A Report on North Carolina’s Social Innovation:

Innovation at Work for Carolina Communities

Understanding employee, community, and environmental practices at for-profit, nonprofit, and hybrid organizations throughout the state

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NC Fourth Sector Resource Project
Connecting you with local resources to start and grow your fourth sector business
Acknowledgments

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Executive Summary

We report on the 2012 North Carolina Social Innovation Survey, which looks at employee, community, and environmental practices at for-profit, nonprofit, and hybrid organizations across North Carolina.

The report has three areas of focus:
1. Description of the types of practices in which organizations are engaged regarding benefits to their employees, their local community, and the environment
2. The impact of the 2008 recession on employee, community, and environmental practices
3. The differences in these efforts by location, with a focus on distinctions between rural and urban areas and the economic distress tier of the county (one, two, or three) as designated by the North Carolina Department of Commerce

We also report on mission, aspirations, and the terms organizations use to describe themselves, leading to a scale to classify social innovation.

In seeking to better understand the needs of businesses attempting to innovate, we hope to inform both statewide and local policy efforts. We also hope this information will prove useful to the organizations working to support socially innovative enterprise in North Carolina.

Key Findings

• Significant social innovation is taking place within organizations across North Carolina, spanning geographic, industry, and legal structure boundaries

• Half of respondents were engaged in the process of business innovation, with no correlation to geographic area, industry, or legal structure
  o Innovative respondents were more likely to:
    ▪ Offer employee education, on-site training, and profit sharing
    ▪ Engage in community support

• Many organizations are increasing support of their communities in response to the recession

• Only 20% of all respondents perceive their local economy as growing, signaling that the state is still in recovery. Rural areas are generally perceived as struggling, with only 9% of rural respondents describing their economy as growing

Employee Benefits

• Paid vacation or sick leave was the most prevalent employee benefit, provided by 90% of organizations
• Eighty-seven percent of organizations include employees in decision-making
• Less than a third of respondents offered paid time for volunteer work
• Urban respondents were more likely than rural respondents to offer many benefits, including employee training, maternity leave, and profit sharing
• Cost was the primary reason for failed attempts at implementing employee practices (61%)

Community Involvement

• The majority of respondents (83%) support their local community in some way
• Of these organizations, 81% use local suppliers
• Over half use suppliers with good practices, donate the use of their facilities to community organizations, and/or support local health programs
• Respondents in Tier 1 counties (the most economically distressed) are less engaged with their local communities than Tier 3 organizations (the least distressed), despite the greater need in the Tier 1 communities
• Forty-four percent of respondents that reported failed attempts to implement community practices cited government regulation as a primary reason

Environmental Practices

• Eighty-nine percent of respondents engage in some type of environmental practices
• Of these organizations, 93% recycle, 75% make efforts to save energy, and 55% conserve water
• Eighty-six percent are measuring the impact of their environmental efforts
• Fifty-four percent of respondents that reported failed attempts to implement environmental practices cited lack of capital as a primary reason
• Older organizations are more likely to engage in environmental activity than younger ones

Response to the Recession

• In response to the recession, 77% of respondents increased their operating efficiency, while 53% decreased employment
• Fifty percent of respondents introduced a new or improved service and 48% introduced a new or improved manufacturing method
• Many respondents increased social activity in response to the recession:
  o 30% increased environmental practices
  o 20% increased community assistance
  o 14% increased employee support
• Only 8% of Tier 1 respondents increased community assistance, compared to 21% of Tier 3 respondents
• Of those who increased community support, Tier 1 and rural respondents were more likely to also be financing community enterprise

• Of those who increased employee support, urban and Tier 3 respondents were more likely to provide maternity leave

**Manufacturers**

• Ninety-six percent of manufacturers engaged in environmental practices, compared to 86% of respondents in other industries
  - Environmental practices were more common among rural manufacturers and those in Tier 1 counties

• Manufacturers were less likely to engage in community activities, with 75% reporting community involvement, compared to 86% of respondents in other industries

• In response to the recession, manufacturers were more likely to increase operating efficiency, improve manufacturing methods, increase material efficiency, and introduce new or improved goods than respondents in other industries

• Manufacturers were less likely to improve marketing methods or logistics, introduce new or improved services, or increase assistance to the community

**Policy Recommendations**

Based on the findings from the NC Social Innovation Survey, it is clear that both business and social innovation are occurring in the state across geographic, industry, and legal structure boundaries.

However, these results also indicate that more information and support are needed.

• We recommend a support network linking organizations engaged in similar activities to:
  - Assist in implementation of new practices
  - Provide information on legal structures that accommodate social innovation
  - Provide information on tax benefits that encourage social innovation
  - Address government regulations that are inhibiting social innovation
Section 1:
Social Innovation in North Carolina
Social Innovation and North Carolina

Rising Awareness

Awareness is growing, both in North Carolina and elsewhere, of the many organizations that blend a public mission with business methods and earned income. These businesses have the capacity to create meaningful employment while simultaneously addressing community needs and relieving some of the financial burden currently borne by government and philanthropic institutions.

Although they contribute to community economic development on multiple levels, relatively little is known about these organizations. This project, the North Carolina Social Innovation Survey, examines the role of socially innovative practices in organizations across the state. In the fall and winter of 2012, 1,004 organizations were surveyed about their business practices (See Appendix A for survey detail and methodology). Respondents were asked a series of questions regarding their responses to the recession and their employee, community, and environmental practices.

The 2010 report Examining the Social Enterprise Sector in North Carolina surveyed 137 organizations, the majority located in the Research Triangle area. While a useful first attempt, the survey design excluded virtually all for-profit firms, resulting in a focus on nonprofit organizations reporting some earned income. This report augments that analysis with more complete geographic coverage and consideration of a range of organizations.

Identification Challenge

Typically, organizations are categorized as either for-profit or nonprofit. However, these lines are becoming increasingly blurred as many for-profit entities engage in socially and environmentally innovative practices, while nonprofits engage in revenue generation. Some organizations are also using newer hybrid business structures such as the L3C. (See Appendix B for a list of options in North Carolina.)

The path to adoption of these practices also varies. Some organizations are created with a social or environmental focus from the outset, while in other cases, existing organizations change their business models and practices to become more socially and environmentally conscious. The 2008 recession provided an immediate need for some organizations to change their practices in response to declining public financial support for nonprofits, growing social needs perceived by for-profits, or both.

The L3C in NC

Available since 2010 in NC, Low-Profit Limited Liability Companies (L3C) are easy to identify since they are directly traceable through documents filed with the NC Secretary of State. There are approximately 80 L3Cs registered across the state as of June 2013.

Social Innovation

Social innovation is a popular term, yet lacks a consistent widespread definition. We follow Stanford’s Center for Social Innovation and use the term more generally to capture innovative activity aimed at alleviating social problems.

We seek to examine this move to the middle – the use of practices that blend for-profit methods with greater environmental and community-oriented practices.

The major factor linking organizations adopting these practices is the manner in which they operate. Depending upon the details of their operation, different terms may be used to refer to individual businesses (fourth sector, hybrid, social organization, sustainable, triple bottom line) and their activities (corporate social responsibility, social entrepreneur). However, the NC Social Innovation Survey focuses on the employee, community, and environmental practices of the organizations surveyed to assess what they are actually doing as a means of identification. We assess the degree to which practices map back to categories and the extent to which practices may lead to the use of labels.
The NC Social Innovation Survey seeks to understand the process of innovation rather than viewing innovation as simply an outcome. In order to innovate, firms must by definition try new things. Trying something new is risky and thus susceptible to failure. By asking firms about practices they have tried and their subsequent failures, we can get an idea of the risks they are taking and thus their efforts to innovate. In the survey, firms also provided reasons for their failed attempts, allowing us to understand how public policy and community support can improve the odds for successful outcomes of future attempts to innovate.

The available data on social innovation in the US tend to focus on urban areas. Given the differences between urban and rural economies, it is reasonable to expect differences in social innovation as well. Entrepreneurs attempting to create social organizations in rural North Carolina report that many examples from urban areas of the state are not replicable in their communities. The survey report distinguishes between practices in the organizations of rural and urban counties in an effort to understand their distinct needs.

Evidence also indicates that socially innovative organizations could be particularly useful in economically distressed areas of the state. Given this potential, the survey report also distinguishes between practices in the organizations of Tier 1, Tier 2, and Tier 3 counties (Map 1; Appendix A).

While currently growing in size, North Carolina’s economy is in a state of transition as it moves away from labor-intensive manufacturing industries to technology and service driven industries. On the positive side, the state’s real GDP grew between 2004 and 2009 at a faster rate than the nation, and in 2010, North Carolina saw an increase in venture capital funding from 2009.

However, the state faces many economic challenges as well. As of 2011, North Carolina’s median household income was 84% of the national average, with a large discrepancy between rural and urban areas, as urban counties have the highest concentration of wealth. The recession has added to economic woes for the state and increased the urgency of its transition to new industries; since 2007 manufacturing has lost over 100,000 jobs. The state unemployment rate rose from 5 to 11.2% between April 2008 and February 2009, with Tier 1 counties experiencing the highest peak of 13.3% in March 2010.
Approach to Analysis

The results of this survey were analyzed through a geographic lens, with a focus on urban and rural classification and tiers of economic distress. Struggling rural counties (Tier 1) are also compared to their less distressed rural counterparts (rural Tier 3). Additional analysis is performed using organizational characteristics when appropriate.

Throughout this report, *** indicates a statistical significance at the 0.01 level, ** at the 0.05 level, and * at the 0.10 level (Appendix A).

County Representation

The 71 counties represented in the survey are spread across the entire state, with concentrations in urban areas (Map 4; Table 1). Ten counties account for 66% of the respondents. In comparison, 45% of the state’s establishments with employees come from these ten counties (Appendix C; Tables C.1, C.2, and C.3).

<table>
<thead>
<tr>
<th>Map 4: NC Survey Response Distribution</th>
</tr>
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</table>

<table>
<thead>
<tr>
<th>Table 1: State and Sample Geographic Distribution</th>
</tr>
</thead>
<tbody>
<tr>
<td>State Counties</td>
</tr>
<tr>
<td>----------------</td>
</tr>
<tr>
<td>Total Counties</td>
</tr>
<tr>
<td>Urban</td>
</tr>
<tr>
<td>Rural</td>
</tr>
<tr>
<td>Tier 1 (All Rural)</td>
</tr>
<tr>
<td>Tier 2 Urban</td>
</tr>
<tr>
<td>Tier 2 Rural</td>
</tr>
<tr>
<td>Tier 3 Urban</td>
</tr>
<tr>
<td>Tier 3 Rural</td>
</tr>
</tbody>
</table>

The Rural and Urban Divide

The survey has an oversampling of urban respondents, who account for for 71% of the sample. In comparison, 58% of the state’s establishments with employees are found in urban counties (Figure 1).12

Figure 1: Comparison of Rural and Urban Distribution

Source: NC Employment Security Commission 2011 via the Rural Center Data Bank
NC distribution is of establishments with employees
Figure 2: Comparison of Economic Distress Tier Distribution

Survey Sample

<table>
<thead>
<tr>
<th>Tier 1</th>
<th>Tier 2</th>
<th>Tier 3</th>
</tr>
</thead>
<tbody>
<tr>
<td>10%</td>
<td>21%</td>
<td>69%</td>
</tr>
</tbody>
</table>

State Population

<table>
<thead>
<tr>
<th>Tier 1</th>
<th>Tier 2</th>
<th>Tier 3</th>
</tr>
</thead>
<tbody>
<tr>
<td>12%</td>
<td>34%</td>
<td>54%</td>
</tr>
</tbody>
</table>

Source: NC Employment Security Commission 2011 via the Rural Center Data Bank
NC distribution is of establishments with employees

Struggling versus Striving Counties
The distribution of economic distress tiers in the survey sample is similar to the state distribution of distress tiers. However, Tier 2 establishments are somewhat underrepresented in the sample, while those in Tier 3 are overrepresented (Figure 2). Looking only at rural respondents, the distribution is more even across distress tier and more closely resembles the state distribution (Figure 3).

