainable entrepreneurs from social and environmental entrepreneurs, we drew on the academic literature from these three related fields to arrive at our hypotheses.

2.4 Profit and Purpose in Entrepreneurship: A Legal Perspective

In the delivery of social impact, the commitment of private actors has generally been limited to the nonprofit hemisphere, broadly speaking (NGOs, philanthropy, charities). Thus, there has always been a clear distinction, a trade-off, between social concerns and profit (Zingales 2000). In other words, as has been observed, it was long believed that commercial revenue and social value creation were independent (Battiliana et al. 2012).

Indeed, until the last decade, from a corporate law perspective, it was generally possible to distinguish between two clearly separated main categories of corporate models. Imagining a spectrum, at one end, there were pure nonprofits; at the other end, traditional profit-driven companies. Both models had limits preventing them from effectively and efficiently pursuing a social mission.

Nonprofits usually suffer a profit distribution constraint, so that they cannot distribute dividends to their members or returns to their investors.[1] In fact, one of the main problems facing nonprofits concerns the difficulties they experience, compared to for-profit entities, in attracting capital (Sertial 2012; Taylor 2010; Hansmann 1981). Such prohibitions have been deemed necessary to ensure that users and the general public can trust those enterprises whose business serves social and solidarity purposes (Mosco 2017; Hansmann 2003).

Nonprofit status has always been seen as an effective form of consumer protection, especially in situations of asymmetric information (Ortmann and Schlesinger 2002; Hansmann 1994). This theory stems from the idea that the contract, because of information asymmetries, fails to protect the consumer from enterprises' abuses: in this context, then, the prohibition on distributing profits is meant to show consumers that the enterprise is not interested in taking advantage of information asymmetries to increase its profits (Hansmann 1980).

However, the flip side is that the non-distribution constraint forces nonprofits to widely use debt instruments rather than capital (Zoppini 2000). Moreover, because they are de facto banned not only from equity capital markets but also from attracting investors—as they cannot, as mentioned, generally distribute financial returns to investors—their functioning relies primarily on grants and donations, which, as observed, often prove insufficient for the pursuit of their social goals (Sertial 2012).[2]

Therefore, the idea that for-profit companies, often regarded as the major source of social problems, should also contribute to solving those problems has gained widespread *consensus* (Stout 2012; Elhauge 2005).

This recognition has increasingly given rise, especially in the US, to the robust debate on the purpose of the corporation and, consequently, on where directors' fiduciary duties should be focused. The US represents the heart of the debate about the purpose of corporations, and for this reason, in this section, attention will be devoted to this jurisdiction. Even though legislation varies from country to country—in terms, for example, of directors' fiduciary duties—the main takeaways of the American debate give a sense of the high-level discourse on the topic and the core principles of the debate; with appropriate adjustments, these observations can be applied to any traditional corporation of any jurisdiction.

Corporations have multiple constituencies. Sometimes, their interests are aligned. At other times, however, the interests of these constituencies conflict with each other.

For example, between late 2015 and 2016, Mark Zuckerberg sought to design a stock reclassification plan that would have allowed him to unload a significant number of shares to pursue his philanthropic goals while retaining control of Facebook thanks to the company's dual-class structure. In fact, to avoid losing control of the company while simultaneously obtaining sufficient liquidity for his philanthropy, the Facebook founder had proposed—and a special committee advised—to issue a new class of non-voting stocks as a one-time dividend to each outstanding Class A and Class B share, "thereby tripling the number of Facebook total outstanding shares" and "re-inflating the voting weight of [Zuckerberg's] Class B share holdings".[3] A pension fund filed a derivative suit in the Delaware

Chancery Court seeking to challenge the stock plan. While this case is mainly about dual-class structures, it nonetheless shows the existing tensions between shareholders and stakeholders' interests. To whom do directors owe their fiduciary duties? Can the directors permit the restructuring plan to enable Zuckerberg to pursue his philanthropic goals, while Facebook—and the other shareholders—do not receive any significant value in return?

Trying to summarize the debate to the extent possible, the traditional idea is that directors owe their duty of loyalty to shareholders, who are the owners of the company. In the US, this principle found its judicial recognition in 1919 when the Michigan Supreme Court ruled in the famous Dodge v. Ford case, in which the Court stated that a business corporation is organized and operated primarily for the profit of its stockholders. Thus, the powers of the directors must be employed to that end, and directors have a duty to maximize profits (Dodge v. Ford 1919). In the academic debate, the most notable view is probably that taken by Milton Friedman, who, in 1970, in response to the strengthening idea of the social responsibility of business, published the famous article "The Social Responsibility of Business it to Increase its Profits". In this article, he identifies corporate managers as agents of their employers, the shareholders, to whom, therefore, they have primary responsibility (Friedman 2007; more recently, see also Strine 2015).

However, the principle of shareholder value maximization should not be overstated. In fact, at least in the US, under Delaware caselaw—the most important state for corporate law—directors' decisions fall under the business judgement rule, under which Courts will not interfere with decisions made in good faith by disinterested directors (on the business judgement rule see, among others, Arsht 1979). Therefore, directors could easily justify a decision also made in the interests of stakeholders by, for example, claiming that the decision is in the long-term interest of shareholders, and such a decision is likely to be immune from the Courts' scrutiny. Nonetheless, this principle poses significant hurdles to directors' ability to pursue a "social mission" (Stout 2012; Phillips et al. 2003; Testy 2002).

