THE L3C MOVEMENT: A CASE OF CONTRARY MOTION

SUSAN R. DANA*
LAURA M. PROSSER**

I. INTRODUCTION

Recently social entrepreneurship, an innovative movement, has emerged that has been defined as “organizations whose primary purpose is to serve the common good, and whose strategy applies business disciplines and market-based strategies to achieve social or environmental missions.”¹ Social entrepreneurs adhere to a “double bottom line” construct.² This dynamic fusion is the result of uniting a social mission with a profitmaking objective.³

¹ Sheryle Gillihan, Is Your Organization a Social Enterprise? HIDEF BLOG (July 20, 2012), https://sheryl.es/is-your-organization-a-social-enterprise/. See also Roger L. Martin & Sally Osberg, Social Enterprise: The Case for Definition, STANDARD SOCIAL INNOVATION REVIEW (Spring 2007), http://www.ssireview.org/articles/entry/social_entrepreneurship_the_case_for_definition/ (providing a comprehensive and meticulous discussion as to the definition of social entrepreneurship). See generally Evolution of the Social Enterprise Industry: A Chronology Of Key Events, THE INSTITUTE FOR SOCIAL ENTREPRENEURS (August 1, 2008), http://socialent.org/documents/EVOLUTIONOFTHESOCIALENTERPRISEINDUSTRY--ACHRONOLOGYOFKEYEVENTS.pdf (discussing the evolution of social enterprise); Fredrik O. Anderson, Social Entrepreneurship As Fetish, NONPROFIT QUARTERLY, 2 (April 2012) (Noting that the phrase, “social entrepreneurship” encompasses variant definitions and that one precise definition has failed to emerge. The author likens the definition to a shape-shifter.).


³ See Robert Lang, The L3C – Background & Legislative Issues, https://issuu.com/ladywyspr/docs/the_l3c_law_-_background_legislat (last visited May 22, 2015). See Mark R. Krogstad, Filling the Gap: Addressing the Potential Impact of North Dakota Adopting Legislation Creating a New Entity – The Low Profit Limited Liability Company, 86 N.D. L. REV. 535, 545 (2010) (Each sector has a distinctive bottom line. For the profitable entity, the bottom line is to generate a profit. The bottom line for a non-profit organization is the fulfillment of its stated charitable mission. This illuminates a wide gap that
The underlying premise of a social enterprise is stimulating and inspiring. However, the implementation of such a novel approach is proving to be problematic, given the limitations in the current corporate legal landscape. Multiple new business models have been created to implement the movement. One of these is examined: the low-profit limited liability corporation (L3C). This paradigm will be defined and reviewed, including a statistical analysis of data collected from corporations who have elected to utilize the L3C option.

II. A BRIEF HISTORY OF THE TRADITIONAL CORPORATE IDEOLOGY

It has been well established that American corporation law is anchored by the dictates of the profit maximization for shareholders norm. As such, shareholder primacy is intrinsic in its structure. This traditional corporate ideology remains steadfast, and has been the dominant approach to corporate governance. This conventional ideology was articulated by the Michigan Supreme Court in *Dodge v. Ford Motor Co.* The Court directed the Ford Motor Company to pay dividends to their shareholders, thereby trumping Henry Ford’s conviction of humanitarianism. Henry Ford

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10 *Id.* at 671. (“My ambition”, declared Ford, “is to employ still more men; to spread the benefits of this industrial system to the greatest possible number, to help them build up their lives and their homes.”).
believed that the shareholders had earned a sufficient amount of profit and his intent was to redirect further profits from the company to benefit the public.11 The Court, however, held that, “a business corporation is organized and carried on primarily for the profit of the stockholders. The powers of the directors are to be employed for that end.”12 This pronouncement by the Michigan Supreme Court in 1919 continues to influence corporate ideology and has been continuously upheld by the courts.13 For example, in the 2010 case of eBay Domestic Holdings v. Newmark, the shareholders of Craigslist, Inc. were in disagreement over what the precise business objective of the corporation should be.14 Two competing ideologies had emerged: to operate the business in the pursuit of profit maximization and to function to provide a free community service, thereby providing a social benefit.15 The court acknowledged that when a business is formed as a for-profit corporation, the directors must adhere to certain standards in matters of corporate governance.16 In upholding the profit maximization theory, the Delaware court stated, “those standards include acting to promote the value of the corporation for the benefit of its stockholders.”17 The court noted that for this particular business, the for-profit structure was not the “appropriate vehicle for purely philanthropic ends”.18 Undoubtedly, the shareholder primacy norm has proven to be persistent over time as it has determined American corporation law for over a century.19 Adherence to this principle has ensured financial optimization as the primary goal for corporations.20

Does a corporation have any responsibilities other than profit maximization? In 1970, American economist Milton Freidman articulated his view on corporate obligations in a New York Times magazine article

11 Id.
12 Id. at 684.
14 eBay Domestic Holdings, Inc. v. Newmark, 16 A.3d 1 (Del. Ch. 2010) (At the time of the lawsuit, Craigslist, Inc. had three shareholders. The first two included Craigslist, Inc. founder, Craig Newmark and James Buckmaster. The two together owned a majority of the shares and both served as directors. The third shareholder, eBay, was the minority shareholder.).
15 Id. at 15. (eBay was intent on adopting a wealth maximizing culture for Craigslist, Inc. However, Craig Newmark and James Buckmaster believed that the business should adhere to a socially beneficial mission.).
16 Id. at 34.
17 Id.
18 Id.
19 See Ian Kanig, Sustainable Capitalism through the Benefit Corporation: Enforcing the Procedural Duty of Consideration to Protect Non-Shareholder Interests, 64 HASTINGS L.J. 863, 877 (2013).
entitled, *The Social Responsibility of Business is to Increase Profits*. 21 Implicit in the title, Freidman pronounced in the essay that in a free market economic system, “there is one and only one social responsibility of business – to use its resources and engage in activities designed to increase its profits so long as it stays within the rules of the game.”22 His position has generated much contention over the past forty years.23 One such critic, businessman John Mackey, states that Freidman’s view of corporate obligation, “woefully undersells the humanitarian dimension of capitalism”.24 Mackey, the CEO of Whole Foods, contends that the corporation has a responsibility in creating value for all of its stakeholders, not only the shareholders.25

### III. THE EMERGENCE OF CREATIVE CAPITALISM

Entrepreneur Bill Gates’ view on corporate responsibility is also in sharp contrast to that enunciated by Freidman.26 Gates created a movement called *creative capitalism* in which businesses can earn a profit while serving people in need.27 He stated, “If we can spend the early decades of the 21st century finding approaches that meet the needs of the poor in ways that generate profits and recognition for business, we will have found a sustainable way to reduce poverty in the world.”28 For a business


22 Id.

23 See Why Companies Can No Longer Afford to Ignore Their Social Responsibilities, TIME BUSINESS & MONEY BLOG (May 28, 2012), http://business.time.com/2012/05/28/why-companies-can-no-longer-afford-to-ignore-their-social-responsibilities/print/ (arguing that Freidman’s articulation of the role of corporate responsibility for a business has evolved to become a priority for many businesses, as opposed to a dispensable and needless activity).