Figure 3: Comparison of Rural Distress Tier Distribution

Rural Survey Sample

<table>
<thead>
<tr>
<th>Tier 1</th>
<th>Tier 2</th>
<th>Tier 3</th>
</tr>
</thead>
<tbody>
<tr>
<td>35%</td>
<td>41%</td>
<td>24%</td>
</tr>
</tbody>
</table>

Rural State Pop

<table>
<thead>
<tr>
<th>Tier 1</th>
<th>Tier 2</th>
<th>Tier 3</th>
</tr>
</thead>
<tbody>
<tr>
<td>28%</td>
<td>43%</td>
<td>29%</td>
</tr>
</tbody>
</table>

Source: NC Employment Security Commission 2011 via the Rural Center Data Bank
NC distribution is of establishments with employees

Community’s Economy
Respondents were asked about their perception of their local community’s economy (Figure 4). There were significant differences by rural-urban distinction and economic distress tier (Appendix C, Table C.4). Whereas 9% of rural respondents said their area was growing, 24% of urban respondents described their area that way. The economic distress tier survey data further support the tier rankings, with only 3% of Tier 1 respondents reporting a growing economy, compared to 12% of Tier 2 and 24% of Tier 3 respondents. For the rural subsample, a smaller number (11%) of Tier 3 respondents said their economy was growing.

Figure 4: Community’s Economy

Source: NC Employment Security Commission 2011 via the Rural Center Data Bank
NC distribution is of establishments with employees
Organizational Characteristics

Results were also analyzed by organizational characteristics of firm age, size in terms of revenue and number of employees, industry, and legal structure. Organizations were founded between 1800 and 2012, number of employees ranged from zero to 400,000, and revenue ranged from $0 to $115 billion (Table 2).

<table>
<thead>
<tr>
<th>Start Year</th>
<th>Employees</th>
<th>Revenue</th>
</tr>
</thead>
<tbody>
<tr>
<td>Full Sample</td>
<td>1986</td>
<td>2,571</td>
</tr>
<tr>
<td>Urban</td>
<td>1986</td>
<td>2,363</td>
</tr>
<tr>
<td>Rural</td>
<td>1987</td>
<td>655</td>
</tr>
<tr>
<td>Tier 1</td>
<td>1981</td>
<td>305</td>
</tr>
<tr>
<td>Tier 2</td>
<td>1989</td>
<td>228</td>
</tr>
<tr>
<td>Tier 3</td>
<td>1987</td>
<td>2590</td>
</tr>
</tbody>
</table>

Industry

Industry responses were grouped into a set of nine categories (Figure 5; Appendix A; Appendix C, Table C.5). The distribution of industries statistically differed between urban and rural respondents, primarily due to manufacturing and professional and financial services. Manufacturing accounted for 50% of responses for rural organizations but only 25% in urban areas. Professional and financial services were more common in urban areas (30%) than in rural areas (12%).

The distribution by distress tier mimics that of the urban-rural divide, with manufacturing dominating in Tier 1 (61%) and Tier 2 (48%) but having a much smaller share of Tier 3 (24%). Tier 3 had a much higher rate of professional and financial services (30%) than Tier 1 (6%) and Tier 2 (16%).

Legal Structure

Reported legal structures were consolidated into seven buckets (Figure 6; Appendix A; Appendix C, Table C.6). There were no strong correlations between legal structure and firm characteristics, meaning that age, size, and location of firm were not highly associated with a particular legal structure.

There were statistical differences in legal structure across distress tier and urban-rural classifications. Rural respondents were slightly more likely to be incorporated (57% compared to 50% in urban areas). Urban respondents were more likely to be nonprofit organizations (26% compared to 13% in rural areas). The distribution across distress tier is similar to that of the rural-urban distribution.
Section 2: Results of the NC Social Innovation Survey
Business Innovation

The survey collected information on innovation in both business practices and social engagement. Business innovation is a crucial factor in economic development as organizations must adapt to changing conditions to stay competitive.

Measurement of Innovation

As described previously, innovation is a process, not just an outcome. As a result, innovation includes both failed and successful efforts at new products, services, and processes. The survey captures the degree of organizational innovation through a series of questions regarding these multiple efforts.

Success
Respondents were asked if their organization introduced new or improved goods, services, or processes in response to the recession. (See page 22 for discussion of these results.) This question captures the successful completion of the process of innovation as organizations brought new products to market or increased organizational efficiency through improved processes.

Failure
Respondents were then asked if their organization had any innovative activities or improvements that were abandoned or incomplete within the last three years. These questions capture an organization’s willingness to take risks and identify more successful avenues to pursue.

• Through this proxy, 30% (174 respondents) reported having abandoned projects. Incomplete projects were reported by 44% (254 respondents)
• An equal number (301 respondents) reported abandoned or incomplete project as reported neither (301 respondents)
• No strong correlation or statistical significance occurred between innovation and start year, number of employees, revenue, legal structure, industry, or location. Thus, organizations are no more likely to be innovative simply because they are in a particular industry or geographic area, for example
  • This suggests a random distribution of innovation across these factors, including the rural-urban distinction and the economic distress tier designations

The same methodology is used to capture an organization’s degree of social innovation (See pages 16, 18, and 20 for discussion of these findings).

Motivation
Respondents were asked how likely their organization would be to spend a one-time cash windfall on various activities. (See page 28 for results of social mission). To gain insight into an organization’s driving motivation, respondents were given the option of funding future investment projects and/or providing a reserve or cushion.

• On a scale of 1 to 5, with 1 being Not Likely and 5 being Very Likely, investing in new projects had a mean response of 3.62, meaning the average response was between neutral and somewhat likely
• Respondents were significantly more likely to want to save the money and have a reserve fund, with a mean of 3.95***
  • This means that the average respondent is more likely to want to build savings than take risks and invest in new projects, and thus is less likely to innovate
• Likelihood to invest or save did not differ by geographic area, strengthening the implication that innovation is randomly distributed across the state
Employee Benefits

The most significant ways organizations assist their local communities is by providing employment and employee benefits. Respondents were asked a series of questions regarding their practices towards employees (Figure 7).

![Figure 7: Proportions Reporting Employee Practices](chart)

*Figure 7: Proportions Reporting Employee Practices*

- Offering paid vacation or sick leave was the most popular activity, with 90% of organizations providing this support, followed by including employees in decision-making, which was selected by 87% of respondents
- Over 75% of respondents reported offering on-site training, paying a portion of health insurance, and offering employee training
- Less than a third offered paid time for volunteer work or employed special populations

**Geographic Distribution**

There were many differences in rates of these activities by geographic area (Figure 8).
- Rural respondents were slightly more likely to offer on-site training**
- Urban respondents were more likely to offer vacation or sick time*, health insurance*, disability insurance**, employee training**, maternity leave***, service time***, profit sharing**, and involve employees in decision-making**

![Figure 8: Employee Practices by Urban-Rural Distinction](chart)

*Figure 8: Employee Practices by Urban-Rural Distinction*

* N = 612
* N = 578
There was also significant variation by economic distress tier (Figure 9).

- Tier 3 respondents were more likely to provide employee training*, maternity leave***, service time***, and engage employees in decision-making**
- Tier 2 respondents were more likely to employ special populations**, with 31% of Tier 2 respondents doing so compared to 19% each of the other tiers

Looking at the rural subsample by distress tier, there were fewer significant differences. Employee training*, maternity leave*, and employee engagement in decision-making* were all more prevalent for rural Tier 3 respondents than rural Tier 1 (Figure 10).

Other Characteristics and Failed Attempts

For most of the activities (vacation/sick time, retirement, health insurance, disability insurance, employee education, employee training, on-site training, maternity leave, and employee special populations), respondents offering these practices tended to be older organizations, on average, than those who did not***.

Also, those offering employee education*, on-site training*, and profit sharing** were more likely to be innovative.

Respondents were also asked about reasons for failed attempts at providing employee practices (Figure 11). Of the 44 respondents who indicated failed attempts, cost was a reason for 61%, and 36% said they lacked worker support.
Community Involvement

Beyond providing employment and employee benefits, organizations can also directly support their local community. Respondents were asked if their organization engaged in any community practices. Eighty-three percent indicated that they did (N = 629). These individuals were then asked about their engagement in a more detailed set of practices (Figure 12).

- The most common activity was relying on local suppliers (81%), which keeps money in the surrounding community.
- Over half said they used suppliers with good practices, donated use of their facilities, and supported community health programs.
- Thirty percent provided a company service day, while one-quarter financed community enterprise.

Responses varied significantly between urban and rural areas for many practices (Figure 13).

- Rural respondents were more likely to use local suppliers*, donate a share of profits**, and finance community enterprise*** than were urban respondents.
  - Of these, the largest difference was in donating a share of profits, where 48% of rural respondents indicated doing so, compared to 37% of urban respondents.
- However, a larger proportion of urban respondents served special populations**, had company service days***, and donated use of their facilities***.
  - In each of these cases, a difference of approximately ten points existed between urban and rural rates.

---

Figure 12: Proportions Reporting Community Practices

Figure 13: Community Practices by Urban-Rural Distinction

Geographic Distribution

N = 516; includes only those indicating any practices

*Respondents were able to write in answers. Of these, promoting economic development was a common answer.
There was also significant variation in some practices by economic distress tier (Figure 14).

- Changing suppliers for those with better practices was more prevalent among Tier 3 respondents**, as was having a company service day***, donating use of their facilities*, and supporting higher education*

- The subset of rural respondents by economic distress tier varied less, with only using good suppliers** and donating of profits** statistically different across tiers (Figure 15)
  - Eighty percent of Tier 3 rural respondents said they used good suppliers, compared to 60% of Tier 1 respondents
  - Donation of profits was also more likely in striving rural communities, where 59% percent donated a share of profits, compared to 35% of struggling rural respondents

**Other Characteristics and Failed Attempts**

Community practices also showed differences in rates of activity across innovation level.

- Those who were innovative were more likely to have a service day*, donate use of facilities*, donate a share of profits**, and support both K-12* and higher education*
  - The number of innovative respondents engaged in each of these practices was similar, ranging from 54 to 57%. This compares with the number of non-innovative organizations engaged in each of these practices, which ranged from 47 to 49%.

Thirty-six of the 516 respondents with community involvement reported a failed attempt at implementing a practice (Figure 16).

- Forty-four percent said government regulation played a role in their lack of success
- Thirty-one percent each said insurance or lack of support from workers prevented the activity
- Funding and lack of support from suppliers were popular write-in responses

*Respondents were able to write in answers. Of these, funding and suppliers were common answers.
Environmental Practices

Organizations across all industries engage in practices that reduce their impact on the environment, regardless of whether their product or service relates to the environment. Respondents were asked about their involvement in these practices, struggles with implementation, and measurement methods.

Respondents were first asked if their organization engaged in any environmental practices: 89% responded yes (N = 643).

Those that did were then asked if they engaged in a more detailed list of activities (Figure 17).