The risk of directors breaching their fiduciary duties was particularly significant in the context of leveraged buyout transactions of the 1980s. In those occasions, the buyer was often ready to offer shareholders high premiums but, once they acquired control of the company, adopted some decisions that would not uphold the (implicit) contract with stakeholders (i.e., buyers often fired employees, cut wages, increased company debt, etc.).[4]

As a partial reaction to this trend, state legislatures introduced the so-called multi-constituency statutes, which—without denying shareholder primacy—allowed directors to also consider stakeholders' interests. Today, for example, both Florida[5] and Minnesota[6] have such statutes and, in particular, the latter is designed with specific reference to takeover situations.

Also with these evolutions in mind, many started taking the view that a company cannot be considered a mere contract; a corporation is a player in society, which has the advantage of, among others, limited liability. Thus, in return, companies—especially public companies—have an economic function, which is "not to address principal-agent problems, but to provide a vehicle through which shareholders, creditors, executives, rank-and-file employees, and other potential corporate 'stakeholders' who may invest firm-specific resources can, for their own benefit, jointly relinquish control over those resources to a board of directors" (Blair and Stout 1999:256).

More recently, there have been efforts to push companies to pursue stakeholders' interests. In particular, in the US, at least two developments seem to reflect, at a high level, the current attempts to shift from the supremacy of shareholders to a commitment to serve all stakeholders.

The first development is at a legislative level. In August 2018, Senator Elizabeth Warren introduced a bill that aims to reverse "the harmful trends over the last thirty years that have led to record corporate profits and rising worker productivity but stagnant wages" (Accountable Capitalism Act 2018). Among the various measures proposed, the bill would require very large American corporations—those with more than $1 billion in annual revenue—to obtain a federal charter as a "United States corporation", which obligates company directors to consider the interests of all corporate stakeholders. In addition, Senator Warren proposes to change the corporate governance of US companies by forcing them to ensure that the corporation's employees (Accountable Capitalism Act 2018) select at least 40% of their directors.

The second development came directly from the business world. In August 2019, the Business Roundtable announced the release of a new Statement on the Purpose of a Corporation, signed by 181 CEOs who committed to lead their companies for the benefit of all stakeholders (Business Roundtable 2019). With this last announcement, the signing CEOs committed to continue serving their own corporate purpose while sharing a fundamental commitment to all their stakeholders (customers, employees, suppliers, communities).

While most of these commitments do not seem very powerful,[7] there is one, however, that seems to be the key to the new approach: the CEOs promise, in fact, to deliver value to all stakeholders. This seems even more striking if one considers that only approximately twenty years ago, the very first sentence of the Business Roundtable's Statement on Corporate Governance was that "the principal objective of a business enterprise is to generate economic returns to its owners" (Business Roundtable 1997).

The evolution of the debate summarized in this section shows that, regardless of the possible legal impediments, the latest trends seem to be pushing traditional for-profit corporations to pursue also a social mission.

2.4.1 The (Legislative) Rise of Hybrid Models

As a partial response to the limitations of both nonprofits and the corporate model, recent decades have witnessed the flourishing of "hybrid entities", and this movement is referred to as "creative capitalism" (Taylor 2010). There is no general definition of hybrid entities, but briefly, they try to combine the creation of social value with the production of financial revenues (i.e., they are not completely for profit or purely nonprofit). In general, these entities have been identified as those occupying the middle ground between nonprofit and for-profit, combining aspects of both models (Sertial 2012; Reiser 2010).

In other words, according to the ideal scheme, until recent times, there were two extremes: nonprofits on one side and for-profit entities on the other. Currently, along the spectrum from one extreme to the other, there are many legal entities with a variety of nuances, and depending on the models, the nonprofit or the for-profit is eroded (Felicetti 2018a).

Within this arena, the Social Enterprise (hereafter, SE and, in plural, SEs) is one of the most interesting models, particularly in Europe, where despite the widespread use of this notion, its meaning is far from precise (Felicetti 2018a). It is gaining popularity in the US as well where a large number of scholars seem to consider SEs a spectrum of corporate models ranging from purely nonprofits (Cooney 2015), passing through corporate hybrids, to purely profit-driven companies with a social commitment (Kerlin 2006; Dees 1998). From this viewpoint, it is of particular significance that in American academia, one can find more than twenty different definitions of social entrepreneurship (Light 2009).

However, it seems increasingly clear that, at least at a European level, SEs should have three specific features, at minimum.[8]

First, they generally have an exclusive—or, at least, prevalent—"social" purpose (i.e., they aim to provide a benefit to the community or, at least, pursue a general interest).

Second, their activity is carried out in an innovative and entrepreneurial way, and SEs are managed in an open and responsible manner and involve stakeholders: obviously, this does not mean that traditional companies are not managed in such a way, but SEs are subjected to additional management and governance requirements.

Third, profit distribution is excluded or somehow limited; in fact, its profits and assets must be totally or partially reinvested in its activity. This last aspect is the most relevant for this work's purposes. In fact, if profit distribution must be excluded but can also be limited, it means that SEs are not necessarily nonprofit.