24 Rethinking the Social Responsibility of Business, A Reason Debate Featuring Milton Freidman, Whole Foods' John Mackey, and Cypress Semiconductor's T.J. Rodgers, REASON MAGAZINE (October, 2005), http://reason.com/archives/2005/10/01/rethinking-the-social-responsibility. (Debater John Mackey, believes the notion that a corporation has only one social responsibility which is to maximize profits is too narrow. Alternatively, he suggests that the corporation owes a duty to each of the corporate stakeholders in order to “promote desirable social ends”.).

25 Id.


27 Id.

28 Id.
participating in socially beneficial activities, such recognition, as interpreted by one commentator, would be the increase in stock prices and human capital.\textsuperscript{29} As Gates addressed Harvard graduates in his 2007 commencement speech, it was abundantly clear that he envisioned the role of enterprise as being pivotal in assisting with serving people in need.\textsuperscript{30} He stated, “If we can find approaches that meet the needs of the poor in ways that generate profits for businesses and votes for politicians, we will have found a sustainable way to reduce inequity in the world.”\textsuperscript{31}

Recently, entrepreneurs have emerged that recognize that a corporation can and should integrate socially beneficial goals into its mission.\textsuperscript{32} The end result is a corporation with a dual purpose: pursuing profits and achieving a social benefit.\textsuperscript{33} Social enterprise, as this type of business has been referred to, has been described as “an organization or venture (within an organization) that advances a social mission through market-based strategies.”\textsuperscript{34} Arguably, the current corporate structure impedes the ability of social enterprises to accomplish this dual purpose.\textsuperscript{35} Not only does the legal structure encumber these types of entities, but it also may be “a trap for unwary social entrepreneurs, capable of overwhelming the most sincere efforts of corporations to combine financial goals with a social mission.”\textsuperscript{36}

Ben & Jerry’s, an ice cream company with a social purpose, experienced this situation precisely.\textsuperscript{37} Some believe that corporate law was responsible for the erosion of Ben & Jerry’s social mission after the sale of the company to Unilever, a corporation that had a primary mission to

\begin{footnotes}
\item[29] See Schoenjahn, \emph{supra} note 7, at 463.
\item[31] Id.
\item[32] See Steven Munch, \emph{Improving the Benefit Corporation: How Traditional Governance Mechanisms Can Enhance the Innovative New Business Form}, 7 NW J. L. & SOC. POL’Y 170, 172 (2012). See generally Esposito, \emph{supra} note 4, at 671 (discussing the fact that the social enterprise movement is emerging not only in the United States, but also in Europe).
\item[33] See Munch, \emph{supra} note 32, at 172.
\item[34] Community Wealth Ventures, Social Enterprise Alliance, & Center for the Advancement of Social Entrepreneurship, \emph{Social Enterprise: A Portrait of the Field}, http://community-wealth.org/content/social-enterprise-portrait-field (last visited June 25, 2015).
\item[35] Id. See also Briana Cummings, \emph{Benefit Corporations: How to Enforce a Mandate to Promote the Public Interest}, 112 COLUM. L. REV. 578, 579 (2012).
\item[37] See Page & Katz, \emph{supra} note 36, at 213.
\end{footnotes}
maximize profits. Presumably, the directors of Ben & Jerry’s accepted Unilever’s offer to purchase the company because, otherwise, they would face potential lawsuits from its shareholders. Some commentators perceived that it was forced upon the board of directors due to legal obligation.

On the contrary, critics believe that the directors of Ben & Jerry’s were not in fact forced to accept the offer from Unilever, due to a legal doctrine known as the business judgment rule. This rule gives the board of directors broad discretion in making decisions, so long as the resultant action was in the best interest of the corporation.

Despite the critic’s opinions, Jerry Cohen himself confirmed that the motivation to sell was rooted in the pressure of potential lawsuits. In addition, one commentator recognized, “the business judgment rule will not protect a board whose actions exceed the bounds of rational business judgment”. The Ben and Jerry’s situation certainly was a “legal conundrum” for the founders, as the original social mission was deprioritized.

In addition to the business judgment rule, constituency statutes are laws that have been adopted in the majority of states. They permit directors to

38 See Anthony Page & Robert A. Katz, The Truth About Ben & Jerry’s, STANFORD SOCIAL INNOVATION REV. 2012, http://www.ssireview.org/articles/entry/the_truth_about_ben_and_jerrys (Ben Cohen and Jerry Greenfield founded an ice cream store, Ben & Jerry’s, in Vermont in 1978. They were social entrepreneurs who incorporated a social mission of making a positive impact on the community and the environment.).
41 See Page & Katz, supra note 38.
42 Anthony Bisconti, The Double Bottom Line: Can Constituency Statutes Protect Socially Responsible Corporations Stuck in Revlon Land?, 42 LOY. L.A. L. REV. 765, 776 (2009). See, e.g., Shlensky v. Wrigley, 237 N.E.2d. 776 (Ill. App. Ct. 1968) (applying the business judgment rule, the court ruled that Wrigley's decision to not play baseball at night was not fraud, illegality or conflict of interest).
43 Supra note 40.
44 Bisconti, supra note 42, at 777. (In his article, he cites legal authority for this statement as Revlon, Inc. v. MacAndrews & Forbes Holdings, Inc. 506 A.2d 173 (Del. 1986) where the Delaware Supreme Court held that the directors of Revlon, Inc. breached their duty to shareholders when they accepted a tender offer that was not the highest price.).
45 Baghramyan, supra note 4, at 15.
46 See Kathleen Hale, Corporate Law and Stakeholders: Moving Beyond Stakeholder Statutes, 45 ARIZ. L. REV. 823, 833 (2003). See also Neetal Parekh, What is a Constituency Statute?,
take into consideration the interests of multiple stakeholders, or constituents, during the decision making process. 47 Such constituency groups run the gamut from employees and customers to shareholders and the community. 48 Currently, thirty-one states have passed such legislation. 49 Arguably, these statutes lack effectiveness in protecting directors when making decisions that are contrary to the shareholder primacy norm. 50 One commentator stated, “Courts and directors alike have largely overlooked these statutes and their impact has disappointed many scholars.” 51