- The highest response came for recycling, indicated by 93% of respondents
- Seventy-five percent said that their organizations made efforts to save energy, while 55% said that they conserve water

There was significant variation in responses by between urban and rural locations (Figure 18).
- Recycling**, transportation**, and carbon offset*** efforts were reported by a higher proportion of urban respondents than rural
- Pollution prevention** and emissions tracking* were reported by a higher proportion of rural respondents than urban
Responses also varied significantly by economic distress tier (Figure 19).

- Recycling was reported by a higher proportion of respondents in Tier 3***, as were transportation* and carbon offsets*.
- Water conservation was reported at a higher rate among Tier 1 respondents*, as were pollution prevention* and emissions tracking***.

Differences in the rural subsample distribution by distress tier were not statistically significant (Figure 20).

Other Characteristics and Failed Attempts

Those reporting recycling**, energy**, water***, pollution***, transportation**, emissions***, fuel***, and renewable*** tended to be older firms.

Respondents were then asked about their failed environmental practices. Ten percent (56 respondents) of those with any environmental practices indicated they had attempted but failed to implement a practice (Figure 21).

- Lack of capital was the most-cited reason, reported by 54%.
- Lack of resources was also a frequent response, indicated by 39%.

Eighty-six percent of respondents said they measured their environmental impacts, with the most common method (69%) being internal impact assessment (Figure 22).
Responses to the Recession

Organizations were also asked about changes in their social practices in response to the recent 2008 economic recession.

Changed Practices

The survey asked if a series of changed practices occurred in response to the recession (Figure 23).

- Seventy-seven percent indicated increasing operating efficiency, while 53% decreased employment
- In terms of increasing social activity:
  - 30% increased environmental practices
  - 20% increased community assistance
  - 14% increased employee support
- For all practices except increasing employee assistance, firms making these changes were older than those that did not**

Respondents were also able to write in responses. These entries included themes of decreased benefits or wages, expansion, transferring cost to consumers, and increasing employment. Though these additional terms cannot be included in overall analysis since not all respondents were asked about them, they offer additional insight into the range of changes that occurred across the state in response to the recession.

There was little variation in changes by urban-rural classification (Figure 24).
- Increasing material efficiency did significantly vary, with 46% of rural respondents indicating the change, compared to 33% of urban respondents***

Changes by economic distress tier were also fairly consistent (Figure 25).
- A higher proportion of Tier 1 organizations reported increased material efficiency than those in Tiers 2 or 3**

Figure 23: Proportion Reporting Changed Practices in Responses to the Recession

<table>
<thead>
<tr>
<th>Practice</th>
<th>Change</th>
<th>Proportion</th>
</tr>
</thead>
<tbody>
<tr>
<td>Inc Operating Efficiency</td>
<td>77%</td>
<td>0.77</td>
</tr>
<tr>
<td>Dec Employment</td>
<td>53%</td>
<td>0.53</td>
</tr>
<tr>
<td>Inc Material Efficiency</td>
<td>53%</td>
<td>0.37</td>
</tr>
<tr>
<td>Inc Environmental Practices</td>
<td>30%</td>
<td>0.30</td>
</tr>
<tr>
<td>Inc Community Support</td>
<td>20%</td>
<td>0.21</td>
</tr>
<tr>
<td>Inc Employee Assistance</td>
<td>14%</td>
<td>0.14</td>
</tr>
<tr>
<td>Other</td>
<td>0%</td>
<td>0.07</td>
</tr>
</tbody>
</table>

N = 564

Figure 24: Changed Practices in Response to the Recession by Urban-Rural Distinction

N = 526

Figure 25: Changed Practices in Response to the Recession by Economic Distress Tier

N = 526
Increased community support was also significantly different across economic distress tiers, with only 8% of Tier 1 respondents indicating this change, compared to 25% in Tier 2 and 21% in Tier 3**

- It is important to note that organizations reporting increased community assistance were more likely to be nonprofits, and only 8% of Tier 1 respondents were nonprofit organizations. This indicates an underrepresentation of nonprofits from Tier 1 counties in the survey sample (See page 40 for detail)

When examining only the rural respondents by economic distress tier, responses across groups are also fairly even (Figure 26).

- The only significant difference was in community assistance, where 8% of Tier 1 respondents implemented these changes, compared to 30% of Tier 2 respondents and 18% of Tier 3 respondents***
  - This means that controlling for being in rural counties, respondents in striving areas were more likely to increase assistance to their communities than those in struggling counties

### Introductions and Improvements

The survey then asked if organizations introduced new or improved items or methods in response to the recession (Figure 27).

- Fifty percent of respondents said they introduced a new or improved service, and 48% introduced a new manufacturing method
- New or improved processes were reported by 45% of respondents, and about a third indicated the remaining introductions

There was significant variation in responses between urban and rural areas (Figure 28).

- Introducing new or improved services was reported by 55% of urban respondents and 36% of rural respondents***
- Manufacturing methods and goods were reported by a higher number of rural respondents than urban respondents***
There was less variation by economic distress tier (Figure 29).

- New or improved services were reported more by Tier 3 organizations***, and manufacturing methods were reported more by Tier 1 and Tier 2 organizations***

- For the rural subsample, only new or improved support of processes varied significantly by distress tier, with 54% of Tier 1 respondents reporting this introduction, compared to 39% in the more prosperous Tier 3 respondents (Figure 30)

![Figure 29: New or Improved Products and Methods Introduced in Response to the Recession, by Economic Distress Tier](image)

![Figure 30: New or Improved Products and Methods Introduced in Response to the Recession, by Economic Distress Tier, Rural Sample](image)

### Responses and Social Practice

Responses to the recession were also compared with respondents’ participation in environmental, community, and employee practices.

Respondents who increased environmental practices in response to the recession were more likely to continue to engage in environmental practices now (Table 3). The most dramatic increases in specific practices are seen in the conservation of water and production of renewable energy on-site.

- Of those who increased environmental support in response to the recession, 72% currently conserve water, compared to 47% of those who did not respond to the recession with increased environmental efforts***

- Twenty-four percent of recession responders produce renewable energy, compared to 7% of respondents who did not increase environmental support in response to the recession***

  - This activity was more likely to occur among Tier 3 respondents than Tier 1* (Figure 31)

<table>
<thead>
<tr>
<th>Environmental Response to the Recession</th>
<th>Increased Practices</th>
<th>No Increased Practices</th>
</tr>
</thead>
<tbody>
<tr>
<td>Reported any Practice of Environmental Practices***</td>
<td>99%</td>
<td>87%</td>
</tr>
<tr>
<td>Recycle***</td>
<td>98%</td>
<td>90%</td>
</tr>
<tr>
<td>Water***</td>
<td>72%</td>
<td>47%</td>
</tr>
<tr>
<td>Energy***</td>
<td>84%</td>
<td>70%</td>
</tr>
<tr>
<td>Renewable***</td>
<td>24%</td>
<td>7%</td>
</tr>
</tbody>
</table>

*N: For environmental practices, 394 respondents did not increase environmental support in response to the recession, 166 did. For specific practices, 331 did not increase support, 165 did.*
Respondents who indicated increased community support in response to the recession were more likely currently to engage in community practices (Table 4).

Regarding specific practices, 48% of those increasing community support in response to the recession had a community service day, compared to 25% of those who did not increase support in response to the recession***

- In addition, 71% of recession responders donated the use of their facilities, compared to 54% of those who did not increase community support as a result of the recession***
- Of those offering a company service day, urban* and Tier 3* respondents engaged in this support at higher rates than rural and Tier 1 respondents (Figure 32)

Respondents who increased employee assistance in response to the recession were also more likely to engage in employee support (Table 5).

- Ninety percent offered employee training, compared to 77% of those who did not increase employee assistance in response to the recession
- Fifty-seven percent of those who increased assistance in response to the recession offered maternity leave compared to 48% of those who did not increase assistance
- Among respondents who increased employee assistance in response to the recession, urban respondents were more likely to offer paid maternity leave than were rural respondents** (Figure 33)

### Table 4: Recession Responses & Community Practices

<table>
<thead>
<tr>
<th>Reported any Practice of</th>
<th>Community Response to the Recession</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Increased Practices</td>
</tr>
<tr>
<td>Community Practices***</td>
<td>98%</td>
</tr>
<tr>
<td>Community Service Day***</td>
<td>48%</td>
</tr>
<tr>
<td>Donate</td>
<td>50%</td>
</tr>
<tr>
<td>Facilities***</td>
<td>71%</td>
</tr>
<tr>
<td>Finance*</td>
<td>32%</td>
</tr>
</tbody>
</table>

N: For community practices, 433 respondents did not increase community support in response to the recession, 113 did. For specific practices, 346 did not increase support, 111 did.

### Table 5: Recession Responses & Employment Practices

<table>
<thead>
<tr>
<th>Reported any Practice of</th>
<th>Employee Response to the Recession</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Increased Practices</td>
</tr>
<tr>
<td>Vacation/Sick</td>
<td>95%</td>
</tr>
<tr>
<td>Training**</td>
<td>90%</td>
</tr>
<tr>
<td>Employee Education</td>
<td>56%</td>
</tr>
<tr>
<td>Maternity</td>
<td>57%</td>
</tr>
<tr>
<td>Profit***</td>
<td>40%</td>
</tr>
</tbody>
</table>

N: 439 respondents did not increase employee support in response to the recession, 77 did.
Industry Focus: Manufacturing

Manufacturing is one of North Carolina’s most prominent industries, accounting for almost 20% of the state’s gross domestic product and over 10% of its employment. While still a large industry in the state, manufacturing is on the decline and has lost over 130,000 employees since 2005.

Manufacturing organizations accounted for 31% of survey respondents. These organizations had a mean start year of 1985, an average of 485 employees, and average revenue of $299,000,000.

Environmental Practices

In terms of engaging in environmental practices, 96% of manufacturers reported practices, compared to 86% in other industries.

- Among manufacturing respondents, environmental practices were slightly more common for rural respondents (99%) than urban (92%)**, and those in Tier 1 counties (100%) than Tier 3 (92%)* (Figure 34)
- For manufacturers who reported environmental practices, 32% tracked emissions, compared to 15% of those in other industries***, but only 19% used clean transportation, compared to 33% of those in other industries***

Community Involvement

Manufacturers were less likely to support their local community (75%) than respondents in other industries (86%)***.
Among those manufacturers who did engage with their local community, rural respondents were more likely to do so than urban manufacturers (84% compared to 67%)* (Figure 35).

Among those engaging with their local community, 51% of manufacturers reported donating a share of their profits, compared to 38% of non-manufacturers**
  - This was more likely to occur for Tier 3 respondents (53%) than Tier 1 respondents (30%) in the overall sample** as well as in the rural subsample (73% compared to 30%)***

Manufacturers were less likely to change to suppliers with better practices*, serve special populations***, offer community service days***, donate the use of their facilities***, or promote economic equality***

### Employee Benefits

Considering employee practices, manufacturers were slightly more likely to offer paid vacation or sick time (93%) than were to non-manufacturers (90%)* (Figure 36).