This remark might seem obvious, but it is not if it is considered that, for example, Italian SEs were originally designed as purely nonprofit.[9] However, with Legislative Decree no. 112 of 2 July 2017, a reform of SEs was enacted as part of a more general reform of the Italian Third Sector; and the possibility for SEs to distribute profits, to some extent, was introduced. Indeed, regardless of the fact that SEs are still defined as nonprofit entities, the reform provides an exception to the profit distribution prohibition, allowing, under some circumstances, a distribution of up to 49% of its annual profits.[10]

Widening the focus, this shift of Italian SEs from a purely nonprofit model to a partially for-profit one is in line with a more general trend. Indeed, in many European countries (e.g., Belgium, France, Luxembourg, the United Kingdom), SEs can distribute profits, although in a limited way (Felicetti 2018b).

Therefore, SEs now seem closer to English Community Interest Companies (hereafter, CIC; plural, CICs), which is a typical hybrid legal structure (Cabrelli 2016; Sertial 2012). On the one hand, these companies must operate for the benefit of a community. However, under the aggregate dividend cap mechanism, which governs CICs' profit distributions, these companies may distribute up to 35% of their annual distributable profits. Consequently, this mechanism forces CICs to reinvest no less than 65% of their annual profits in their activity.

Another hybrid model—somehow close to the abovementioned notion of SE—in which the nonprofit side dominates is the US Low-Profit Limited Liability Company (L3C). This is a specific type of limited liability company that shares features of both for-profit (L3Cs may distribute profits)[11] and nonprofits (L3Cs pursue charitable purposes) (see Sertial 2012; Reiser 2010; Taylor 2010; Billitteri 2007).[12]

All these models, which may be considered SEs in the sense identified above, show that, in SEs, legislators took a for-profit model and dressed it in nonprofit clothing or, more frequently, took a nonprofit model and dressed it with for-profit clothing (namely, the possibility to partially distribute profits). Regardless, in all these models, the nonprofit essence remains dominant.

Similarly, however, in the for-profit world, there are also cases of shifts from the extreme to the centre (i.e., hybrid models built on for-profit enterprises). Most likely, benefit corporations, first introduced in many US states and, since 2015, also in Italy, represent the most notable example.

Benefit corporations are for-profit corporations and were introduced in 2010 in many US states. The first state to give them legal recognition was Maryland. Since then, many other states have followed this path, and most have based their laws on the "Model Act", a model law drafted by B Lab, a nonprofit issuing certification to companies that meet high standards in terms of social and environmental performance, public transparency, and legal accountability. In 2015, benefit corporations were also introduced in Italy (Article 1, paragraphs 376 and ff. of Law no. 208 of 28 December 2015), the first European country to adopt this corporate model (Ridolfo 2016), deeply inspired by the American experience.

The statutes on benefit corporations differ from each other. Even within the US, they are diverse, as some states, such as Delaware, have adopted statutes diverging in significant ways from the Model Act (e.g., McDonnell 2014). However, the core is the same. While pursuing profits, these corporations must produce a general "public benefit"—broadly defined by law—and/or a specific one, identified by the benefit corporation itself.[13]

Legislations ensure compliance with these commitments mainly by using two tools: reporting and the director's fiduciary duties. The former requires benefit corporations to publicly disclose their achievements by drafting and publishing reports. The latter—fiduciary duties—allows directors to overcome shareholder primacy by forcing them to either simply consider stakeholders' interests or even balance shareholders' profit maximization. In other words, directors should be more protected when making decisions that take into account not only shareholders' profits but also stakeholders' interests. It should appear clear, thus, that benefit corporations might solve the two aforementioned problems of for-profit enterprises: accountability and directors' liability.

What is relevant here is that, to use the clothing metaphor again, in the case of benefit corporations, legislators took purely for-profit models and dressed them in nonprofit clothing—general interest purposes—thus partially impinging on their nature. In this case, however, the legislative technique is different from the one used in SEs: profit distribution has not been limited; rather, legislators decided to focus on fiduciary duties and reporting standards.

2.5 Risk, Returns and Social Purpose: Towards a New Paradigm in Finance

Over the past decade, there have been increasing efforts by practitioners, financial institutions and regulators to align the financial system with long-term sustainable development. The increased attention to the value of sustainability factors for efficient capital allocation and to the delivery of risk-adjusted returns represent clear signals in this sense. Sustainable Finance (hereafter, SF) is relatively new in the academic landscape, focusing on topics in the international banking and finance sector (Benedikter 2011; Lehner 2016; Lagoarde-Segot 2018); it introduced a new era in the supply, intermediation, and demand of capital for "sustainability" (Shiller 2012; Rizzi et al. 2018). More generally, SF considers how finance (investing and lending) interacts with economic, social and environmental issues (Fatemi and Fooladi 2013; Hangl 2014; Ziolo et al. 2017). However, so far, a single, universally recognized definition has not yet been identified. The concept of SF moved from the initial identification with an asset class of investments into socially responsible products or organizations (Sparkes and Cowton 2004) to a more holistic concept that includes the integration of economic, environmental and social dimensions into investment decisions (Kuzmina and Lindemane 2017). During the growth of this concept, SF was also interchangeably identified with the concepts of corporate social responsibility (CSR) (Scholtens 2006) as well as with ethical finance (Relano 2008). Academic research in this field covers different topics ranging from sustainable and responsible investment or SRI (Soppe 2009), microfinance (Robinson 2001), social impact investing (Weber and Duan 2012), social banking (Weber and Remer 2011), social impact bonds (Warner 2013), crowdfunding (Belleflamme et al. 2014) and green finance (Perez 2007).

