Title: Where Did Social Enterprise Come From, Anyway?
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GOOD

Businesses, even those outside the realm of greedy corporate drones, are designed to earn a profit. Other priorities, like environmental sustainability or job creation, are reached only through happy accidents or marketing ploys to help companies make more money. Surely, if you're raking in the dough, you can't be making a difference—at least not on purpose.

This outdated vision of commerce has multiple origins, but if asked, most students of social enterprise will point an accusing finger at Milton Friedman's 1970 New York Times Magazine essay "The Social Responsibility of Business is to Increase Its Profits." Friedman's point (though slightly more nuanced than the title or its interpretation might suggest) was that corporate executives have a responsibility to maximize profit. Frittering away money on other objectives—say, fighting poverty—would cheat stockholders, employees, and customers out of cash that is rightfully theirs.

According to Patrick J. Murphy, management and entrepreneurship professor at DePaul University, Friedman's point was taken out of context. Still, the simplified banner ran: Greed is good. Who cares about the rest? "That [essay] expressed something in a whole generation of business people that lasted through the 70s and into the 80s, even a little bit into the 90s where there was this tradeoff—you couldn't do good and do well at the same time," Murphy says.

On a cultural level, the three-sector split made sense: government, nonprofit do-gooders, and the rest in power suits. For the first two, there was a duty to the public; for the rest, the obligation was to make rich investors—and themselves—richer.

Yet going as far back as the Quakers, some have understood an alternative intersection between money and conscience. Over the same decades that Friedman's philosophy defined corporate duty, a different sort of animal was evolving—the social entrepreneur.

Among the first to carve out space for social enterprise was Bill Drayton, who founded the nonprofit social enterprise Ashoka in 1980. While traveling in India, Drayton, a civil rights activist who had studied Gandhi's work, discovered innovators whose creative ideas for change were not well understood by their communities. Ashoka championed these public innovators, a term that later evolved into "social entrepreneur." Today, Ashoka supports more than 2,000 entrepreneurial fellows in more than 60 countries as they scale their ventures.

Around the same time, corporate outliers like Tom's of Maine and The Body Shop built a following of customers who wanted more than just products from the brands they bought— they wanted to feel like they were doing right thing, too. Of social enterprise, says Jay Coen Gilbert, co-founder of B Labs, a nonprofit advocate for social enterprise, "this was a long process of gestation."

Over the past decade or so, there has been a spike in growth among companies with a triple bottom line—people, planet and profit. B Labs certified 513 social enterprises in the United States and Canada with some $2.9 billion in revenue combined. "It does represent an evolution of capitalism, from an era that's been focused solely on the shareholder to an era that's focused on creating value for all stakeholders," says Coen Gilbert, referring collectively to everyone affected by a given company, from workers and investors to the local community.

Why now?

This moment in history may be a perfect storm for the rapid rise of social enterprise. One major factor is how the internet has redefined our social circles. "There are less and less boundaries between people, and that includes people in need and other people who are in a position to do something about that need," Murphy says. Social media also allows young companies to grow organically and establish an early customer base.

High unemployment rates also contribute to sensitivity about social impact, and, Murphy notes, many recent entrepreneurs launch their own companies after losing their jobs. "It's easy to forget how determined and how entrepreneurial a person can actually be when they have no other options," he says.

Meanwhile, the global financial crisis precipitated dwindling confidence in corporations whose focus on profit put us all at risk. For those with cash available, socially responsible investing may be a safer bet. "It becomes a risk management technique," says Marc J. Lane, a Chicago-based attorney and advocacy investing expert. Companies concerned with environmental issues, the welfare of their employees, and customers are "less likely to suffer regulatory action or class-action … I think you're dealing with a savvier group of managers."

A new breed of company

Corporate legal structures are finally starting to catch up to our changing business landscape. The traditional separation of charitable work from moneymaking winds back to the Puritan era. "The fact is, we've changed a lot since then, and there's this blending of social and financial objectives," says Linda Darragh, director of entrepreneurship programs at the University of Chicago's Booth School of

Business. “But we’re still hampered by regulatory limitations. That’s why you have all these work-arounds.”

Corporations are registered at the state level, and each state demands managers make decisions only in the interest of increasing shareholder value—which makes factoring in social impact tricky, if not legally risky. In past decades, many social entrepreneurs had resorted to simultaneously adopting nonprofit and for-profit legal structures, a needlessly complex system. “Funders realized that the legal structures were limiting impact, and so more and more policymakers and funders and social entrepreneurs built a movement,” says Marina Kim, director of Ashoka U.

Now, a collection of new entities are mixing profit-seeking and impact: L3Cs, benefit corporations in California and New York, California’s Flexible Purpose Corporations, and Hawaii’s Sustainable Business Corporations. The new designations are about growing investment—and not getting sued by shareholders. Since 2010, benefit corporation legislation in seven states has created an option that protects social entrepreneurs from litigation if they spread their focus to include both profit and social impact.

“Current corporate law requires them to only consider the impact of their decisions on shareholders, but in order to earn their certification, B Corps amend their articles such that they’re required to consider the impact of their decisions on society as well,” says Coen Gilbert. For more than 500 companies, it’s a way of addressing the tension between money and mission.

The alternative L3C (low-profit, limited liability company) is available in nine states. Lane, who authored the L3C law in Illinois, says they are designed to track federal tax requirements investments made by foundations. Foundations are required to distribute 5 percent of their assets for charitable purposes annually. Investing in L3Cs gives them a chance to invest and potentially recoup funds. “Grants are the riskiest thing you can do,” Darragh says. “You give it away, and it’s gone. So, for this, you can actually generate a return.”

The fourth sector

These new business entities are helping dig a wide fourth sector alongside the public sphere, nonprofit organizations, and for-profit business. For years, some nonprofits dabbled in limited earned income models or ran for-profit subsidiaries to supplement donations. Now, L3Cs, benefit corporations, and the state-specific formations in California and Hawaii are in the mix, too.

Unlike nonprofits, a profitable social enterprise is self-sustaining, and proponents are bullish about accessing larger pools of private capital that will make it possible for these businesses to grow much faster—and have more impact—than organizations reliant on donations. There’s already a growing socially responsible investment pool to draw from—$3.07 trillion, according to a 2010 estimate by the

Social Investment Forum. Social enterprise hubs, university programs, accelerators, and incubators are also planting seeds for growth of the movement.

Still, there are many needs that the social enterprise market doesn't reach, "so there will always be a role—and an important role—for nonprofits and government to play," Coen Gilbert says. Those other sectors are necessary, he adds, but in some ways, he adds, insufficient. "In order to solve society's greatest challenges, we need to mobilize the power of business to help scale solutions—and business can scale solutions much quicker and with many greater resources than can nonprofits."

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