The business judgment rule and the constituency statutes have merely provided uncertainty and complexity for directors. Through all the ambiguity, however, it remains clear that the tenets of shareholder primacy and profit maximization remain steadfast and are intrinsic in the legal structure of a corporation. 52

It has been previously discussed that the traditional for-profit corporate paradigm is a hindrance for social entrepreneurs. 53 The other option, the non-profit business model, has also proven to be inadequate for these types of entities. 54 A major disadvantage of this model is being bound by regulatory constraints. 55 An example of such constraint is the IRS rule known as the

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47 Bisconti, supra note 42 at 788.
48 See Munch, supra note 32, at 181 (noting that some of the state constituency statutes contain variations to the definition of “stakeholders”).
49 John Tyler, Negating the Legal Problem of Having “Two Masters”: A Framework for L3C Fiduciary Duties and Accountability, 35 VT. L. REV. 117, 132 (2010) (The statutes that have been passed have major differences among them. One difference is that in some states the directors are permitted to consider non-shareholder interests as opposed to other states where the consideration is mandated. Another area of inconsistency includes the coverage of the law. In some states, such as South Dakota, the statute only applies to the directors of publicly traded corporations.).
50 See Nathan E. Standley, Lessons Learned from the Capitulation of the Constituency Statute, 4 ELOF L. REV. 209, 227 (2012) (The ineffectiveness is, in part, due to the permissive nature of the language set forth in the statutes. Thus, the credibility is called into question. In addition, the small amount of precedent available also seems to contribute to the perception of being ineffective.). See also J. Haskell Murray, Defending Patagonia: Mergers & Acquisitions with Benefit Corporations, 9 HASTINGS BUS. L. J. 485, 504 (2013) (observing the “lack of effectiveness” of the constituency statutes).
51 Standley, supra note 50, at 209, (The author perceives the constituency laws to be ambiguous and irrelevant.). See also, Esposito, supra note 4, at 645 (2013) (“In reality, profit-maximization continues to dictate business decisions, and constituency statutes require no material change to business as usual.”).
53 See Lang, supra note 3.
54 See Baghramyan, supra note 4, at 10.
“non-distribution constraint”. This requirement prohibits the organization from distributing profits to “individuals or entities maintaining control positions within them.” The main deterrent, however, is the inability to raise capital from investors. This deterrent further perpetuates the overarching issue for the non-profit structure: organizational sustainability.

IV. A CREATIVE SOLUTION FOR SOCIAL ENTREPRENEURS

The social entrepreneur has a vision for creative capitalism, that is, to embrace societal needs and achieve sustainability for the entity. The existing legal mechanisms are ineffective at facilitating the meeting of organization’s strategy of coupling mission oriented pursuits with viable entrepreneurship. There was a need for social enterprise to have a legal structure that was designed specifically for such an entity. As a result, a new legal structure has emerged to empower social entrepreneurs that effectually would omit having to choose between the for-profit model and the nonprofit framework.

The L3C innovation was conceptualized by Robert Lang, CEO of the Mary Elizabeth & Gordon B. Mannweiler Foundation. Lang characterized this new business model as “the for-profit with the non-profit soul”. He

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56 26 U.S.C.A. § 501(c)(3) (“Corporations, and any community chest, fund, or foundation, organized and operated exclusively for religious, charitable, scientific, testing for public safety, literary, or educational purposes...no part of the net earnings of which inures to the benefit of any private shareholder or individual....”); See also, 26 C.F.R. § 1.501(c)(3)-1(c)(2) (“An organization is not operated exclusively for one or more exempt purposes if its net earnings inure in whole or in part to the benefit of private shareholders or individuals.”). See generally Kanig, supra note 19; Jeramie J. Fortenberry, The Inurement Prohibition & Non-Profit Organizations, NONPROFIT LAW REPORT, 2013, http://www.fortenberrylaw.com/?s=The+Inurement+Prohibition+%26+Non-Profit+Organizations /.


58 Baghramyan, supra note 4, at 14.


61 See Thomas Kelly, Law and Choice of Entity on the Social Enterprise Frontier, 84 TUL. L. REV. 337, 369 (2009) (asserting the current corporate framework is inadequate to effectuate the goals of the social entrepreneur).


63 Id.

64 Witkin, supra note 60.

believed that a new business paradigm needed to materialize in order to provide an avenue for capital growth for social enterprises, which had been stifled due to the constraints that are inherent in the conventional corporate frameworks. As was delineated by Lang, the L3C is, in part, a for-profit entity that is based on the limited liability company (LLC) framework. Consequently, the L3C will provide limited liability for its owners, and may earn profits and make distributions to its members. In supporting the L3C, one author stated, “We need to create an environment where philanthropy can potentially be a source of competitive advantage.” As one commentator articulated, “raising funds is where the L3C has an edge”.

Lang’s representation of the L3C also describes it as bearing a non-profit soul. The L3C is designed to perform a social mission, which is to positively impact human and environmental welfare. Pursuant to L3C statutory requirements, the social mission must be for the accomplishment of a religious, charitable, scientific, literary, or educational purpose. Because of the hybrid nature of this entity, it appeals to a wide array of investors with dissimilar motivations. The L3C, from Robert Lang’s perspective, “was designed to make it easier for businesses with an altruistic eye to attract investments from foundations and additional money from

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66 Carreira da Cruz, supra note 62.
68 Lang & Carrott Minnigh, supra note 65.
70 See Susan A. Maslow & Timothy White, Enlightened Capitalism and L3Cs, 263-APR N.J. LAW. 72 (2010).
71 See Marc J. Lane, The Low-profit Limited Liability Company (L3C), http://www.marcjlane.com/clientuploads/Articles/Marc-Lane-basic_l3c_primer.pdf (last visited July 15, 2013) (The L3C most likely will be taxed like a partnership, however, the members may choose to be taxed as a corporation.).
75 Lang & Carrott Minnigh, supra note 65.
76 Baghramyan, supra note 4, at 16.
77 See Minnigh, supra note 5.
78 See Lane, supra note 71.
This mix of investment sources enables an L3C to be a self-sustaining entity.80

The L3C is designed in such a way as to permit a tiered ownership structure that represents different investment strategies for various investors based on their particular needs.81 This concept is referred to as tranched investing and an L3C will typically have three layers or tranches.82 The first investment layer would be appropriate for those investors seeking low risk and a market rate of return, such as a venture capitalist.83 Another tier would represent investors who are willing to accept a high risk and yet only receive a low rate of return, such as private foundations.84 The L3C structure also permits a third tier known as the “mezzanine” investment layer.85 The typical investor represented in this layer would be socially conscious and willing to accept a mid-level risk for a below market return.86