The complexity of the concepts that fall under the umbrella term of SF is confirmed by the variety of players in this field. These players stem from all sectors, including social banks, venture philanthropy, community development financial institutions, and social and traditional businesses engaged in CSR activities (Nicholls and Emerson 2015). Profit and social purpose in finance may vary along a spectrum ranging from venture philanthropy, where social purposes are the main object of investment (impact-first social investors), to approaches looking for market rate returns alongside social impact targets (finance-first impact investors) (Chiappini 2017). Within these different rationalities and logics in the sustainable finance arena, only two forms of sustainable finance institutions represent the main actors guiding the paradigm-building process towards the simultaneous production of social/environmental impact as well as financial returns: social impact investments and ethical banking (Rizzi et al. 2018). Such approaches remain clearly distinguished from commercial financial approaches even if they differ in terms of business models or products (Rizzi et al. 2018). A further attempt to simplify the nature of the concept of SF is given by Grandin and Saidane (2011). They provided four principles around which the definition of SF should be built: (i) innovative approaches and new individual behaviour, (ii) sustainable growth, (iii) proximity to people, and finally (iv) inclusive and a non-proselytizing approach to classical finance. In other words, for the authors, SF requires new behaviours (regulation, controls and financial system adaptions) while stressing and ensuring proximity to people by changing the shareholders' value maximization paradigm to a win-win vision involving all actors. Concisely, traditional finance focuses solely on financial return and risk. By contrast, sustainable finance considers financial, social and environmental returns in combination. The financial approach to sustainability has gone through different stages over the last few decades. A first step in sustainable finance could be summarized as the intention, for financial institutions, to avoid investing in companies with very negative impacts, such as tobacco or whale hunting. In the second stage, environmental and social considerations were added to the investment decision process. More recently, in particular in the aftermath of the financial crisis of 2008, the frontrunners are now increasingly investing in sustainable companies and projects to create value for the wider community. In other words, the focus is gradually shifting from short-term profit towards long-term value creation. This is summarized well by Schoenmaker (2017): "In this approach, finance is a means to foster sustainable development, for example by funding healthcare, green buildings, wind farms, electric car manufacturers and land-reuse projects". In this innovative financial approach, "The starting point of SF is a positive selection of investment projects based on their potential to generate positive social and environmental impacts. In this way, the financial system serves the sustainable development agenda in the medium to long term" (p. 37).

More recently, the SF concept seems to be evolving in this direction, and multilateral convergences over the concept have gravitated around the role of finance in sustainable development. In this sense, SF refers to finance that can play a leading role in allocating investments to sustainable companies and projects and thus accelerate the transition to a low-carbon, circular economy (Schoenmaker 2018). The SF concept, therefore, confirms the broadening evolution from *shareholder value* to *stakeholder value* or triple bottom line: people, planet, profit. In other words, in "Sustainable Finance 3.0" (Schoenmaker 2018), rather than merely avoiding unsustainable companies from a risk perspective, financial institutions invest only in sustainable companies and projects. In this approach, finance is a means to foster a sustainable economy where financial decisions start with a *positive selection* of impactful projects and enterprises by assuming common peculiarities: (i) intentionality of the pursuit; (ii) simultaneity of the pursuit; and (iii) positive accountability for social/environmental returns and financial returns.

2.6 Aligning Sustainable Capitals, Sustainable Enterprises and the Legal Environment: A Conceptual Framework

In this chapter, the concept of the simultaneity of profit and purpose has been addressed in entrepreneurship, entrepreneurial law and finance using a qualitative approach. In particular, the main criticism of traditional financial and entrepreneurship theories is that traditional frameworks fail to explain the real financial and economic world. Several questions are posed regarding how finance and entrepreneurship should be reconsidered in this chapter's ontological, epistemological and methodological assumptions (Zingales 2000; Margolis and Walsh 2003; Schinckus 2015; Lagoarde-Segot and Paranque 2016).

The combined effects of the financial crisis, first, and of the social and the focus on environmental challenges, second, undoubtedly lead to evidence that new approaches are emerging by questioning the foundations of the traditional view. In Sects. 2.2 and 2.4, it is possible to observe how the interplay of profit and purpose in finance and entrepreneurship moved from a *shareholder value approach* to a *stakeholder value approach*. Following the same direction, the introduction of hybrids and attempts to push traditional for-profit corporations to deliver social goals, as highlighted in Sect. 2.3, shows similar attempts in the legal world.

In other words, profit and purpose appear to flow together towards a *holistic (and sustainable) value approach*, where capitals are directed to sustainable companies and projects. On the other hand, the paradigm shift to such a framework produced a convergence of legal entrepreneurial frameworks towards a hybridization of profit and nonprofit models.

The importance of these elements should not be overlooked because this perspective recognizes the multidimensional (and, therefore, multidisciplinary) aspects of sustainable value creation. First, this chapter emphasizes that impact is a key element of this paradigm. At the same time, such points recognize that profit and purpose are instantaneously produced through competition in the marketplace. All these aspects must be kept in mind if this perspective is to be adequately described and classified.