- They were also more likely to offer on-site training (92% compared to 81%)**
- Forty-one percent of manufacturers offered paid maternity leave, compared to 50% of other respondents*
- Rural manufacturers offering paid maternity leave were more likely to be in Tier 3 counties (76%) than in Tier 1 counties (35%)**

*Figure 36: Manufacturers with Employee Practices*

### Recession Responses

In responses to the recession, manufacturers were more likely to:

- Increase material efficiency (56% compared to 29% in other industries)**
- Increase environmental practices (35% compared to 29%)*
- Introduce a new or improved good (49% compared to 22%)**
- Use a new or improved manufacturing method (61% compared to 18%)***

However, they were less likely to:

- Increase community assistance (13% compared to 24% in other industries)**
- Introduce a new or improved service (28% compared to 61%)***
- Introduce a new or improved marketing method (34% compared to 53%)***

These manufacturers generally appear to have a strong commitment to environmental practices, but they are less likely to provide support to their surrounding communities.
Section 3: Implications for NC Organizations
Organizational Mission

Respondents were asked to gauge how likely they were, on a scale of one to five, to invest in a series of items or practices if they were given a cash windfall. This question was aimed at capturing the mission and aspirations of organizations, even though they might not currently have the financial ability to fully realize their vision.

Employee Investment

In the windfall question, respondents had two options pertaining to employee support: fund employee projects and offer employee training (Table 6).

- Funding employee projects had a mean response of 3.29
- Funding employee training had a mean of 3.47
  - Both are between neutral and somewhat likely

- Responses to the training option were significantly different for rural and urban respondents. Rural organizations had an average response of 3.67, while urban had 3.4***, indicating that rural respondents were slightly more likely to want to invest in employee training

- Although not statistically significant, Tier 1 respondents had a higher mean (3.75) than either Tier 2 (3.56) or Tier 3 (3.42) respondents, indicating that survey respondents in struggling counties were most likely to want to invest in employee training

- There were no statistical differences for funding employee projects by rural-urban distinction or between respondents in the economic distress tiers; neither option varied by industry or legal structure

Community Investment

There were also two responses pertaining to community support: likelihood of funding community projects and increasing donations (Table 7).

- Community projects had a mean response of 2.99, meaning that the average response was slightly less than neutral. There were no statistically significant differences between geographic areas

- Likelihood to donate had a mean response of 2.88, meaning that the average response was also slightly less than neutral
Table 7: Likelihood of Funding Community Projects and Donating

<table>
<thead>
<tr>
<th></th>
<th>Community Projects</th>
<th>Donate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Full Sample</td>
<td>2.99</td>
<td>2.88</td>
</tr>
<tr>
<td>Rural Mean</td>
<td>3.08</td>
<td>3.12</td>
</tr>
<tr>
<td>Urban Mean</td>
<td>2.94</td>
<td>2.79</td>
</tr>
<tr>
<td>Tier 1 Mean</td>
<td>2.77</td>
<td>2.98</td>
</tr>
<tr>
<td>Tier 2 Mean</td>
<td>2.91</td>
<td>3.1</td>
</tr>
<tr>
<td>Tier 3 Mean</td>
<td>3.04</td>
<td>2.82</td>
</tr>
<tr>
<td>Rural Tier 1 Mean</td>
<td>2.77</td>
<td>2.98</td>
</tr>
<tr>
<td>Rural Tier 2 Mean</td>
<td>3.21</td>
<td>3.3</td>
</tr>
<tr>
<td>Rural Tier 3 Mean</td>
<td>3.3</td>
<td>3.02</td>
</tr>
</tbody>
</table>

N = 556
Response Scale: 1 Not Likely; 2 Unlikely; 3 Undecided/Neutral; 4 Likely; 5 Very Likely

- There were statistically significant differences for likelihood to increase donations between urban and rural respondents, with a higher rural average of 3.12 compared to 2.79 for urban respondents***
- This means that the average rural respondent was between neutral and somewhat likely to increase donations, while urban respondents, on average, were between neutral and somewhat unlikely

There were also significant differences for both funding community projects and funding donations by legal structure and industry.

- Respondents in Retail, Arts, and Tourism and Education and Support Development were more likely to fund community projects with means above 3.5, while Manufacturing, Building and Green Energy, Health, and Professional and Financial Services were less likely or neutral, with means below 3***
- Respondents in nonprofit organizations were more likely to fund community projects than respondents in LLC/LLP, incorporated, or non-incorporated/sole proprietorships*** (Figure 37)
• Professional and Financial Services and Retail, Arts, and Tourism respondents were more likely to fund donations than respondents in Health, Education and Support Development, Manufacturing, or Building and Green Energy**

• Respondents in non-incorporated/sole proprietorship organizations were more likely to fund donations than their counterparts in nonprofits, LLC/LLP, or incorporated organizations*** (Figure 38)

Environmental Investments

Respondents were also asked how likely they would be to invest in environmentally focused projects if they were given a cash windfall.
• The mean response for investing in environmental projects was 3.12, meaning that the average response was slightly above neutral (Table 8)

Table 8: Likelihood of Funding Environmental Projects

<table>
<thead>
<tr>
<th>Environmental Projects</th>
<th>Total Mean</th>
<th>Rural Mean</th>
<th>Urban Mean</th>
<th>Tier 1 Mean</th>
<th>Tier 2 Mean</th>
<th>Tier 3 Mean</th>
<th>Rural Tier 1 Mean</th>
<th>Rural Tier 2 Mean</th>
<th>Rural Tier 3 Mean</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Mean</td>
<td>3.12</td>
<td>3.46</td>
<td>2.97</td>
<td>3.4</td>
<td>3.14</td>
<td>3.07</td>
<td>3.4</td>
<td>3.35</td>
<td>3.69</td>
</tr>
</tbody>
</table>

N = 552
Response Scale: 1 Not Likely; 2 Unlikely; 3 Undecided/Neutral; 4 Likely; 5 Very Likely

• Responses varied significantly both by urban-rural classification*** and economic distress tier**
  o Rural respondents were more likely to indicate a preference for investing in environmental projects than were urban respondents, and Tier 1 respondents were slightly more likely to do so than Tier 2 or Tier 3

The likelihood of funding environmental projects also varied by industry and legal structure.
• For industry, respondents in Retail, Arts, and Tourism were most likely to fund environmental projects with a mean of 3.74, while those in Professional and Financial Services were least likely to do so, with a mean of 2.69

• Those in Health, Manufacturing, Building and Green Energy, and Education and Support Development were neutral to somewhat likely, with means between 3 and 3.5***

• Legal structure had less variation, although nonprofits and non-incorporated/sole proprietorships were more likely to fund environmental projects than were incorporated and LLC/LLP organizations, who were more neutral* (Figure 39)
Self-Identification of Organizations

Organizations were presented with a list of terms and asked to indicate which they used to describe their organization (Figure 40). Seventy percent described their organizations as entrepreneurial and 68% as environmentally responsible. There was a significant drop in use of the remaining terms, with 25% using for-benefit, 23% green enterprise, 22% social enterprise, and 19% triple bottom line. Nine percent used the term hybrid and 6% used fourth sector.

Use of these terms varied by rural-urban distribution (Figure 41).
- Rural respondents were more likely to describe themselves as environmentally responsible***: 76% did so, compared to 63% of urban respondents
- Urban respondents were more likely to use the terms entrepreneurial**, social enterprise***, triple bottom line***, and hybrid***

There were also differences by economic distress tier (Figure 42).
- Tier 3 organizations were more likely than Tier 1 organizations to use the terms entrepreneurial*, social enterprise***, triple bottom line***, hybrid***, and fourth sector**
• Tier 2 firms were more likely to describe themselves as *environmentally responsible**, with 77% doing so, compared to 64% in Tier 3 and 68% in Tier 1
• Only *social enterprise* varied significantly for the rural subsample by distress tier***, with 24% in Tier 3 using the term, compared to 12% in Tier 1 (Figure 43)

**Figure 42: Use of Terms by Economic Distress Tier**

![Figure 42: Use of Terms by Economic Distress Tier](image)

*Figure 43: Use of Terms by Economic Distress Tier, Rural Sample*

![Figure 43: Use of Terms by Economic Distress Tier, Rural Sample](image)

**Organizational Characteristics**

Age of organizations had the opposite trend as it did in firm practices – while organizations that engaged in some practices tended to be older, organizations that used certain terms tended to be younger.

• *Entrepreneurial* organizations had an average start year of 1991, compared to 1974 for organizations that did not use that term***
• Respondents using the term *green enterprise* were also younger, with an average start year of 1990, compared to 1985 for respondents who did not use the term**
  o However, respondents who used the term *environmentally responsible* had an average start year of 1984, making them older on average than those who did not (average start year of 1990)**
  o This implies that there might be a temporal nature to these terms, with older firms more familiar with classifying their environmental activities as *environmentally responsible* while younger firms use the newer term *green enterprise*

There were some variations of note regarding other characteristics:

• Innovative respondents were more likely to use the term *entrepreneurial* than non-innovators*
• Use of the term *social enterprise* was less likely to be in the industry of Manufacturing and was more concentrated in Education and Support Development, Health, and Professional and Financial Services
• In terms of legal structure, *hybrid* organizations were more likely to be nonprofits, as were users of the term *fourth sector*

Manufacturers were more likely to use the term *environmentally responsible* (80% compared to 63% in other industries)*** and less likely to use the terms *hybrid* (3% compared to 11% in other industries)*** and *social enterprise* (8% compared to 28% in other industries)***.
Use of Terms by Practices

The question then arises: Are the firms using these terms are also engaged in related practices?

Are innovative respondents more likely to use terms that connote innovation?

- Innovative respondents were more likely to use the term entrepreneurial, 73% compared to 67% of non-innovators**
  - Among innovative respondents, 78% of urban respondents used the term, compared to 65% rural respondents**
  - There was also a similar discrepancy by economic distress tier: only 55% of Tier 1 innovative respondents used the term, compared to 76% of Tier 3 innovative respondents*
- Innovative respondents were no more or less likely to use the term fourth sector or social enterprise

Environmental Practices and Terminology

Are respondents with environmental practices more likely to use terms associated with the environment?

- Those who reported having any environmental practices were more likely to use the term environmentally responsible than those who did not, 73% compared to 23%***
  - Among those reporting environmental practices, 70% of urban respondents used the term environmentally responsible, as did 79% of rural respondents*
- Twenty-five percent of those having environmental practices used the term green enterprise, compared to 8% of those without environmental practices***
- Twenty-one percent of those with environmental practices used the term triple bottom line, compared to 9% of those who did not report environmental practices**
  - For the term triple bottom line, there was geographic variation of use for those reporting environmental practices: 25% of urban respondents used the term, compared to 9% of rural***, and 26% of Tier 3 respondents used the term, compared to 11% of Tier 1***

Community Support and Terminology

Are respondents with community practices more likely to use terms associated with social engagement?

- Twenty-six percent of those reporting any community practices used the term for-benefit, compared to 17% of those not reporting community practices**
- Six percent of those with community practices use the term fourth sector, compared to 2% of those without**
  - This use is skewed to Tier 3 counties, where 8% of those with community practices use the term, compared to 4% of those in Tier 1 counties***
  - This holds for the rural-only subsample, where 10% of Tier 3 respondents with community practices used the term, compared to 4% of Tier 1 respondents*
- The term hybrid was used by 9% of respondents with community practices, compared to 4% of those without**
Among those reporting community practices, 12% of urban respondents and 5% of rural respondents used the term**, while 13% of Tier 3 respondents and 2% of Tier 1 respondents did so***

- Twenty-six percent of respondents with community practices used the term social enterprise, compared to 6% of those without community practices***
  - Among those with community practices, 13% of Tier 3 respondents and 2% of Tier 1 respondents did so***

Regarding specific community practices:
- Ten percent of those who donate a share of profits use the term fourth sector compared to 4% of those who do not donate***
- Social enterprise is used by 29% of those donating profits, compared to 23% of those not donating*
- Among those donating profits, 37% of urban respondents used the term social enterprise, compared to 14% of rural respondents***. There were no statistically significant differences between use of for-benefit or hybrid and donating a share of profits
- For those offering a company service day, there were no differences in use of fourth sector, for-benefit, or hybrid. However, for social enterprise, 32% of those offering a service day used the term, compared to 23% using the term who did not offer a service day**
- Among those offering a service day, 43% of Tier 1 respondents used the term social enterprise, compared to 36% of Tier 3 respondents*

**Employee Benefits and Terminology**

Are respondents with employee benefits more likely to use terms associated with supportive employee practices?