This investment opportunity is particularly compelling for private non-profit foundations, due to certain mandates that are placed upon them by the Internal Revenue Code in relation to their tax-exempt status.87 One such requirement is that the foundation must distribute at least five percent of their net asset value every year.88 This can be accomplished by distributing grants or making charitable donations to non-profit entities.89 Another available option for the private foundation to satisfy the IRS distribution rule is to utilize a tax tool known as a program-related investment (PRI).90 The PRI is an investment made by the foundation to assist socially beneficial endeavors, which are consistent with the foundation’s stated exempt purposes.91

80 See Doeringer, supra note 72. (The ability to be self-sustaining is a key feature for the L3C when compared to the non-profit organization.).
81 See Krogstad, supra note 3.
84 See Archer, supra note 55, at 174.
85 Baghramyan, supra note 4.
86 Krogstad, supra note 3, at 546.
87 See Christopher D. Hilton, Low-Profit Limited Liability Companies (L3C’S): Many Traps for the Unwary Social Entrepreneur, 87 TUL. L. REV. 169, 173 (2012) (A private foundation is closely monitored by the IRS to prevent potential abuses. The foundation must adhere to several requirements in order to qualify for the tax-exempt status.).
88 See I.R.C. § 4942.
89 See Archer, supra note 55, at 162.
90 See I.R.C. § 4944(c) and 26 C.F.R. §53.4944-3.
PRI is a cash investment, either in the form of a loan or equity, which is documented as a receivable on the foundation’s balance sheet. According to the Internal Revenue Code, for the investment to qualify, it must meet three criteria. First, the primary objective of the investment must be made to accomplish a charitable or educational purpose as defined by section 170(c)(2)(B) of the Code. Whichever the purpose, it must be consistent in supporting the foundation’s own stated charitable mission. In other words, the investee organization must have a mission of accomplishing a charitable or educational purpose and show that, but for that social mission, the entity would not exist. The second criteria is that the recipient of the PRI must have a social mission as the primary goal of the organization. However, the recipient entity is permitted to have a profit motive, so long as the purpose is secondary to the social mission and that this profit motive was not the impetus that induced the foundation to invest in that entity. The third requirement is that the investment must not be to facilitate any political or legislative purposes. Failure to qualify the PRI under the IRS requirements will lead to excise taxes. These disqualifications are referred to as jeopardizing investments due to the fact that those types of investments “jeopardize the carrying out of the exempt purposes of a private foundation”. Some foundations are hesitant to utilize the PRI tool for fear that the investment would not be in furtherance of their charitable mission. This would consequently mean that the PRI would fail to meet the tax criteria and an excise tax on the foundation would ensue.


93 I.R.C. § 4944(c).

94 *Id.* (According to I.R.C. §170(c)(2)(D) purposes include charitable, scientific, literary, religious, or educational purposes.).

95 *See* Archer, *supra* note 55, at 165.

96 *Id.*

97 *Supra* note 93.

98 Tyler, *supra* note 49, at 123 (The pertinent language set forth in the tax code states that the goal of the production of income or the appreciation of property must not be a “significant” purpose of the entity receiving the funds. 26 C.F.R. §53.4944-3(a)(1)(ii).).

99 *Supra* note at 93.


101 Archer, *supra* note 55.

102 Chernoff, *supra* note 100.

103 Krogstad, *supra* note 3, at 543.

104 *Id.*
To encourage foundations to invest in the L3C by way of the PRI, the L3C statutory requirements intentionally mirror those IRS criteria by design.\textsuperscript{105} By statutory mandate, the L3C must be operated in furtherance of a social purpose.\textsuperscript{106} Because this L3C requirement is parallel to the Internal Revenue Code criteria, the investment would meet those conditions.\textsuperscript{107} To ensure compliance, the L3C would include this requisite information, such as purpose restrictions,\textsuperscript{108} in the articles of organization\textsuperscript{109} and in the operating agreement.\textsuperscript{110} The L3C designation should provide a certain degree of assurance to the foundation as to the prioritization of the social mission of the business.\textsuperscript{111} The main advantage for a foundation in making a PRI is that it has the potential to realize returns and appreciate in value, thereby multiplying the impact of the investment\textsuperscript{112} and improving the overall effectiveness and significance of the foundation.\textsuperscript{113} This multiplicative effect is the key distinction between the PRI versus other types of distributions, namely grants and charitable donations.\textsuperscript{114}

Vermont was the first state to enact the L3C legislation in 2008.\textsuperscript{115} The current LLC legislation is the foundation on which the L3C is based.\textsuperscript{116} The legislative action is simply to adopt an amendment to the LLC statute.\textsuperscript{117} It is within the amendment that the parameters for the distinct elements for the L3C are specifically delineated.\textsuperscript{118} Subsequently, eight additional states have enacted the L3C legislation, including Illinois, Louisiana, Maine, Michigan, North Carolina, Rhode Island, Utah and Wyoming.\textsuperscript{119} Three federal

\textsuperscript{105} See Block, supra note 83, at 311.
\textsuperscript{108} Lang & Carrott Minnigh, supra note 65, at 21.
\textsuperscript{109} Lane, supra note 71.
\textsuperscript{110} Baghramyan, supra note 4, at 24. (“The operating agreement can be drafted in such a way to create a special class of members with the power to enforce the organization’s social mission.”).
\textsuperscript{111} Resor, supra note 52, at 105.
\textsuperscript{112} Baghramyan, supra note 4, at 23.
\textsuperscript{113} Lane, supra note 71.
\textsuperscript{115} See Hilton, supra note 87, at 170; VT. STAT. ANN. tit. 11, § 3001 (2012).
\textsuperscript{116} Lang, supra note 3, at 4.
\textsuperscript{117} Krogstad, supra note 3, at 553.
\textsuperscript{118} VT. STAT. ANN. tit. 11, § 3001 (2012).
jurisdictions have adopted the L3C legislation as well: the Oglala Sioux Tribe, the Crow Indian Nation of Montana, and the Navajo Nation.\textsuperscript{120}