Figures 2.1, 2.2 and 2.3 present a synthesis of the above-illustrated paradigms from the perspectives of entrepreneurship, law and finance. They describe the nexus between profit and purpose by distributing, respectively, sustainable organizations, corporate legal models and capitals across two dimensions: (a) business values (profit maximization) and (b) social and sustainable purposes.

By listing each variable illustrated in Figs. 2.1, 2.2 and 2.3 of the sustainability arena, Fig. 2.4 represents the combination of such variables under a range of dimensions of simultaneous maximization of profit and purpose as conceptualized by Emerson (2003).

Such a conceptual framework illustrates the potential for a high degree of complexity in the interaction of these variables within the multidimensional phenomenon of sustainable value creation. Such a bi-dimensional conceptual framework can be seen as a kaleidoscope, an instrument through which to view the enormously varying patterns of impact value creation. The framework provides the possibility of describing subsets within the unwieldy set of all impact entrepreneurs, their respective legal frameworks and finance. The model illustrates three levels of simultaneous profit and purpose maximization where the perfect balancing between the two was obtained as sustainable entrepreneurship was pursued by

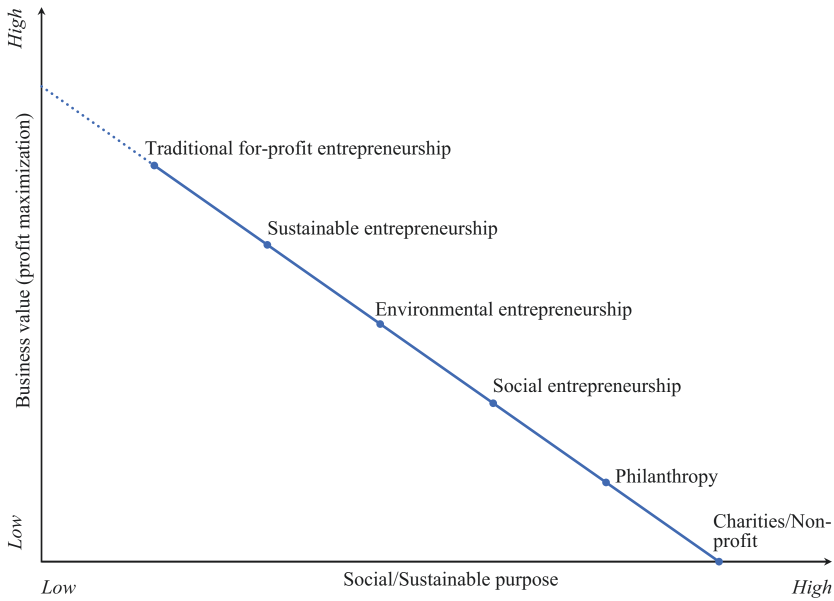

Fig. 2.1 The interplay of profit and purpose along entrepreneurship logics. (Source: *Authors' elaboration*)

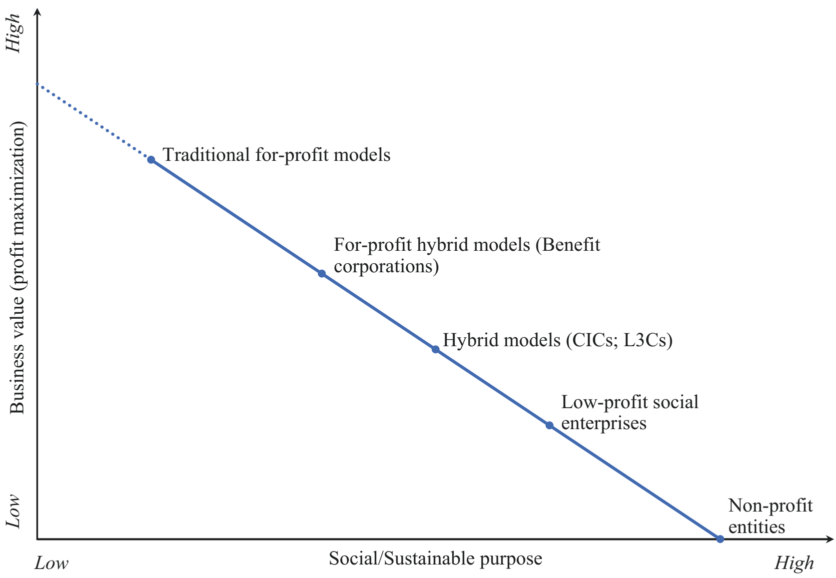

Fig. 2.2 The interplay of profit and purpose along corporate legal frameworks. (Source: *Authors' elaboration*)

