

Do hybrid firms out-provide traditional business structures? An examination of prosocial behavior in North Carolina firms

Dr. Alexandra Graddy Reed
Assistant Professor of Public Policy
USC Price School of Public Policy

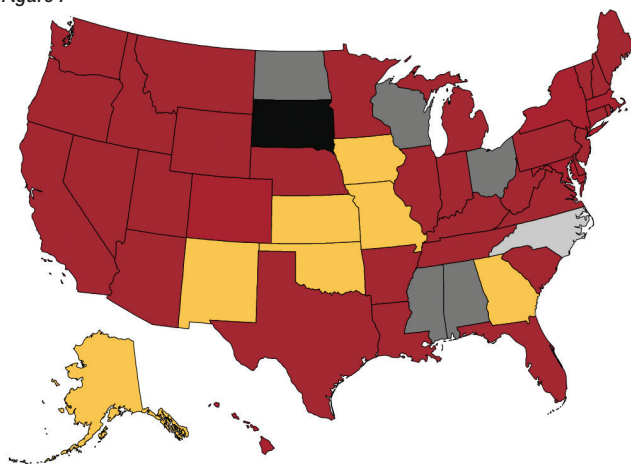
INTRODUCTION

Hybrid organizations are organizations that employ a for-profit model with a social mission. In recent years, there has been a push to create formal legal designations that protect the organization’s social mission while allowing it to access investment capital and other funding traditionally reserved for for-profit organizations. Examples of formal hybrid organizations include cooperatives, benefit corporations, and low-profit limited liability corporations (L3C). Figure 1 illustrates the number of states with active legislation in this area. With the rise in popularity of hybrid organizations, it is necessary to understand how socially conscious or prosocial practices vary across organizational form.

SNAPSHOT FINDINGS

- Formal hybrid firms out-perform traditional firms in prosocial production practices.
- Self-identification as a hybrid or social enterprise organization is associated with a higher rate of prosocial training and investment practices than firms that do not self-identify this way.

Figure 1



LEGAL STATUS OF HYBRID ORGANIZATIONS

- Enacted Legislation
- Under Construction
- Failed Legislation
- No Activity
- Repealed Legislation

DEFINITIONS

PROSOCIAL Voluntary actions by firms or individuals that have associated costs but deliver socially-motivated benefits to employees, the environment, or the community in which it operates.

HYBRID ORGANIZATION A for-profit organization with a social mission. Hybrid organizations do not receive tax benefits.

FORMAL HYBRID ORGANIZATION

A hybrid organization that operates within a formal legal structure registered with the state that it operates in. Examples include cooperatives, benefit corporations, and low-profit limited liability corporations (L3C).

WHAT ARE PROSOCIAL BEHAVIORS?

PROSOCIAL BASIC PRACTICES include employee benefits (paid vacation and sick leave, paid health insurance, and employee retirement contributions) as well as environmental practices such as recycling, water conservation, and energy conservation.

PROSOCIAL PRODUCTION PRACTICES include hiring suppliers with good social or environmental practices, favoring local suppliers, or employing production practices that benefit the environment.

PROSOCIAL INVESTMENT PRACTICES include hiring hard to employ populations, paying a living wage, providing employee training and educational support programs, and community initiatives that provide donations, support health and educational programs, or provide special financing for community initiatives.

RESEARCH APPROACH

Hybrid organizations vary in many ways, but at the core of all hybrid organizations is a commitment to prosocial behavior — making a positive social or environmental impact.

This study organized prosocial behaviors into three categories:

- Prosocial basic practices
- Prosocial production practices
- Prosocial investment practices

In this study, we collected and analyzed data from approximately 750 nonprofit and for-profit organizations, as well as informal and formal hybrid organizations (L3Cs and cooperatives) in North Carolina to assess how prosocial practices differ between formal and informal hybrid, nonprofit, and for-profit organizations. Figure 2 notes the number of pro-social practices among these organizations.

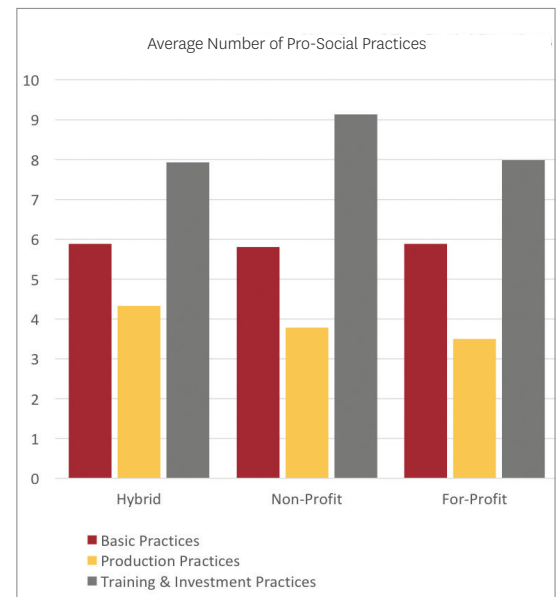


Figure 2

FINDINGS

Formal hybrid firms out-provide non-hybrid firms in prosocial production practices

Even when controlling for other firm demographics and geographic conditions, formal hybrid firms provide greater prosocial production practices than traditional firms. This may be due to the fact that hybrid firms are not limited by the young age or potentially small size of the organization in providing more of these practices than both informal social enterprises and traditional firm structures.

Organizational identity and investment practices

Although formal hybrid organizations are out-providing traditional firms, this research did not find an association between legal form and prosocial investment practices. These prosocial behaviors, like subsidizing employee education or financing community enterprises, tend to be costlier to provide and thus potentially not feasible to younger and smaller hybrid forms. Additionally, research did not find an association between legal form and the number of basic prosocial practices in place.

Self-identification v. Legal status

While formal legal status was not associated with significant differences for training and investment practices, *self-identification* as a hybrid or social enterprise organization is associated with increased prosocial training and investment practices. Identifying as *'for-profit with social assistance'* is associated with a higher rate of prosocial training and investment practices than firms that do not self-identify this way.

POLICY IMPLICATIONS

Research indicates that firms registering as formal hybrid structures are engaged in higher levels of prosocial behavior. This study has identified clear benefits to prosocial behavior, but future research must determine the monitoring costs.

CONTACT

For questions or additional information about this brief, please contact Megan Goulding, Director of External Affairs, at mgouldin@usc.edu

@USCPriceCSI
<https://www.facebook.com/PriceSocialInnovation>
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