In states that have legally recognized the L3C business model, many entities have taken advantage of the L3C organizational structure.\textsuperscript{121} As of July 29, 2015, there were 1,187 active L3C organizations.\textsuperscript{122} An example of such an entity is the Lacewell Legacy L3C in Garner, North Carolina, which operates a summer youth camp for boys.\textsuperscript{123} Their mission is youth oriented, with a particular focus on education and morality.\textsuperscript{124} Specifically stated, “By motivating, educating and empowering our children we will teach them to build a positive legacy that will impact their present and lay a foundation for their future.”\textsuperscript{125} Another example is Carolina Ground, L3C which aims at linking “the farmer, the baker, and the miller” in the state of North Carolina.\textsuperscript{126} This company is described by its founder, Jennifer Lapidus, as “a bakers’ owned co-op mill” with the purpose of “enabling the farmer to get the best possible price for his/her grain at an affordable cost to the baker”.\textsuperscript{127} The catalyst for organizing this L3C was the escalating price for wheat.\textsuperscript{128} In Jackson Hole, Wyoming, an agri-business, referred to as Vertical Harvest, is an L3C that operates a greenhouse in order to provide locally grown vegetables to consumers.\textsuperscript{129} The three-story, hydroponic greenhouse employs disabled adults in the community.\textsuperscript{130} It is this social mission, which focuses on a highly unemployed population, that appeared to be the procuring cause in the decision by the Wyoming Business Council to award a $1.5 million

\textsuperscript{120} Id.
\textsuperscript{121} Id.
\textsuperscript{122} InterSector Partners, L3C, Latest Tally (July 29, 2015), http://www.intersectorl3c.com/l3c_tally.html. (According to the tally, 191 L3C’s are organized in Vermont, 308 in Michigan, 35 in Wyoming, 72 in Utah, 198 in Illinois, 95 in North Carolina, 255 in Louisiana, 55 in Maine, 7 in Rhode Island, and 1 with the Oglala Sioux Tribe.).
\textsuperscript{124} Id.
\textsuperscript{125} Id.
\textsuperscript{126} Jennifer Lapidus, That Simple Loaf of Bread?, NORTH CAROLINA FLOUR BREAD PROJECT BLOG (June 4, 2013, 1:05 PM), http://ncobfp.blogspot.com/2013/06/that-simple-loaf-of-bread.html.
\textsuperscript{128} Id.
\textsuperscript{130} Id.
grant to the entity.\textsuperscript{131} On the organization’s website, it states the L3C was the preferred structure over the non-profit because the L3C was the “most powerful model to support it as a sustainable business that would stand the test of time.”\textsuperscript{132}

Just as the momentum of the L3C innovation was accelerating, the force appeared to take a giant leap backwards. The pendulum abruptly turned in a contrary motion when on January 1, 2014 the state of North Carolina no longer authorized the L3C distinction.\textsuperscript{133} One such reason given was that the traditional LLC laws enabled these types of entrepreneurs to meet their needs and to accomplish their goals and thus, made the L3C distinction unnecessary.\textsuperscript{134} Reportedly, the North Carolina L3C statutory distinction was likened to “deadwood”.\textsuperscript{135} It seems like the recent action taken by the North Carolina legislature just four years after initially enacting the L3C statute, legitimized the concern of the L3C creator, Robert Lang, when he urged, “do not stifle them before they have a chance to blossom.”\textsuperscript{136}

A. Criticisms and Corresponding Rebuttals of the L3C Business Model

There have been four main criticisms that have surfaced in the L3C literature. The first contention articulated is that the L3C business model is not fulfilling its main purpose: attracting foundation investments by way of the PRI tax tool.\textsuperscript{137} Because of the complexities surrounding the qualification procedure for the PRI and the ambiguity of not knowing if the investment would qualify, foundations remain steadfast in their reluctance to utilize the PRI.\textsuperscript{138} In order to ensure compliance, the foundation may proactively seek a legal opinion from counsel or request that the IRS provide an advanced

\begin{itemize}
  \item \textsuperscript{131} \textit{Vertical Harvest Gets WBC Funding}, INTERSECTOR PARTNERS, L3C BLOG, May 24, 2013, 3:17 PM, http://www.intersectorl3c.com/blog/104163/13621/ (The State Loan and Investments Board must approve the grant before the funds are distributed.).
  \item \textsuperscript{132} \textit{Supra} note 129.
  \item \textsuperscript{133} Doug Batey, \textit{North Carolina Becomes the First State to Drop L3Cs}, LLC LAW MONITOR (July 9, 2013), http://www.llclawmonitor.com/2013/07/articles/low-profit-llcs/north-carolina-becomes-the-first-state-to-drop-l3cs/.
  \item \textsuperscript{135} \textit{Id.}
  \item \textsuperscript{136} Lang & Carrott Minnigh, \textit{supra} note 65, at 21.
  \item \textsuperscript{137} \textit{See} Hilton, \textit{supra} note 87, at 182. \textit{See generally} Daniel S. Kleinberger, \textit{A Myth Deconstructed: The Emperor’s New Clothes on the Low-Profit Limited Liability Company}, 35 DEL. J. CORP. L. 879 (2010) (accusing advocates of the L3C business model of perceiving it as a “conceptual messiah” and describing the L3C as “nonsensical, unwise, and useless”).
private letter ruling. This can be extremely costly and time consuming. In response to this hesitancy in utilizing the PRI, L3C proponents emphasize that neither a legal opinion nor a private letter ruling are a prerequisite to having the investment qualify under the tax laws. As L3C creator Robert Lang points out, since the inception of the PRI in 1969, “there has never been a requirement in the law or the code, etc., that foundations had to get prior approval from the IRS to make PRIs.” The IRS procedural rules regarding a PRI are that the foundation must report the investment on an informational tax form. According to Lang, the IRS places a duty of “due diligence” upon foundations to ensure that the investment qualifies under the law. That being said, there is an opportunity on the part of the IRS to incorporate changes in the tax code as it relates to PRI qualification. The IRS could issue a new rule which would deem an investment made to an L3C to automatically qualify as a PRI. This action on the part of the IRS would prove to be highly beneficial to the L3C movement which has, in fact, been dormant since the Rhode Island legislature enacted an L3C statute in 2011. This failure to change the federal tax law is the quintessential reason why many scholars have questioned the L3C’s viability and efficacy. In furtherance of the quest to effectuate change in federal tax laws, The Philanthropic Facilitation Act of 2011 was introduced in the U.S. House of Representatives that would simplify the qualification procedure for PRIs. Specifically, the Act would create a procedure for foundations to seek qualification status on their PRIs, much like a nonprofit entity that is

139 See Archer, supra note 55, at 166. See also Anurag Gupta, L3Cs and B Corps: New Corporate Forms Fertilizing the Field between Traditional For-Profit and Nonprofit Corporations, 8 N.Y.U. J. L. & BUS. 203, 219 (2011) (many foundations perceive that there is actually a requirement to get prior approval).