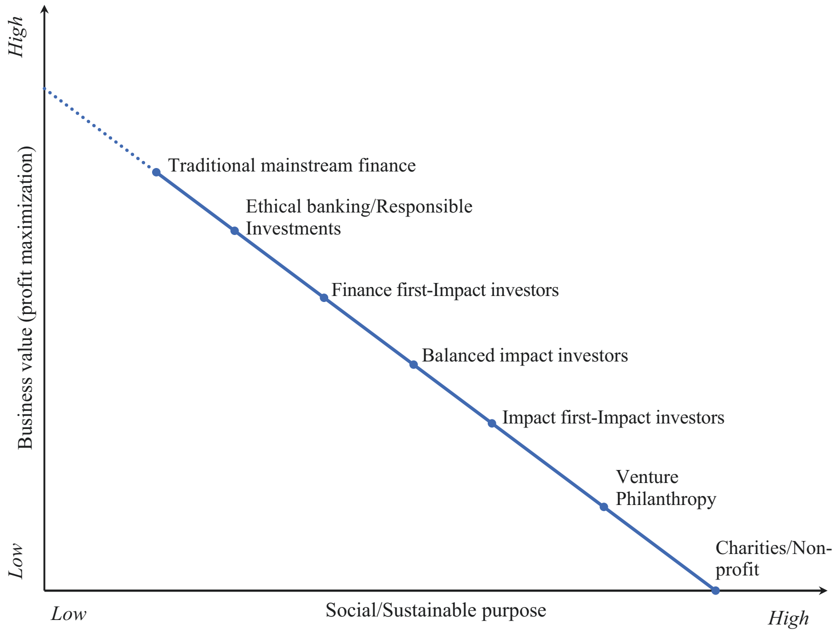

Fig. 2.3 The interplay of profit and purpose along sustainable capitals and investors. (Source: *Authors' elaboration*)

exploiting the market opportunities deriving from macrotrends emerging in the sustainability arena, as conceptualized in Sect. 2.1. For such actors, profit remains the end goal of the business, but sustainability goals are considered an integrated part of the economic logic of the business. Individual logic motivating such entrepreneurial ventures within these market opportunities may arise from traditional profit maximization (for mission-unrelated enterprises) or from an individual motivation to contribute to solving sustainability challenges (benefit corporations). It is interesting to note that in both cases, there is a perfect overlap between profit maximization and social/environmental impact maximization. However, the pursuit of profit may be the main end, in one case, or may be associated with social impact purposes, in the other case. In the first case, no particular legal barriers prevent directors from satisfying shareholders, and entrepreneurial activity may be conducted under traditional corporate legal frameworks. In this sense, it is possible to affirm that

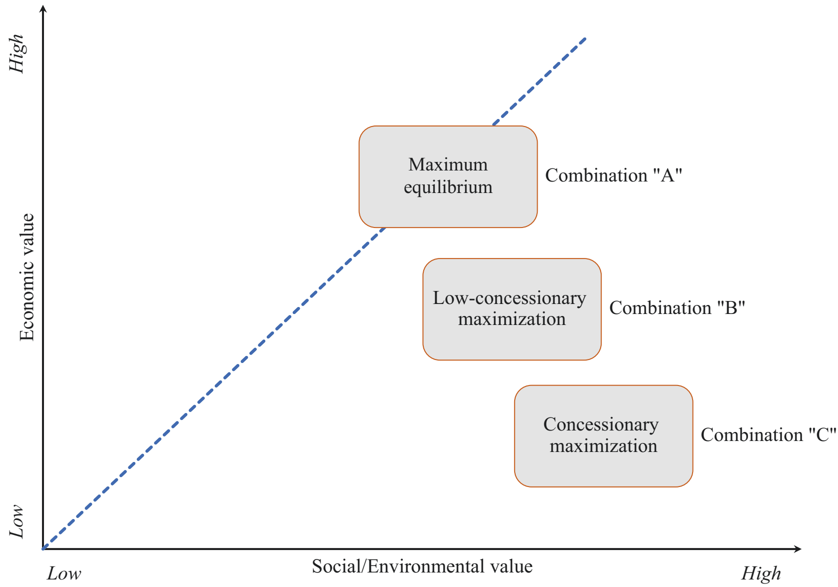

Fig. 2.4 Combination of entrepreneurship, corporate legal frameworks and capitals in the simultaneous maximization of profit and purpose segments. (Source: *Authors' elaboration*)
A:
Mission unrelated (impact) entrepreneurship/Sustainable entrepreneurship (market driven)
For-profit corporate models + Hybrid Corporate Model (Benefit Corporations)
Traditional finance + Finance-First Impact investors
B:
Environmental entrepreneurship
Hybrid Corporate Models (Benefit Corporations) + Hybrid Models (CICs, L3Cs)
Finance-First Impact Investors, Balanced Impact Investors
C:
Social entrepreneurship
Hybrid Models + (CICs, L3Cs), Low-Profit Social Enterprises
Impact-first impact investors

traditional financial actors may also contribute to funding these ventures because issues related to social impact are only "complementary" for these types of ventures. On the other hand, similar ventures may be embraced, starting from positive intentions to contribute to social/environmental performances beyond positive profit returns. In such cases, a legal environment gravitating around traditional legal corporate models does not fit well. Hybrid models such as benefit corporations open the doors of simultaneity in the pursuit (and accountability) of profit and social/environmental benefits. In other words, in the above-described business opportunity segment, tradition and innovation may coexist in the adoption of entrepreneurial, financial and corporate legal frameworks. Such consideration creates a series of implications for the academic (and not only academic) debate around the relations between entrepreneurial and financial actors involved in the pursuit of sustainability targets that was limited to considering overall nonprofit or low-profit actors and practices.