**Profit Sharing:**
- Seventy-eight percent of respondents with profit sharing used the term entrepreneurial, while 66% of those without profit sharing used the term***
  - Those with profit sharing were more likely to use entrepreneurial in urban*** and Tier 3*** counties
- Social enterprise and fourth sector were less common for respondents with profit sharing: 17% used the term social enterprise, compared to 25% of those who did not offer profit sharing**; and 3% used the term fourth sector, compared to 7% of those without profit sharing**
- Use of the term hybrid did not differ between those who reported profit sharing and those who did not

**Paid Volunteer Time:**
- Of those offering paid volunteer time, 11% used the term fourth sector, compared to 3% who did not***, and 13% used the term hybrid, compared to 7% of those who did not subsidize volunteering***
- Social enterprise was used by 33% of those who offered paid volunteer time and 17% of those who did not***
  - Respondents offering paid volunteer time and using the term social enterprise were more likely to be in urban* and Tier 3 counties*
- Use of the term entrepreneurial did not vary significantly by the practice of offering paid volunteer time

These distributions suggest the possibility that while rural and struggling areas are engaged in many of these activities, they are less familiar with the terms that classify their behavior.
Classification of Organizations

The variance in use of practices by organizations and terms leads to the need for a classification of organizations in terms of their level of social innovation.

Social innovation has led to a blending of the attributes of organizations across for-profit and nonprofit structures to support socially driven motivations. Thus, organizational structure also fails to accurately cluster organizations by their level of social engagement.

While environmental practices are key to preserving our communities, they can also be profit-maximizing decisions – either through savings in reduced use of products and/or energy or by reaching new markets that value environmentally responsible action. This type of behavior is also often already supported through a series of tax incentives.

Employee benefits are the breeding ground for social innovation – the effort to improve employee well-being fosters a better work environment and better workers. This often then leads into assistance to the surrounding community, which both is dependent on the organization and supports its longevity.

A scale has been created to map respondents to a ranking of social innovation – beginning with strictly for-profit entities with no support practices to those who have fully mixed the worlds of business and mission.

Absence of Community Support

Seventeen percent of the sample (105 respondents) reported no involvement in the community.

- Lack of community involvement did not vary by organization size, innovation, or geography
- However, organizations that did not have community practices tended to be younger, with a start year of 1996, compared to 1984 for those with any community practices***
- Those without community practices were less likely to perceive their community as growing, 11%, compared to 22% of those with community practices*

![Figure 44: Community Practices by Industry](image)

![Figure 45: Community Practices by Legal Structure](image)
There were also differences by industry and legal structure.

- For industry, Manufacturers and Professional and Financial services organizations were more likely to not provide community support than Education and Support Development, Building and Green Energy, Retail, Arts, and Tourism, and Health organizations*** (Figure 44)
- For legal structure, LLC/LLP organizations were least likely to offer community practices, while nonprofits and non-incorporated/sole proprietorships were most likely*** (Figure 45)

### Scale of Employee Practices

A scale was first created for employee practices. As mentioned, organizations first improve their local economy by employing members of the community. Then the benefits they offer further improve the community by improving employee’s quality of life.

- There were thirteen employee practices respondents could report. These formed the scale through a simple count of how many practices an organization reported (Table 9; Figure 46); the mean was 6.29 practices

- This scale was divided into quartiles ranging from zero to four practices, five to seven, eight to nine, and ten to thirteen (Figure 47)

- The distribution did not vary by innovation, geography, or legal structure, supporting the theory that these practices cross geographic and legal structure boundaries

- Those with community practices did have a higher average number of employee practices (7.15) than those without community practices (6)***

- There were also significant difference by industry** (Figure 48). Retail, Arts, and Tourism organizations were grouped in the lower two quartiles, while those in Health or Education and Support Development were more likely to be in the upper end of the distribution

<table>
<thead>
<tr>
<th>Employee Scale</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Zero</td>
<td>14.00%</td>
</tr>
<tr>
<td>One</td>
<td>1.15%</td>
</tr>
<tr>
<td>Two</td>
<td>3.75%</td>
</tr>
<tr>
<td>Three</td>
<td>3.75%</td>
</tr>
<tr>
<td>Four</td>
<td>4.76%</td>
</tr>
<tr>
<td>Five</td>
<td>7.36%</td>
</tr>
<tr>
<td>Six</td>
<td>9.38%</td>
</tr>
<tr>
<td>Seven</td>
<td>10.53%</td>
</tr>
<tr>
<td>Eight</td>
<td>12.70%</td>
</tr>
<tr>
<td>Nine</td>
<td>13.71%</td>
</tr>
<tr>
<td>Ten</td>
<td>11.26%</td>
</tr>
<tr>
<td>Eleven</td>
<td>5.92%</td>
</tr>
<tr>
<td>Twelve</td>
<td>1.59%</td>
</tr>
<tr>
<td>Thirteen</td>
<td>0.14%</td>
</tr>
</tbody>
</table>

N = 623
A scale was then made for level of community practices. Organizations can further improve the economy of their communities by supporting programs within them. Respondents were asked if they engaged in any community practices and then were asked about a specific set of thirteen practices, producing fourteen degrees of participation with a mean of 4.89 practices (Table 10; Figure 49).

- This scale divided into quartiles ranging from zero to one practice, two to five, six to eight, and nine to fourteen (Figure 50)

- There was no significant difference by geographic location or industry; the distribution did vary by innovation, with innovative organizations having an average of 5.68 practices and non-innovative organizations having an average of 5.07**

Table 10: Community Scale

<table>
<thead>
<tr>
<th>Community Scale</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Zero</td>
<td>24.82%</td>
</tr>
<tr>
<td>One</td>
<td>2.16%</td>
</tr>
<tr>
<td>Two</td>
<td>3.03%</td>
</tr>
<tr>
<td>Three</td>
<td>6.64%</td>
</tr>
<tr>
<td>Four</td>
<td>8.95%</td>
</tr>
<tr>
<td>Five</td>
<td>7.79%</td>
</tr>
<tr>
<td>Six</td>
<td>10.97%</td>
</tr>
<tr>
<td>Seven</td>
<td>8.37%</td>
</tr>
<tr>
<td>Eight</td>
<td>7.07%</td>
</tr>
<tr>
<td>Nine</td>
<td>7.65%</td>
</tr>
<tr>
<td>Ten</td>
<td>5.92%</td>
</tr>
<tr>
<td>Eleven</td>
<td>3.46%</td>
</tr>
<tr>
<td>Twelve</td>
<td>1.88%</td>
</tr>
<tr>
<td>Thirteen</td>
<td>11.15%</td>
</tr>
<tr>
<td>Fourteen</td>
<td>0.14%</td>
</tr>
</tbody>
</table>

N = 623

- Unlike in the employee scale, the community scale did have significant differences in distribution by legal structure**

Figure 48: Employee Scale Quartile Distribution by Industry

Figure 49: Community Scale Frequency
Nonprofits had a very even distribution across quartiles, while LLC/LLP organizations were more likely to be in the bottom quartile. Incorporated organizations were less likely to be in the top quartile of practices. These differences do not point to one legal structure being more likely to offer community support.

There were significant differences in the distribution of employee scale quartile by community scale quartile*** (Figure 52).

The employee quartile was likely to occur in the corresponding community quartile, meaning that engaging in a high number of employee practices is correlated to also engaging in a high number of community practices. This holds for lower levels of practices as well.

The combined or full scale of social innovation combines the employee and community practices for a total of 27 degrees of involvement. The mean for the full sample is 11.19 practices (Table 11; Figure 53). This did not vary by geographic area or industry.
The scale divided into quartiles ranging from zero to seven, eight to twelve, thirteen to sixteen, and seventeen to twenty-four (Figure 54).

Table 11: Full Scale

<table>
<thead>
<tr>
<th>Full Scale</th>
<th>Percent</th>
<th>Category</th>
</tr>
</thead>
<tbody>
<tr>
<td>Zero</td>
<td>10.10%</td>
<td>Strictly For-Profit</td>
</tr>
<tr>
<td>One</td>
<td>1.15%</td>
<td>For-Profit, Low Support</td>
</tr>
<tr>
<td>Two</td>
<td>1.59%</td>
<td>For-Profit, Low Support</td>
</tr>
<tr>
<td>Three</td>
<td>2.02%</td>
<td>Socially Curious, Moderate Support</td>
</tr>
<tr>
<td>Four</td>
<td>1.88%</td>
<td>Socially Curious, Moderate Support</td>
</tr>
<tr>
<td>Five</td>
<td>2.60%</td>
<td>Socially Engaged, Moderate Support</td>
</tr>
<tr>
<td>Six</td>
<td>4.18%</td>
<td>Socially Engaged, Moderate Support</td>
</tr>
<tr>
<td>Seven</td>
<td>4.18%</td>
<td>Socially Engaged, Moderate Support</td>
</tr>
<tr>
<td>Eight</td>
<td>4.18%</td>
<td>Socially Innovative, High Support</td>
</tr>
<tr>
<td>Nine</td>
<td>6.35%</td>
<td>Socially Innovative, High Support</td>
</tr>
<tr>
<td>Ten</td>
<td>5.05%</td>
<td>Socially Innovative, High Support</td>
</tr>
<tr>
<td>Eleven</td>
<td>5.48%</td>
<td>Socially Innovative, High Support</td>
</tr>
<tr>
<td>Twelve</td>
<td>6.35%</td>
<td>Socially Innovative, High Support</td>
</tr>
<tr>
<td>Thirteen</td>
<td>6.49%</td>
<td>Socially Innovative, High Support</td>
</tr>
<tr>
<td>Fourteen</td>
<td>4.04%</td>
<td>Socially Innovative, High Support</td>
</tr>
<tr>
<td>Fifteen</td>
<td>5.05%</td>
<td>Socially Innovative, High Support</td>
</tr>
<tr>
<td>Sixteen</td>
<td>7.94%</td>
<td>Socially Innovative, High Support</td>
</tr>
<tr>
<td>Seventeen</td>
<td>5.92%</td>
<td>Socially Innovative, High Support</td>
</tr>
<tr>
<td>Eighteen</td>
<td>3.17%</td>
<td>Socially Innovative, High Support</td>
</tr>
<tr>
<td>Nineteen</td>
<td>3.32%</td>
<td>Socially Innovative, High Support</td>
</tr>
<tr>
<td>Twenty</td>
<td>2.89%</td>
<td>Socially Innovative, High Support</td>
</tr>
<tr>
<td>Twenty-One</td>
<td>2.60%</td>
<td>Socially Innovative, High Support</td>
</tr>
<tr>
<td>Twenty-Two</td>
<td>1.15%</td>
<td>Socially Innovative, High Support</td>
</tr>
<tr>
<td>Twenty-Three</td>
<td>1.73%</td>
<td>Socially Innovative, High Support</td>
</tr>
<tr>
<td>Twenty-Four</td>
<td>0.58%</td>
<td>Socially Innovative, High Support</td>
</tr>
</tbody>
</table>

N=623

The bottom quartile ranges from zero to seven practices and is classified as for-profit, low support. This range accounts for zero to 26% of practices forming the scale.