140 Id.

141 Id. at 22.

142 Id.

143 Id.

144 Id.


146 R.I. GEN. LAWS ANN. § 7-16-76(c) (2011).


seeking tax-exempt status. The enactment of federal legislation, such as this, would catapult the utility of the L3C paradigm to new heights and quash the skepticism of cynics. In expanding the breadth of the PRI, The Treasury Department and the IRS recently issued a Notice of Proposed Rulemaking that provides nine new examples of qualifying investments. This issuance could be interpreted as the federal government showing a glimpse of attentiveness to the efforts made by L3C promoters and the main purpose for the L3C creation. Even though the L3C was not specifically mentioned in the Notice of Proposed Rulemaking, the fact is that the IRS had not issued any rules pertaining to PRI investment examples for forty years, until now.

There are also opportunities at the state level to impact the effectiveness of the PRI. For example, one commentator suggested that the L3C statutory scheme could include a cost redistribution for a private letter ruling. Specially, the intended recipient of the proposed PRI could bear part of the expense so as to alleviate some of the financial burden on the foundation. This commentator also suggested the implementation of a state L3C accreditation program, whereby the entity would become certified in regards to their status of being an eligible PRI recipient. Another recommendation brought to the forefront is to require the PRI recipient, the L3C entity, to annually submit a report to the IRS providing details regarding the PRI, such as its terms and financial information.

A second critique is that there is no means of enforcement for keeping the social mission from being overpowered by a profitmaking objective.
The L3C’s theoretical foundation rests on the innovation of the unique investment layers that potentially can attract a wide array of investors with varying transaction motives.\textsuperscript{159} Even though the motives may be varied as to the outcome of each investment, i.e. rate of return, all of the investors are motivated to choose an L3C entity because of the social mission.\textsuperscript{160} Therefore, it is imperative that the social mission remains anchored.\textsuperscript{161} As one commentator recognized regarding the specifically targeted investors of the L3C, “foundation and socially conscious investments are inextricably linked with an L3C’s charitable purpose.”\textsuperscript{162} There are solutions for implementing mechanisms for mission enforcement. For example, the L3C statute in Wyoming contains a provision whereby the Secretary of State has the authority to dissolve the organization if it does not adhere to the social mission.\textsuperscript{163} Rhode Island has another approach in their L3C statute as it contains a “forced conversion” provision in order to ensure mission compliance.\textsuperscript{164} Such a provision causes an L3C to convert to an LLC when the primary mission shifts from being socially driven to that of profitmaking.\textsuperscript{165}

To ensure that the profitmaking objective remains properly prioritized behind the social mission, the current L3C statutes, such as the Vermont legislation, provide that “no significant purpose of the company is the production of income or the appreciation of capital.”\textsuperscript{166} It is recommended, that an unequivocal definition for the term significant, as it used in the aforementioned provision, be inserted into the statute.\textsuperscript{167} This would provide clarity and definiteness for L3C entities and investors alike as to the latitude of the profitmaking portion of the mission. Yet another improvement that has been suggested is to insert a requirement into the L3C statute that at least one economic member of the L3C must be a tax exempt organization.\textsuperscript{168} This too would assist in ensuring that the L3C continues to further the social mission.\textsuperscript{169} Another recommendation that has been proposed in the literature is to direct L3C entities to not only file an annual report with the Secretary of

\textsuperscript{159} Krogstad, \textit{supra} note 3.
\textsuperscript{160} Flaherty, \textit{supra} note 145.
\textsuperscript{161} \textit{Id.}
\textsuperscript{162} \textit{Id.} at 288.
\textsuperscript{163} WYO. STAT. ANN. § 17-29-705(a) (Michie 2012).
\textsuperscript{164} R.I. GEN. LAWS ANN. § 7-16-76(c) (2011). \textit{See also}, Flaherty, \textit{supra} note 145.
\textsuperscript{165} \textit{Id.}
\textsuperscript{166} VT. STAT. ANN. tit. 11, § 3001 (27)(B) (2012).
\textsuperscript{167} \textit{See} Gupta, \textit{supra} note 139, at 220.
\textsuperscript{168} \textit{See} Brewer, \textit{supra} note 157.
\textsuperscript{169} \textit{See} Murray \textit{supra} note 67, at 17. (discussing the questionable commitment of the L3C to the charitable mission). \textit{See also}, Maslow \textit{supra} note 70, at 7 (“At a time when it is imprudent to continue to rely on charitable donations, the L3C ensures the concepts of ownership and accountability properly influence decision-making to further the social enterprise.”).
State’s office, but also file an attached information return. This document could reveal certain governance practices as well as financial data. In effect, this document would substantiate social mission supremacy.

A third critique that has emerged is that the L3C structure does not add any actual value to the LLC business model, but rather is merely a characterization. In their appraisal, critics have questioned the duplicate functionality of the L3C as compared to the LLC. Some critics have gone beyond the claim of mere duplication, and have actually described the L3C as being harmful to the LLC. To illustrate, one review denounced the L3C statutory addition and likened it to a parasite, reflecting on its complexity and self-serving nature. In another assessment, critics argue that the LLC framework is already able to receive funds in the form of a PRI so the L3C is unnecessary. Moreover, a review by critics suggested that the L3C model merely, “repackages existing opportunities for PRIs under a standard label.” Advocates of the L3C argue that the specific designation in the entity’s name will serve as a means for the public and regulators alike to be able to identify such an entity as a socially beneficial enterprise. Simply put, the designation will allow socially conscious investors to be able to immediately ascertain those entities that embrace a social vision and strategy. This transparency of the entity’s ideology is the distinguishable characteristic that is only for L3C entities that the LLC does not have.