In the other two segments identified, environmental business and social ventures, there is not a perfect balance of profit and purpose maximization because the business logics of such ventures derived from (less, in one case, or more, in the second one) positive motivations to obtain environmental/social returns and to measure those returns. For each segment, an ideal combination of the three variables was identified. In other words, within these areas of non-perfect overlap of profit and social maximizations, hybrid models of entrepreneurship, legal standing and capital become a necessity.

2.7 Conclusions

The conceptual framework illustrated above does not purport to answer specific questions about how sustainability meets profit or to provide specific developmental models for sustainable value creation. No claim is made that the framework or the list of variables are comprehensive; the claim is only that the description of the nexus between sustainable goals, entrepreneurship, corporate legal models and finance needs to be more comprehensive than it is at present.

A great many more questions are asked here than are answered. However, the chapter initiates a fundamental shift in the perspective on sustainable entrepreneurship and finance: away from viewing sustainable finance and sustainable entrepreneurs and their ventures as an unvarying, homogeneous population and towards a recognition and appreciation of the complexity and variation that abounds in these phenomena. At the European level, the importance of this concern is also amplified by ongoing initiatives, such as the Report on Sustainable Finance, recently adopted by the European Parliament.[14] Indeed, the Report underlines that there is "abundant capital seeking a profitable investment opportunity" and "the key to solving the riddle of sustainable finance is to creating an information and incentive framework so that this capital flows in the direction of the investments necessary to ensure a rapid and just ecological transition for our European economies and societies". Thus, legislation seems to be pushing towards this trend.

In this chapter, we highlighted that within precise market boundaries, traditional and innovative models may—by doing business—coexist in the delivery of sustainable goals. As seen in Sect. 2.3, by addressing the main weaknesses of the two traditional corporate models—nonprofits and for-profit enterprises—hybrids seem to be appropriate "containers" for sustainable capitals that look to measure their social or environmental returns.

Nonetheless, hybrid models only partially solved the issue of incentivizing private organizations to deliver social impacts.

In fact, the hybrid models based on nonprofit structures have caps on profit distributions, and this limits their ability to attract investors, although to a lesser degree than purely nonprofit models.

This specific issue is solved with benefit corporations, which do not suffer profit distribution constraints. However, after almost ten years since the introduction of the model, there seem to be few benefit corporations. It is not easy to find accurate figures on benefit corporations as many US states do not release official numbers and most, if not all, benefit corporations—except Laureate Education, which went public in 2017—are private.[15] B Lab's unofficial estimate is that there are slightly more than 5000 benefit corporations in the US.[16] Clearly, capital continues to be invested in purely traditional for-profit companies.

The solution, therefore, needs to be found in the for-profit world. We argue, however, that rather than forcing companies to both make profits and deliver social goals through legislation, the same result can and should be achieved by the market if all the actors move simultaneously in the same direction.

It is essential to monitor the effects resulting from recent voices demanding a transition from profit to a broader concept of value maximization for shareholders, and this represents an interesting avenue for future research. In this promising multidisciplinary field of research, it could be interesting to investigate how traditional corporations engaged in impact businesses can deliver and measure their impact in addition to their profit. Addressing such a gap in research could provide interesting insight into the unexplored market potential for sustainable investments. For example, the SDGs set by the United Nations and welcomed, for example, by the European Institutions, concern specific areas (e.g., education, clean water and sanitation, clean energy, etc.). This reflects the existence of a legislative "favour" for these domains, to which correspond an equal number of market opportunities. If this is true, then there is space for profit-driven companies to run businesses in these areas. This might lead to a perfect alignment between the business's purposes and the SDGs. Therefore, in this case, profit-driven companies would produce a positive impact while doing business, without the issues mentioned in the section above. Indeed, in this case, there is complementarity between making profits and doing good.

Therefore, the main argument is that purely profit-driven companies, in contrast to what is generally thought, might play a key role in doing good, and this seems to be particularly true in the case of business addressing sustainability goals.

Notes

1. In the US, for example, Section 501(c)(3) of the Internal Revenue Code, in setting out the criteria for tax exemption, specifies that in corporations, community chests, funds or foundations organized and operated exclusively for some specified purpose (e.g., religious, charitable, scientific), "no part of the net earnings of which inures to the benefit of any private shareholder or individual" shall be tax exempt.
2. Doeringer observes that in the US, the UBI system ("Unrelated Business Income")—which imposes federal income taxes on nonprofits if income is derived from a (i) trade or business; (ii) regularly carried on and (iii) not substantially related to the nonprofit's exempt purpose—poses serious impediments to financing charity through activities that have commercial qualities (Doeringer 2010). In the same sense, Taylor 2009/2010.
3. See the Complaint in United Food and Comm. Union v. Mark Zuckerberg (2018), case Id. 2018-0671. In May 2012, Facebook went public with a dual-class stock structure: high-voting Class B shares—held by Zuckerberg—that have ten votes per share, as compared to Class A shares worth only one vote each. By June 2015, Zuckerberg held 60.1% of Facebook's voting power primarily through his massive Class B holdings while controlling less than 17% of Facebook's total outstanding shares. In its derivative suit to challenge the restructured stock plan, United Food and Commercial Workers Union claimed that "as Zuckerberg significantly

ramped up his philanthropic pursuits in 2015, it became clear that achieving his personal liquidity goals would inevitably result in the loss of his Facebook founder control. Indeed, monetizing anything more than 14% of his economic interest in Facebook would cause his voting control to dip below 50.1%, effectively passing control of the Company to Facebook's Class A stockholders—an unacceptable result for Zuckerberg." See paragraph 3 of the complaint.