The second quartile, eight to twelve practices, is socially curious – they engage in a set of employee and/or community practices that accounts for 30 to 44% of the practices forming the scale.

Socially engaged organizations provide thirteen to sixteen practices, accounting for 48 to 59% of available practices.

Socially innovative organizations offer the highest level of support with seventeen to twenty-four practices – 63 to 89% of practices forming the scale.

There were significant differences by innovation. Innovative respondents had an average of 12.66 practices, compared to 11.81 for non-innovative organizations**

There were significant differences in the social innovation scale by environmental practices: those with any environmental practices had an average of 12.47 socially innovative practices, compared to 8.77 practices for those with no any environmental practices***.

There were also significant differences by legal structure** (Figure 55).

- Non-incorporated/sole proprietorships and LLC/LLP organizations were more likely to be for-profit or socially curious. Corporations were more evenly divided, while nonprofits were most likely to offer high support but were also more evenly divided across quartile
- Though legal structure did have differing distributions across the scale, the differences do not signal a clear legal structure that fosters social innovation
Policy Recommendations

Corporate Social Responsibility

Traditional for-profit organizations are engaging in social innovation in the environment, in their communities, and with their employees. Organizations engage in these practices because of both economic and mission-driven motivations. Regardless of the motivation, these practices improve communities. Efforts should be made to make organizations aware of the role of employee benefits and community engagement in their own success as well as that of their local community.

- Corporate social responsibility (CSR) is the action by for-profit firms to give back to their community by providing time, funding, or specialized skills and technology. It has long been practiced but is on the rise, as many firms announced their intention to keep or expand their CSR programs in response to the recession.\(^{15}\)
- While there are mixed results of CSR affecting business success,\(^{16}\) there is support for CSR in capturing a customer base that strongly desires these practices.\(^{17}\)
- The rise of CSR is also a push by firms to increase the success of their local economy: as the economy slumps, firms increase their philanthropy not just to garner more consumer support, but also to increase the economy itself by supporting the people and organizations that sustain the firm.\(^{18}\)

Nonprofit Organizations

Nonprofit organizations are expected to support communities and decrease the unmet need in their areas. But nonprofits are limited by the capital available to them in what they can provide to their community and by their own resources in what they can provide to their employees. Thus, support is needed from other types of organizations and the government. This also highlight the need to make nonprofits, particularly those in distressed communities, aware of the role an earned income stream could play in helping to further their mission and support their employees.

- Nonprofit organizations and establishments with employees are similarly distributed across urban and rural areas (Figure 56). Both types of organizations are slightly more prevalent in urban areas, despite the even urban-rural split in the state population
- Nonprofit organizations also mimic the distribution of other establishments and the population across economic distress tier in the whole state (Figure 57) and within the rural subpopulation (Figure 58), despite the greater need for their services in Tier 1 counties

Figure 56: 2011 State Distribution by Urban-Rural Distribution

Figure 57: 2011 State Distribution by Economic Distress Tier

Figure 58: 2011 State Distribution by Economic Distress Tier, Rural Sample
Social Innovation in the State

Social innovation is occurring across geographic, industry, and legal structure bounds in North Carolina. Thus, we cannot capture level of social innovation through any of these traditional means of classifying organizations. Instead, we need a scale that accounts for the degree to which organizations are socially engaged. Using this scale to summarize the findings of the 2012 North Carolina Social Innovation Survey, we find:

- For-profit organizations provided between zero and seven employee or community practices and comprised 27.7% of survey respondents. Ten percent of these organizations were strictly for-profit and offered no employee or community support
- Socially curious organizations provided eight to twelve practices and comprised 27.4% of respondents
- Socially engaged organizations accounted for 23.5% of respondents and provided thirteen to sixteen practices, approximately half of the set of practices surveyed
- Socially innovative organizations offer the highest level of support, with seventeen to twenty-four practices and comprised 21.4% of respondents

Terminology Disconnect

There is a vast set of terms used to describe and classify organizations. However, these terms are being used by some who do not engage in the corresponding practices and not being used by others who do. A support network is needed to connect organizations engaged in similar activities so that they can share information, assist with implementation of new practices, and provide updates on legal structures and tax benefits that accommodate and encourage social innovation.

- Seventy percent of respondents described their organizations as entrepreneurial, while 68% described their organization as environmentally responsible
- Among those with any environmental practices, 73% used the term environmentally responsible, while 23% of organizations with no environmental practices still used the term
- Regarding geographic distribution of terms: among those with any community practices, 29% of urban respondents used the term social enterprise, while only 16% of rural respondent did

Local Economies and the Recession

Only 20% of all respondents perceive their local economy as growing, signaling that the state is still in recovery. Rural areas are generally perceived as struggling, with only 9% describing their local economy as growing. However, many organizations are increasing support of their communities in response to the recession and the increased need. While it is encouraging to see organizations step up to assist their employees and communities, it is clear that they alone lack the capacity to meet all of the need.

- The recession weakened many North Carolina organizations, as 53% of respondents had to decrease their employment
- However, those that could do so increased their support of their communities:
  - 30% increased environmental practices
  - 20% increased community assistance
  - 14% increased employee support
**Barriers to Social Innovation**

Often, organizations will try to implement new socially innovative practices but encounter obstacles that prevent these practices from benefiting the community.

- Cost was the primary reason for failed attempts at implementing employee practices
- Lack of capital was also the primary reason for implementation failure of an environmental practice
- Government regulation was cited as a primary reason for implementation failure of community support

**The Geographic Divide**

While socially innovative practices are occurring in both urban and rural counties and across economic distress tier, not all practices are evenly divided. These counties are different, and policies aimed at increasing social innovation thus need to account for differences inherent in location. Further, the greater need in distressed counties cannot be ignored – these areas need the most support, yet their organizations are limited in their own resources.

- Tier 1 counties, all of which are rural, are less engaged with their local communities than Tier 3 organizations (the least distressed counties), despite the greater need in the Tier 1 communities
- Tier 1 counties were underrepresented in this survey because their communities often lack broadband internet access. Broadband access is a key component of successful economic development, so access needs to be improved to enable organizations in these communities to benefit from the opportunities and resources the internet provides
- Urban counties typically outperform rural counties economically due to their higher concentration of businesses and resources. As a result, in rural communities, the importance of new firms may even be higher, as there are fewer large firms°
  - Further, the presence of entrepreneurs drives the formation of rural business networks, as they initiate cooperation and seize opportunities
- However, many rural areas are struggling from a lack of resources to fully benefit from these entrepreneurial actions, and thus there is a need to streamline efforts and resources for entrepreneurs, from creating incentives to reside in rural areas to increasing the knowledge base of an area and protection of its natural assets
- Increased attention to rural entrepreneurship is needed, including direct investment in entrepreneurial efforts and funding for measurement and research projects of institutions that promote rural innovation
- Rural entrepreneurship efforts need to call attention to the role that a community-oriented mission can play in the success of the start-up itself as well as in the economic and social well-being of the local community

Organizations throughout the state are supporting their employees, their communities, and the environment through their business, but many are limited by available capital and their capacity to meet the need. Support for these organizations is needed so that they may succeed in their efforts.
Appendices
Appendix A: Survey Methodology and Technical Detail

This appendix offers detailed information on the survey, methodology, and analysis used to create this report.

**Statistical Significance**

Throughout this report, ** *** indicates a significance at the 0.01 level; ** at the 0.05 level, and * at the 0.10 level. Statistical significance was determined from hypothesis testing. Each calculation was set up with the null hypothesis that the averages for different groups were the same. This was compared to the alternate hypothesis that the two groups had statistically different averages. T-tests, proportion tests, and chi² tests were used to conduct this analysis.

A test statistic was calculated for each comparison from the appropriate test. If the corresponding probability for the test statistic was 0.01 or below, we say that it has a significance level of 0.01, meaning we have a 1% probability of falsely rejecting the null hypothesis. The same applies to 0.05 and 0.10 levels of significance, which have a higher probability of incorrectly rejecting the equality of averages.

**Survey Methodology**

To complement the existing literature on socially innovative economic development, a survey was designed to investigate the use of socially innovative practices in North Carolina. No comprehensive electronic mailing list was available, prohibiting a fully randomized sample of the population. Instead, a series of distribution lists were compiled to create a sample with statewide distribution.

Table A.1 provides the seven distribution lists used to create a sample with statewide responses in urban and rural areas across industry and structure, including for-profit, nonprofit, and government agency organizations. Six of these lists were managed by the researchers directly. An email with information on the survey and a link to the survey website were sent to all 4,843 organizations on the list. Reminders were sent approximately every two weeks. The lists were emailed in different waves, but all surveys were closed on January 7, 2013. List G was sent out through a newsletter on behalf of the researchers. No reminders were sent to this list.

<table>
<thead>
<tr>
<th>List</th>
<th>Region</th>
<th>Org. Type</th>
<th>Survey Opened</th>
<th>Surveys Sent</th>
</tr>
</thead>
<tbody>
<tr>
<td>A</td>
<td>Triangle</td>
<td>Mixed</td>
<td>8/4/12</td>
<td>1,509</td>
</tr>
<tr>
<td>B</td>
<td>Statewide</td>
<td>Large For-profit</td>
<td>8/4/12</td>
<td>1,497</td>
</tr>
<tr>
<td>C</td>
<td>Statewide</td>
<td>Mixed</td>
<td>8/9/12</td>
<td>125</td>
</tr>
<tr>
<td>D</td>
<td>Statewide</td>
<td>For-profit</td>
<td>8/17/12</td>
<td>205</td>
</tr>
<tr>
<td>E</td>
<td>Triangle</td>
<td>Nonprofit</td>
<td>9/13/12</td>
<td>219</td>
</tr>
<tr>
<td>F</td>
<td>Statewide</td>
<td>For-profit</td>
<td>10/18/12</td>
<td>1,288</td>
</tr>
<tr>
<td>G</td>
<td>Statewide</td>
<td>Mixed</td>
<td>8/4/12</td>
<td>N/A</td>
</tr>
</tbody>
</table>

Most of the distribution lists had statewide audiences, while two were specific to the Triangle region. They were varied in their audience of organization type, so we do not expect sampling error. Further, there were no strong correlations (nothing larger that 0.10) between any firm characteristics and the likelihood of a respondent completing the survey. However we do have limitations in the analysis from self-selection and possible non-response bias.

The survey was web-based. Qualtrics software was used to provide anonymous and confidential management of the survey distribution and data collection as well as to send out reminder and thank you emails.
Survey Design
The survey consisted of twenty-five questions, all either multiple choice or short answer. Completing the survey was estimated to take 10 to 15 minutes. The first section of the survey collected information on organizations’ demographics. Only respondents who indicated at least one employee continued the survey. The second set of questions asked about the impacts of the Great Recession on the respondent’s organization. Next, the survey collected information on the organization’s environmental, social, and employment practices. The final section included a set of questions regarding the focus and mission of the organization.

Advanced skip patterns were developed to eliminate irrelevant questions for respondents and decrease the length of the survey. After the survey was drafted, it was reviewed and pre-tested by a small group of researchers and practitioners representing different organization types. After receiving feedback from the pre-test, some questions were modified.