170 Flaherty, supra note 145, at 293.
171 Id.
172 Id.
173 Carreira da Cruz, supra note 62, at 63.
175 Callison & Vestal, supra note 114, at 289-290. See Thomas Earl Geu, A Single Theory of Limited Liability Companies: An Evolutionary Analysis, 42 SUFFOLK U. L. REV. 507 (2009) (By incorporating the L3C amendments, the LLC statute, “becomes so overloaded with rogues that it is inefficient and can no longer perform its fundamental tasks, and thus dies another dinosaur.”).
176 Hilton, supra note 87, at 184.
179 Resor, supra note 52, at 113.
180 See Murray & Hwang, supra note 67, at 32. See also Primer on Low-Profit Limited Liability Companies (L3Cs), CITIZEN MEDIA LAW PROJECT, (October, 2010), http://www.dmlp.org/sites/citmedialaw.org/files/L3C-Primer.pdf (concluding that the L3C can serve as a valuable marketing tool for attracting many different types of investors).
There are other components that are unique to the L3C, as compared to the LLC, including restrictions on its functionality.\footnote{See Gupta, \textit{supra} note 139.} Specifically, the L3C is explicitly formed and legally required to prioritize a social mission first, and secondarily strive to earn a profit.\footnote{Id.} In addition, the L3C is statutorily prohibited from pursuing a political or legislative agenda.\footnote{Id.} Another difference, as observed by Thomas Kelley, is that the LLC is unable to meet the specific needs of a social entrepreneur.\footnote{See Kelley, \textit{supra} note 61, at 371.} Another commentator believed that the L3C could actually be more mission focused, as compared to the LLC, because of the L3C’s greater efficiency.\footnote{Gupta, \textit{supra} note 139, at 219.}

The fourth shortcoming, arguably, is that the nonprofit sector will be in direct competition for funds with the L3C and consequently, would negatively impact the amounts received.\footnote{Schoenjahn, \textit{supra} note 7, at 472. \textit{See also} Gupta, \textit{supra} note 139, at 220 (where she raises the question of competition between the L3c and nonprofit).} Such competition, some argue, places the non-profit organization in an unfair position due to the limited potential for making a return on their investment.\footnote{Schoenjahn, \textit{supra} note 7, at 470.} In order to dispel the notion that a competitive environment is created, the L3C is actually being touted, by some, as a way to ease the responsibilities placed on non-profit organizations.\footnote{See Dishman, \textit{supra} note 79.}

\section*{B. Current State of the L3C}

The momentum of the L3C has appeared to have stalled, given that no state legislature has enacted an L3C statute since 2012.\footnote{InterSector Partners \textit{supra} note 122.} That fact, coupled with the abrupt action in North Carolina to repeal the L3C statutory distinction, has left the L3C landscape in disarray. The impetus for such disarray has yet to be explained. Rather than focusing on the reason for the current state of flux, we saw value in probing those entities that chose to incorporate as an L3C. Although, much academic literature exists in the context of the theoretical structure, along with the peripheral issues identified in the discussion above, scholarly works, thus far, have failed to assess the actual effectiveness of an L3C entity. Simply put, there has been no examination of the effects of applying the theoretical L3C model to reality.

In recognizing the existence of such a void in the research, our motivation was to conduct a premier study that would redirect the focus of
the L3C, and ultimately, encourage further dialogue and generate additional studies in the area. Accordingly, our strategy was to request, by way of a questionnaire, social entrepreneurs to provide insight as to the perceived effectiveness of their L3C. This approach implicitly acknowledges that the L3C community is in the best position to report on the effectiveness, based on their own experiences, of their L3C choice. The instrument, which consisted of eight questions, is provided in Appendix A. Our initial request, followed up by a second appeal, yielded a 6.2 percent return rate. A significant limitation of this sample is that it may not be representative of all L3C entities. The responders were first asked general, descriptive questions about their L3C. For example, they were asked to categorize the business sector in which their L3C operates, the results of which are tabulated in Table 1.

### Table 1: Reported Category for L3C

<table>
<thead>
<tr>
<th>Percent of L3C Identified</th>
</tr>
</thead>
<tbody>
<tr>
<td>Retail</td>
</tr>
<tr>
<td>9.8%</td>
</tr>
</tbody>
</table>

The second question on the survey asked responders to identify the mission, among various classifications given, of their L3C. The results are summarized in Table 2, with the majority of responders having endorsed an educational non-profit mission. In addition, nearly one fourth of the responders indicated multiple purposes which is reflected in Table 2. Therefore, the sum of the percentages is greater than one-hundred percent due to the duplication.

### Table 2: Identified Non-Profit Mission of the L3C

<table>
<thead>
<tr>
<th>Percent of L3C</th>
</tr>
</thead>
<tbody>
<tr>
<td>Education</td>
</tr>
<tr>
<td>39%</td>
</tr>
</tbody>
</table>

190 The results of this study were based on forty-one L3C organizations that participated in the survey. The surveys were sent to 661 L3C entities nationwide out of the total of 1,187. These were the ones for which addresses were available. Despite recognizing limitations based on a 6.2% return rate, we saw value in analyzing results of the 41 surveys.
The assessment then called upon the responders to rate the effectiveness of harmonizing dualistic missions using a five-point scale, whereby a rating of five was most effective (see Figure 1).

Figure 1: Rating of L3C Effectiveness using a Five Point Scale

Further analysis on this data reveals that the calculated mean was 3.54, as seen in Table 3. This result suggests that the interplay of dual missions is perceived as effective by responders.

Table 3: Statistics for the L3C Effectiveness Rating

<table>
<thead>
<tr>
<th>Rating on a 1–5 Scale</th>
<th>N</th>
<th>Mean</th>
<th>Least Effective</th>
<th>Most Effective</th>
<th>Std. Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>41</td>
<td>3.54</td>
<td>1</td>
<td>5</td>
<td>1.22673</td>
</tr>
</tbody>
</table>
When asked to report the percentage of earnings invested into the non-profit purpose, the majority indicated greater than 60% as reflected in Table 4. In this sample, the L3C’s appear to be adhering to their commitments to the social mission.

**Table 4: Percentage of Earnings Invested into the Non-profit Purpose**

<table>
<thead>
<tr>
<th>Percent of L3C Identified</th>
<th>1‒5%</th>
<th>5.1‒20%</th>
<th>20.1‒40%</th>
<th>40.1‒60%</th>
<th>&gt;60%</th>
<th>No Answer</th>
</tr>
</thead>
<tbody>
<tr>
<td>Percent of L3C Identified</td>
<td>7.3%</td>
<td>14.6%</td>
<td>4.9%</td>
<td>9.8%</td>
<td>56.1%</td>
<td>7.3%</td>
</tr>
</tbody>
</table>

In recognizing that the L3C distinction, in theory, inherently is advantageous for social entrepreneurs, responders were questioned specifically whether such status added value to their organization. The majority of responders, at 58.5 percent, reported that indeed, the distinction added value. Further statistical analysis on those that reported that it added value was conducted to identify which business category they represented. Table 5 summarizes the results, which demonstrated that the majority, at 41.7 percent, represented the category of service, while another 20.8 percent were in the health care field.