4. Problems arose, in particular, when upholding these implicit contracts would become a liability to shareholders and, thus, breaching such contracts would allow buyers to realize gains. According to Shleifer and Summers, if the incumbent managers are nonetheless committed to upholding stakeholder claims, "ousting such managers is a prerequisite to realizing the gains from breach" (Shleifer and Summers 1987). Thus, the hostile bidder had incentives in offering premia to shareholders in order to gain control of the company, while incumbents were running the risk of being removed. In other words, in these cases, the interests of incumbents and those of stakeholders were aligned—both of them risked losses as a consequence of the hostile transaction. However, managers would have had a hard time if, in resisting these bids, they used the rhetoric of maximizing shareholder value because, among other reasons, these offers indeed entailed high premia for shareholders. Thus, they started using a different narrative—that is, they also owed fiduciary duties to other constituencies (Allen and Kraakman 2016).
5. Section 607.0830 (6) of the Florida Business Corporation Act states that "in discharging board or board committee duties, a director may consider such factors as the director deems relevant, including the long-term prospects and interests of the corporation and its shareholders, and the social, economic, legal, or other effects of any action on the employees, suppliers, customers of the corporation or its subsidiaries, the communities and society in which the corporation or its subsidiaries operate, and the economy of the state and the nation".
6. Section 302A.251(5) of the Minnesota Business Corporation Act provides that "in discharging the duties of the position of director, a director may, in considering the best interests of the corporation, consider the interests of the corporation's employees, customers, suppliers, and creditors, the economy of the state and nation, community and societal considerations, and the long-term as well as short-term interests of the corporation and its shareholders including the possibility that these interests may be best served by the continued independence of the corporation".
7. Delivering value to customers, investing in employees by compensating them fairly, dealing fairly and ethically with suppliers, supporting the communities in which the companies work and generating long-term value for

shareholders (see Business Roundtable 2019) are, arguably, all commitments that one would expect from a company regardless of the purpose of a corporation.

8. See the European Commission Communication "Social Business Initiative", 2011. See also Article 2 of Regulation no. 1296/2013 (so-called EaSI Regulation). See also the proposal for a Regulation on the European Social Fund Plus (FSE+) (Article 2, par. 1, n. 15).
9. By definition, SEs could not pursue profit and, therefore, when they were set up as companies or co-operatives they represented an undeniable exception to the for-profit nature of companies. SEs could obviously generate revenues; what was prohibited (except for social co-operatives) was their direct or indirect distribution to the SE's directors, shareholders, workers and so on (see Article 3 (2) of Legislative Decree no. 155 of 24 March 2006. Article 3 clearly listed the profit distributions that had to be considered "indirect"; however, it has been observed that room remained to make those indirect distributions not listed by the article (Capecchi 2007)). Profits had to be either employed for the implementation of the SE's activity or re-invested within the SE by means of a share capital increase.
10. This is the "general" limit, whose purpose is ensuring that at least more than half of the SE's annual profits are employed for the implementation of the SE's activity or re-invested in the SE by means of a share capital increase.

    Additionally, an "individual" limit is set. In fact, SEs cannot distribute to each shareholder more than the maximum interest rate of the Italian postal savings certificates (the *buoni fruttiferi postali*, BFP) increased by 2.5%.
11. Usually, the legislation does not foresee specific caps on profit distribution, and this has been identified as one of L3Cs' weaknesses compared to, for example, CICs (Pearce 2013).
12. Since 2008, when Vermont was the first State to adopt a statute on L3Cs (Simon 2009), other American states have allowed the establishment of *limited liability companies* in a low-profit form. L3Cs maintain most features of classic limited liability companies, including their flexibility, but their structure has been adapted to obtain the *nonprofit–for-profit* hybridization. In fact, as stated above, they may distribute profits, but nonetheless must significantly pursue charitable or educative purposes pursuant to the Internal Revenue Code.
13. In the US, all benefit corporations set up pursuant to statutes relying on the Model Act are required to pursue a general public benefit. Conversely, Washington and California do not require benefit corporations to pursue a general public benefit defined by the law, but only require them to pursue a specific one, identified by the companies themselves.

These benefit corporations are called social purpose corporations (Washington) or flexible purpose corporations (California) (on this benefit corporation model, see Reiser 2012).

In Italy, benefit corporations are required to operate in a sustainable and responsible manner and to seek one or more public benefit(s), identified as the production of one or more positive effects (or the reduction of negative ones) on one or more of the categories identified by law (e.g., people, communities, environment, etc.) (see Article 1, paragraphs 376 and 378, lett. a) of Law no. 208 of 28 December 2015).

14. See Report on Sustainable Finance - 2018/2007(INI) adopted by the European Parliament on 4 May 2018.
15. See the company's website at https://www.laureate.net/aboutlaureate/ (last visited 8 November 2019).
16. See B Lab's website https://benefitcorp.net/businesses/find-a-benefit-corp?field_bcorp_certified_value=&state=&title=&submit2=Go&sort_by=title&sort_order=ASC&op=Go (last visited 8 November 2019).

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