Limitations
We recognize that the sample is not perfectly representative of all organizations in the state. However, the survey does provide insight into the practices of a wide range of organizations across the state, covering both urban and rural areas as well as the three economic distress tiers.

It is important to note that there were no responses from 29 of the 100 counties in North Carolina. Of these, 20 are Tier 1 counties, meaning that the state classifies them as the most economically distressed. This lack of response may be tied to a lack of internet access, as more than 15 percent of North Carolina’s rural population lacks high-speed internet access (Map A.1). All Tier 1 counties are rural and thus include areas without broadband coverage. Since the survey was only distributed through email and available online, many possible respondents were physically unable to respond. This is a limitation in our results and all internet-based surveys, as we are missing information on the most distressed population in the state.

Additionally, this survey was given to organizations after the recession and thus only collects information on organizations still in existence. Our results showcase the behavior or firms that either survived the recession or were created after it. We have no information on firms that failed as a result of the recession.

Urban and Rural
Of North Carolina’s 100 counties, 15 are classified as urban and 85 as rural. Eighty of these rural counties have a population density of less than 250 people per square mile. The remaining five counties have higher population densities but other significant rural characteristics.

Classifying Economic Struggle
North Carolina’s Department of Commerce classifies each of the 100 counties in one of three distress tiers. Tier 1 is made up of the 40 most economically distressed counties, while Tier 3 comprises the 20 least distressed. Tier 2 accounts for the middle 40. The Department of Commerce ranks the counties annually based on their economic well-being, and the tier designations are then incorporated into many state programs, including tax credits that promote economic development in struggling areas. The classification is based on the unemployment rate, median household income, population change, and property values in the previous year.

For this report, 2013 classifications are used, since they were based on the economic climate in 2012, the year of the survey. In this year, six counties moved to a less distressed tier, and six moved to a higher distress tier. Those becoming less distressed were Beaufort, Cleveland, Franklin, Greene, Haywood, and Surry. Gates, Guilford, Hoke, Jackson, Lincoln, and Wilson were designated as being more distressed.
Descriptive Results

The survey received 1,004 responses with a survey completion rate of 62% (Table A.2). Respondents were asked what their position was in the organization with the intention that individuals with a high-level of understanding of the organization were completing the survey. Multiple answers were allowed. Respondents did indicate positions with this type of knowledge (Table A.3).

Table A.3: Respondent’s Position in Organization

<table>
<thead>
<tr>
<th>Position</th>
<th>Mean</th>
</tr>
</thead>
<tbody>
<tr>
<td>Owner</td>
<td>37%</td>
</tr>
<tr>
<td>CEO</td>
<td>32%</td>
</tr>
<tr>
<td>Founder</td>
<td>29%</td>
</tr>
<tr>
<td>Manager</td>
<td>20%</td>
</tr>
<tr>
<td>Director</td>
<td>18%</td>
</tr>
<tr>
<td>Employee</td>
<td>12%</td>
</tr>
<tr>
<td>COO</td>
<td>5%</td>
</tr>
<tr>
<td>CFO</td>
<td>5%</td>
</tr>
</tbody>
</table>

N = 684; Multiple answers allowed

Size of the Organization

The survey provided two measures of organization size: number of employees and revenue. These two measures are highly positively correlated (0.823).

Industry

Twenty-nine industries were reported in the survey results. These were then collapsed into a set of nine related industry classifications.

The manufacturing classification included Chemical Manufacturing; Electronic Manufacturing; Furniture Manufacturing; Industrial Machinery Manufacturing; Pharmaceutical Manufacturing; Textile Manufacturing; and Other Manufacturing.

The Retail, Arts, and Tourism classification includes Amusement, Recreation, and Gambling; Food Service; Museums, Historical Sites; Performing Arts, Spectator Sports and Related; Retail Stores; and Tourism.

Professional and Financial Services consists of Banking and Finance; Professional and Business Services; and Software and Information. Agriculture was its own category, as was “Other.” Transport and Warehouse contains Transportation Services and Warehousing and Storage respondents.

The Building and Green Energy group was made up of respondents from Green and Sustainable Energy; Publishing and Specialty Trade Contractors; and Real Estate and Housing. Health consisted of Ambulatory Health Services and Health Care and Social Assistance respondents.

And the Education and Support Development classification was comprised of Administrative and Support Services; Economic and Community Development; Educational Services or Workforce Development; Employment Services; and Religious Organization (which was created from fill-in responses to “Other”).

Legal Structure

LLP and Government classifications were created as additional options from write-in responses in the Other category, so there were fourteen legal structures used in the analysis. These were consolidated into seven groupings:

- Not Incorporated and Sole Proprietorship
- LLC and LLP
- L3C and Cooperatives
- S-Corporation and C-Corporation
- 501(c)3, 501(c)4, 501(c)6, and Other Nonprofits
- Government Entity
- Other
Appendix B: Legal Structure Options in NC

Entrepreneurs motivated by social good often feel forced to choose between profit and mission when selecting an entity that best complements their business goals. Yet this decision does not have to be presented in such stark terms. In fact, North Carolina law establishes a number of business entities that can be both profit- and mission-driven. In addition, entrepreneurs may choose to form two or more related entities that work together to accomplish social and profit objectives.

Traditional For-Profit Business Forms
For-profit business forms, such as the Business Corporation or Limited Liability Company (LLC), are attractive to many social entrepreneurs because these forms (1) permit a great deal of flexibility, (2) allow for private investment and the distribution of profits, and (3) may be viewed as more efficient than their nonprofit counterparts. Although the directors of Business Corporations must pursue profits as their primary aim, it is possible for them to weigh factors such as social benefit in their decision-making if consideration of these factors could make the business more successful over the long term. LLCs may offer comparatively more flexibility to pursue social benefit for its own sake, as the purpose of an LLC can be specified in its operating agreement.

For-Profit Business Forms with a Social Overlay
Third-Party Certification: Social entrepreneurs who want the benefits of a for-profit corporation but also want to self-identify as an enterprise engaged in working for social good may seek certification of their Corporation or LLC through a reputable third party. One well-known certification is “B Corp” certification, which requires the business to perform well on an “impact assessment” and commit to a socially conscious mission. These requirements ensure that the certification is a strong signal of the organization’s commitment to social goals. However, B Corp certification should not be confused with the benefit corporation business form, which is available in some other states.

Low-Profit Limited Liability Corporation (L3C): Because the L3C is a for-profit business form (an LLC) with an explicit charitable mission, it is perhaps the best example of a true hybrid entity. To qualify as an L3C under North Carolina law, an organization must meet specific statutory requirements: (1) the entity must be organized to advance a charitable or educational purpose, (2) neither the production of income nor the appreciation of property can be a significant purpose of the entity, and (3) no purpose of the entity can be political or legislative. Organizing as an L3C sends important market signals about the centrality of the entity’s social mission. The form may also enable access to financing that is typically available only to charities, although this benefit may be somewhat limited because the IRS does not automatically recognize a foundation’s investment in an L3C as a program-related investment. (See endnote 2 for an update on the North Carolina law.)

Tax-Exempt Nonprofit Corporation
A tax-exempt Nonprofit Corporation can be an appropriate vehicle for many social entrepreneurs. The benefits of the nonprofit form are that it (1) ensures the priority of the entrepreneur’s social mission, (2) allows for the receipt of charitable support through donations and grants, and (3) clearly conveys the organization’s social mission to the public. Tax-exempt nonprofit corporations can employ business methods to accomplish their social mission while retaining their tax-exempt status as long as the organization’s business activity is “substantially related” to its tax-exempt purpose or the business activity constitutes an insubstantial part of the organization’s overall activities.

Organizations Founded on Cooperative Principles
Cooperatives are a traditional business form in which all members have ownership and governance rights. Social entrepreneurs have used creative legal means to incorporate cooperative principles into other business forms as well. With appropriate legal advice, cooperative structures can be an effective vehicle to accomplish social entrepreneurs’ goals.

This resource is intended as an overview; for more specific guidance and for assistance in drafting organizational documents, it is important to consult an attorney and a tax adviser.

The NC Fourth Sector Resource Project gratefully acknowledges the assistance of the Community Enterprise Clinic at Duke Law School in preparing this document. Information is accurate as of April 10, 2013. For updates, please visit http://ncfsrp.org/business-structures
## Appendix C: Detailed Tables

### Table C.1: Ten Most Frequent Counties Represented

<table>
<thead>
<tr>
<th>County</th>
<th>Obs.</th>
<th>Percent of Sample</th>
<th>Percent of State</th>
</tr>
</thead>
<tbody>
<tr>
<td>Wake</td>
<td>124</td>
<td>15.62%</td>
<td>12.14%</td>
</tr>
<tr>
<td>Orange</td>
<td>109</td>
<td>13.73%</td>
<td>1.55%</td>
</tr>
<tr>
<td>Durham</td>
<td>99</td>
<td>12.47%</td>
<td>3.01%</td>
</tr>
<tr>
<td>Mecklenburg</td>
<td>67</td>
<td>8.44%</td>
<td>13.46%</td>
</tr>
<tr>
<td>Guilford</td>
<td>36</td>
<td>4.53%</td>
<td>5.88%</td>
</tr>
<tr>
<td>Forsyth</td>
<td>29</td>
<td>3.65%</td>
<td>3.27%</td>
</tr>
<tr>
<td>Buncombe</td>
<td>20</td>
<td>2.52%</td>
<td>3.27%</td>
</tr>
<tr>
<td>Lee</td>
<td>17</td>
<td>2.14%</td>
<td>0.57%</td>
</tr>
<tr>
<td>Chatham</td>
<td>14</td>
<td>1.76%</td>
<td>0.56%</td>
</tr>
<tr>
<td>Surry</td>
<td>12</td>
<td>1.51%</td>
<td>0.75%</td>
</tr>
</tbody>
</table>

NC distribution is of establishments with employees

### Table C.2: Additional Counties Represented

<table>
<thead>
<tr>
<th>County</th>
<th>Obs.</th>
<th>Percent</th>
<th>County</th>
<th>Obs.</th>
<th>Percent</th>
<th>County</th>
<th>Obs.</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Caldwell</td>
<td>10</td>
<td>1.26</td>
<td>Jackson</td>
<td>4</td>
<td>0.5</td>
<td>Pasquotank</td>
<td>2</td>
<td>0.25</td>
</tr>
<tr>
<td>Harnett</td>
<td>9</td>
<td>1.13</td>
<td>Lenoir</td>
<td>4</td>
<td>0.5</td>
<td>Polk</td>
<td>2</td>
<td>0.25</td>
</tr>
<tr>
<td>Haywood</td>
<td>9</td>
<td>1.13</td>
<td>Lincoln</td>
<td>4</td>
<td>0.5</td>
<td>Rowan</td>
<td>2</td>
<td>0.25</td>
</tr>
<tr>
<td>Iredell</td>
<td>9</td>
<td>1.13</td>
<td>Pitt</td>
<td>4</td>
<td>0.5</td>
<td>Stokes</td>
<td>2</td>
<td>0.25</td>
</tr>
<tr>
<td>Montgomery</td>
<td>9</td>
<td>1.13</td>
<td>Cumberland</td>
<td>3</td>
<td>0.38</td>
<td>Wayne</td>
<td>2</td>
<td>0.25</td>
</tr>
<tr>
<td>Cabarrus</td>
<td>8</td>
<td>1.01</td>
<td>Hertford</td>
<td>3</td>
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<td>Brunswick</td>
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<td>0.13</td>
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<td>Watauga</td>
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<td>Yancey</td>
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<td>Franklin</td>
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<td>Granville</td>
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<td>Greene</td>
<td>1</td>
<td>0.13</td>
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<td>Burke</td>
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<td>Bertie</td>
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<td>Johnston</td>
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<td>Madison</td>
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<tr>
<td>Union</td>
<td>5</td>
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<td>Duplin</td>
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<td>0.25</td>
<td>Perquimans</td>
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<td>0.13</td>
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<td>Halifax</td>
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<td>Randolph</td>
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<td>Vance</td>
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<td>Warren</td>
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<td>Yadkin</td>
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<td>Graham</td>
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**Table C.3: NC Distribution of Establishments with Employees, 2011**