**Table 5: Business Category Represented by L3C’s that Believed Added Value**

<table>
<thead>
<tr>
<th>Percent of L3C Identified</th>
<th>Retail</th>
<th>Wholesale</th>
<th>Manufacturing</th>
<th>Services</th>
<th>Healthcare</th>
<th>Other</th>
</tr>
</thead>
<tbody>
<tr>
<td>Percent of L3C Identified</td>
<td>8.3%</td>
<td>4.2%</td>
<td>0%</td>
<td>41.7%</td>
<td>20.8%</td>
<td>25%</td>
</tr>
</tbody>
</table>

Another observation from this particular analysis suggests that the majority of responders who indicated that the L3C distinction added value adhere to an educational related mission. The results are found in Table 6.
Table 6: Non-profit Mission Reported by L3C’s that Believed Added Value

<table>
<thead>
<tr>
<th>Percent of L3C Identified</th>
</tr>
</thead>
<tbody>
<tr>
<td>Education</td>
</tr>
<tr>
<td>41.6%</td>
</tr>
</tbody>
</table>

Next, the respondents were asked to articulate the biggest benefit of operating as an L3C (see Table 7).

Table 7: Benefits Identified by Responders

<table>
<thead>
<tr>
<th>Percent of L3C</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dualistic Mission</td>
</tr>
<tr>
<td>39%</td>
</tr>
</tbody>
</table>

The majority of responders declared that they recognized one of two commanding benefits: transparency of the dual mission and sustainability, by way of alternative sources of funding.

In the context of the mission related benefit, responders revealed that the L3C status distinguishes, features, and clarifies their unique mission and demonstrates a commitment to such mission. In effect, the publicized mission generally advances social awareness, and perhaps more importantly, acquires potential investors. Interestingly, of those responders that indicated the L3C distinction added value, 45.8 percent of those L3C’s cited the biggest benefit as being the dualistic mission.

In addition, the second documented benefit, sustainability, underscores the potential for the L3C to access alternative sources of funding, which enables the business to be a self-sustaining entity. Responders noted that just as this business model affords the opportunity to seek grants and accept donations, it also affords the business entrepreneur alternative ways in which to fund the social enterprise.

While these collective sentiments reflect that the L3C structure has carved out a niche in the corporate landscape, the survey answers also revealed an interesting observation regarding the aforementioned PRI investment vehicle. By design, the L3C was structured so as to permit this unique investment opportunity. Despite this, only 7.3 percent of survey respondents reported that they had actually received PRI (see Table 8). Given

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191 Doeringer, supra note 72.
the prevailing sense that the qualification procedure for the PRI is complex, coupled with the risk of IRS disqualification, the survey results, were not surprising.

**Table 8: L3C’s Receiving Program Related Investments (PRI)**

<table>
<thead>
<tr>
<th>Percent of L3C’s</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes</td>
</tr>
<tr>
<td>-----</td>
</tr>
<tr>
<td>7.4%</td>
</tr>
</tbody>
</table>

Finally, the survey solicited feedback regarding the perceived biggest drawback of operating as an L3C. Among the responses, 14.6 percent cited the challenge of obtaining funding. For example, resistance from investors to make PRI’s. This resistance was evidenced by one social entrepreneur who, despite applying for several PRI’s, was denied funding. In addressing this same challenge, another respondent remarked, “The online grant systems would only recognize a non-profit EIN, not an EIN from an L3C.” See Figure 2 for a summary of the identified drawbacks.

**Figure 2: Drawbacks Identified by Responders**
The most poignant obstacle specified on the survey, representing 24.4 percent of respondents, was the knowledge deficit with regards to the L3C. This lack of general awareness and familiarity, consequently, impedes garnering interest in the business itself, and more importantly, hinders certain funding opportunities. Overall, the results of this question yielded responses that acknowledged varying challenges for the social entrepreneur. However, a noteworthy 36.6 percent of respondents revealed that there were no drawbacks to report. Furthermore, of those responders that reported the L3C distinction did not add value, 43.8 percent indicated that there were no drawbacks.

Drawing from the survey responses reported above, the majority concluded that the L3C business structure does indeed add value to their business. Similarly, we can surmise that the unique status inherent in the L3C has evolved as a desired business model. Just as the creators of the L3C had envisioned, the existence of the L3C is beneficial to the social entrepreneurship community represented in this sample. Perhaps, this new research will revitalize the L3C movement and serve as a catalyst for further analysis of the L3C landscape.

V. CONCLUSION

The L3C business model is an innovative solution which infuses the double bottom line: social mission and profits. The evolution of the L3C has proven to be sporadic, evidenced by the contrary trajectories. Although a review of the current research reveals a plethora of articles examining the theoretical structure of the L3C, there appeared to be a gleaming omission. Research had failed, thus far, to analyze the L3C from the standpoint of the social entrepreneur who elected this structure. This void prompted our pilot study, whereby social entrepreneurs, who have elected, and are operating under, the L3C model, were afforded an exclusive opportunity to articulate their opinions as to the effectiveness of their L3C’s. In analyzing the survey responses, the L3C reportedly was effective at accomplishing its dual mission. The majority of responders also cited the L3C as adding value to their business. In sum, the social entrepreneurs reported significant satisfaction and perceived added value. Perhaps, this research will contribute to the revitalization of the L3C movement and serve as a catalyst for additional research. The social entrepreneurship community may look at the L3C structure through a new lens, thereby causing a heightened interest.

The recognition that the enactment of L3C statutes by states has appeared to have stopped, about as abruptly as it emerged, merits discussion. The possibilities of the L3C include the positive contribution to the economy and the impact they could have on solving societal problems.
APPENDIX A: THE SURVEY INSTRUMENT

Black Hills State University L3C Company Study

Circle your response to questions 1–6. Questions 7 and 8 require a short written response. If you would prefer, you may complete the survey online at http://goo.gl/forms/RREQ4uqxdS.

1. Which category would best describe your business?
   - Retail
   - Wholesale
   - Manufacturing
   - Services
   - Healthcare
   - Other

2. What is the nonprofit mission of your business?
   - Education
   - Healthcare
   - Recreation
   - Museum/Arts
   - Nutrition
   - Agriculture
   - Other

3. Rate the effectiveness of combining your nonprofit purpose with a for-profit entity. (1 is least effective and 5 is most effective)
   - 1
   - 2
   - 3
   - 4
   - 5

4. What percentage of earnings are invested into nonprofit purposes?
   - 1–5%
   - 5.1–20%
   - 20.1–40%
   - 40.1–60%
   - >60%

5. Have any investments in your L3C been in the form of a Program Related Investment (PRI)?
   - Yes
   - No
   - Don’t Know

6. Does the L3C distinction add value to your organization?
   - Yes
   - No

7. What is the biggest benefit of being an L3C?

8. What is the biggest drawback of being an L3C?

Thank you for participating in this survey. Please return your completed survey in the enclosed envelope.