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<tr>
<th>County</th>
<th>Percent</th>
<th>County</th>
<th>Percent</th>
<th>County</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mecklenburg</td>
<td>13.46%</td>
<td>Harnett</td>
<td>0.70%</td>
<td>Stokes</td>
<td>0.28%</td>
</tr>
<tr>
<td>Wake</td>
<td>12.14%</td>
<td>Watauga</td>
<td>0.70%</td>
<td>Bladen</td>
<td>0.27%</td>
</tr>
<tr>
<td>Guilford</td>
<td>5.88%</td>
<td>Lincoln</td>
<td>0.68%</td>
<td>Currituck</td>
<td>0.27%</td>
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<tr>
<td>Forsyth</td>
<td>3.72%</td>
<td>Burke</td>
<td>0.64%</td>
<td>Ashe</td>
<td>0.26%</td>
</tr>
<tr>
<td>Buncombe</td>
<td>3.27%</td>
<td>Haywood</td>
<td>0.61%</td>
<td>Avery</td>
<td>0.26%</td>
</tr>
<tr>
<td>New Hanover</td>
<td>3.03%</td>
<td>Lenoir</td>
<td>0.60%</td>
<td>Alexander</td>
<td>0.25%</td>
</tr>
<tr>
<td>Durham</td>
<td>3.01%</td>
<td>Caldwell</td>
<td>0.59%</td>
<td>Montgomery</td>
<td>0.23%</td>
</tr>
<tr>
<td>Cumberland</td>
<td>2.61%</td>
<td>Stanly</td>
<td>0.59%</td>
<td>McDowell</td>
<td>0.23%</td>
</tr>
<tr>
<td>Iredell</td>
<td>2.00%</td>
<td>Lee</td>
<td>0.57%</td>
<td>Polk</td>
<td>0.23%</td>
</tr>
<tr>
<td>Union</td>
<td>1.88%</td>
<td>Wilkes</td>
<td>0.57%</td>
<td>Hertford</td>
<td>0.23%</td>
</tr>
<tr>
<td>Catawba</td>
<td>1.82%</td>
<td>Rutherford</td>
<td>0.56%</td>
<td>Anson</td>
<td>0.20%</td>
</tr>
<tr>
<td>Cabarrus</td>
<td>1.73%</td>
<td>Chatham</td>
<td>0.56%</td>
<td>Chowan</td>
<td>0.18%</td>
</tr>
<tr>
<td>Gaston</td>
<td>1.71%</td>
<td>Beaufort</td>
<td>0.53%</td>
<td>Hoke</td>
<td>0.18%</td>
</tr>
<tr>
<td>Pitt</td>
<td>1.59%</td>
<td>Madison</td>
<td>0.50%</td>
<td>Swain</td>
<td>0.18%</td>
</tr>
<tr>
<td>Orange</td>
<td>1.55%</td>
<td>Sampson</td>
<td>0.49%</td>
<td>Mitchell</td>
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</tr>
<tr>
<td>Alamance</td>
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<td>0.48%</td>
<td>Northampton</td>
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<tr>
<td>Johnston</td>
<td>1.32%</td>
<td>Columbus</td>
<td>0.48%</td>
<td>Bertie</td>
<td>0.16%</td>
</tr>
<tr>
<td>Onslow</td>
<td>1.20%</td>
<td>Franklin</td>
<td>0.47%</td>
<td>Yancey</td>
<td>0.16%</td>
</tr>
<tr>
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<td>Halifax</td>
<td>0.46%</td>
<td>Martin</td>
<td>0.15%</td>
</tr>
<tr>
<td>Davidson</td>
<td>1.18%</td>
<td>Jackson</td>
<td>0.45%</td>
<td>Alleghany</td>
<td>0.14%</td>
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<td>Randolph</td>
<td>1.11%</td>
<td>Pender</td>
<td>0.43%</td>
<td>Warren</td>
<td>0.14%</td>
</tr>
<tr>
<td>Rowan</td>
<td>1.08%</td>
<td>Pasquotank</td>
<td>0.41%</td>
<td>Greene</td>
<td>0.13%</td>
</tr>
<tr>
<td>Brunswick</td>
<td>1.06%</td>
<td>Edgecombe</td>
<td>0.40%</td>
<td>Pamlico</td>
<td>0.13%</td>
</tr>
<tr>
<td>Moore</td>
<td>1.05%</td>
<td>Richmond</td>
<td>0.37%</td>
<td>Jones</td>
<td>0.12%</td>
</tr>
<tr>
<td>Nash</td>
<td>1.00%</td>
<td>Granville</td>
<td>0.37%</td>
<td>Caswell</td>
<td>0.12%</td>
</tr>
<tr>
<td>Craven</td>
<td>0.98%</td>
<td>Davie</td>
<td>0.37%</td>
<td>Washington</td>
<td>0.12%</td>
</tr>
<tr>
<td>Wayne</td>
<td>0.97%</td>
<td>Vance</td>
<td>0.37%</td>
<td>Clay</td>
<td>0.11%</td>
</tr>
<tr>
<td>Carteret</td>
<td>0.92%</td>
<td>Transylvania</td>
<td>0.36%</td>
<td>Camden</td>
<td>0.10%</td>
</tr>
<tr>
<td>Robeson</td>
<td>0.85%</td>
<td>Person</td>
<td>0.32%</td>
<td>Perquimans</td>
<td>0.09%</td>
</tr>
<tr>
<td>Cleveland</td>
<td>0.84%</td>
<td>Macon</td>
<td>0.31%</td>
<td>Hyde</td>
<td>0.09%</td>
</tr>
<tr>
<td>Dare</td>
<td>0.82%</td>
<td>Cherokee</td>
<td>0.30%</td>
<td>Graham</td>
<td>0.08%</td>
</tr>
<tr>
<td>Wilson</td>
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<td>Scotland</td>
<td>0.29%</td>
<td>Gates</td>
<td>0.07%</td>
</tr>
<tr>
<td>Surry</td>
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<td>Yadkin</td>
<td>0.29%</td>
<td>Tyrrell</td>
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</tr>
<tr>
<td>Rockingham</td>
<td>0.73%</td>
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NC distribution is of establishments with employees
Table C.4: Community’s Economy by Tier

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<thead>
<tr>
<th></th>
<th>Growing</th>
<th>Stable</th>
<th>Mixed</th>
<th>Declining</th>
<th>Uncertain</th>
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<tbody>
<tr>
<td>Full Sample</td>
<td>20%</td>
<td>29%</td>
<td>33%</td>
<td>14%</td>
<td>4%</td>
</tr>
<tr>
<td>N</td>
<td>125</td>
<td>185</td>
<td>205</td>
<td>89</td>
<td>26</td>
</tr>
<tr>
<td>Rural</td>
<td>9%</td>
<td>23%</td>
<td>34%</td>
<td>29%</td>
<td>4%</td>
</tr>
<tr>
<td>Urban</td>
<td>24%</td>
<td>32%</td>
<td>33%</td>
<td>8%</td>
<td>4%</td>
</tr>
<tr>
<td>Tier 1</td>
<td>3%</td>
<td>23%</td>
<td>33%</td>
<td>34%</td>
<td>6%</td>
</tr>
<tr>
<td>Tier 2</td>
<td>12%</td>
<td>18%</td>
<td>37%</td>
<td>30%</td>
<td>2%</td>
</tr>
<tr>
<td>Tier 3</td>
<td>24%</td>
<td>33%</td>
<td>32%</td>
<td>6%</td>
<td>5%</td>
</tr>
<tr>
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<td>3%</td>
<td>23%</td>
<td>33%</td>
<td>34%</td>
<td>6%</td>
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<tr>
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<td>19%</td>
<td>32%</td>
<td>33%</td>
<td>3%</td>
</tr>
<tr>
<td>Rural Tier 3</td>
<td>11%</td>
<td>30%</td>
<td>40%</td>
<td>15%</td>
<td>4%</td>
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Table C.5: Industry Distribution

<table>
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<tr>
<th>Industry Category</th>
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<th>Rural</th>
<th>Tier 1 (High)</th>
<th>Tier 2</th>
<th>Tier 3 (Low)</th>
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<tr>
<td>Manufacturing</td>
<td>189</td>
<td>99</td>
<td>90</td>
<td>37</td>
<td>59</td>
<td>93</td>
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<tr>
<td>Professional &amp; Financial</td>
<td>140</td>
<td>119</td>
<td>21</td>
<td>4</td>
<td>19</td>
<td>117</td>
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<tr>
<td>Education &amp; Support</td>
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<td>62</td>
<td>10</td>
<td>3</td>
<td>4</td>
<td>65</td>
</tr>
<tr>
<td>Building &amp; Green Energy</td>
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<td>50</td>
<td>16</td>
<td>5</td>
<td>16</td>
<td>45</td>
</tr>
<tr>
<td>Retail, Arts, Tourism</td>
<td>44</td>
<td>20</td>
<td>24</td>
<td>6</td>
<td>11</td>
<td>27</td>
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<tr>
<td>Health</td>
<td>33</td>
<td>26</td>
<td>7</td>
<td>3</td>
<td>5</td>
<td>25</td>
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<tr>
<td>Transport &amp; Warehouse</td>
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<td>9</td>
<td>7</td>
<td>2</td>
<td>5</td>
<td>9</td>
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<tr>
<td>Other</td>
<td>15</td>
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<td>2</td>
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<td>2</td>
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</table>

Urban-Rural: Pearson χ²(8) = 70.5338  Pr = 0.000
Economic Distress Tier: Pearson χ²(16) = 71.9602  Pr = 0.000

Table C.6: Legal Classification Distribution

<table>
<thead>
<tr>
<th>Legal Structures</th>
<th>Freq.</th>
<th>Urban</th>
<th>Rural</th>
<th>Tier 1 (High)</th>
<th>Tier 2</th>
<th>Tier 3 (Low)</th>
</tr>
</thead>
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<tr>
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<td>23</td>
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<td>4</td>
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<td>10</td>
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<td>22</td>
<td>87</td>
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<td>2</td>
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<td>2</td>
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<td>2</td>
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</table>

Urban-Rural: Pearson χ²(6) = 31.3462  Pr = 0.000
Economic Distress Tier: Pearson χ²(12) = 41.6158  Pr = 0.000
Endnotes and References

2. “As of Jan. 1, 2014, the L3C business structure will no longer be an option in North Carolina. L3Cs formed prior to that date will be allowed to continue operating as such.” Senate Bill 439/S.L. 2013-157.
3. Dawn Trembath, private communications.
4. For example, Peter Couchman’s work in the UK: How social enterprise can transform rural life and Carnegie Mellon University’s work: Creating Seedbeds for Social Innovation.
6. North Carolina Department of Commerce: 2011 NC Economic Index
7. Ibid.
8. Ibid.
17. Ibid.
27. North Carolina Department of Commerce: 2013 Article 3J County Tier Designations.