



How to Help Profit-Making Social Enterprises Combat Pressing Social Problems

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With over fifteen percent of Americans living below the poverty level, scholars, practitioners, and policymakers are searching for innovative strategies to advance economic and social development. Some business-minded philanthropists are exploring the concept of social enterprise: businesses that employ for-profit methods to create a positive social impact. According to a 2012 national field study conducted by the Social Enterprise Alliance, the top five challenges social enterprises address include workforce development, housing, community and economic development, education, and health care provision. In order to address deficits in these areas, social enterprises often examine social problems in a given community and then develop social services or programs to reduce or eradicate them. As is true for any business venture, however, the laws governing social enterprises can be difficult to navigate, and current legal rules do not always help entrepreneurs get their ideas off the ground. To maximize the potential of such ventures, we need a thorough understanding of how social enterprises function and what policymakers can do to help them.

What is Social Enterprise?

A social enterprise is most commonly defined as a business that deploys profits to address social problems – sometimes even subordinates profit maximization to the goal of achieving social benefits for a targeted community. Social enterprises are said to have a “double-bottom line,” encompassing two distinct goals. Creating social value is the first goal, pursued by providing services and programs that help people in ways the organization envisions. At the same time, the second goal is to reap profits in the traditional way for businesses. Social enterprises create economic value with the intention of using profits to increase their social value. All or most of the money they make is used to provide a program or service that benefits people or society.

An example of a successful social enterprise is The Women’s Bean Project, an enterprise developed to reduce the ranks of unemployed and poorly educated women in Denver, Colorado. Jobs in manufacturing gourmet foods and handmade jewelry are provided to women with little education who have been chronically unemployed and impoverished. Profits from sales help to employ and train low-income females participants, increasing their self-sufficiency, communication skills, reliability, and job readiness. As their skills improve, employees are encouraged to pursue higher-level jobs in the company and beyond. Other social enterprises like the Women’s Bean Project operate throughout the country, not only to address problems plaguing single cities or areas, but also to serve entire states or groups of states.

Legal Rules and Challenges

Instead of taking the traditional route of channeling donations through nonprofits, social entrepreneurs repurpose enterprises to make profits that can do double duty to address societal problems, rather than just maximizing personal wealth for business owners, shareholders, and investors. Because social enterprises are innovative undertakings, the rules and regulations governing them can be confusing and social enterprises have tried a number of alternatives. Some of these organizations are set up as non-profit organizations, some as for-profit businesses, and some as a hybrid combination. However, states throughout the country are increasingly enacting social enterprise legislation allowing operations under specifically tailored legal rules.

Currently, there are five different types of incorporated social enterprises in the United States – including forms labeled the Low-Profit Limited Liability Company, the Benefit Corporation, the Flexible Purpose Corporation, the Special Purpose Corporation, and the Benefit Limited Liability Company. Each legal form offers social entrepreneurs the means to operate businesses that also address social goals. They vary, however, in the types of social goals and modes of money making allowed, the percentages of profits that can be diverted to social goals, and the rules for reporting enterprise activities to the public or independent auditors.

The Honest Company is a popular and lucrative example of a Benefit Corporation. Applicable rules require this type of social enterprise to include activities with an ameliorative social or environmental impact – with the enterprise directed by a group of shareholders, just like a traditional for-profit businesses, but evaluated by an independent third-party. The Honest Company achieves its dual goals by selling organic and eco-friendly baby products at affordable rates and contributing much of the money it makes to nonprofit organizations, including early-learning research institutions, youth skill-building programs, and nutrition education programs. Operating as a Benefit Corporation ensures, by law, that regardless of organizational changes, The Honest Company will always use profits to address social problems. Social enterprise laws effectively require these undertakings to hold fast to meeting their double-bottom lines.

How Public Policy Can Support Effective Social Enterprises

Because social enterprises are an innovative way to tackle social problems, legislators should increase opportunities to launch and monitor them. A number of steps can be taken.

- **Seed funding** can help aspiring social entrepreneurs get businesses off the ground. Policymakers can use either loans or grants to support start-up organizations.
- **Promotional campaigns for social enterprises** can foster awareness of this type of business and encourage citizens to support these efforts to promote positive change in communities.
- **Training programs** can empower would-be entrepreneurs and ensure that they meet clear-cut community needs. Policymakers can prioritize training for entrepreneurs who want to tackle pressing challenges and focus training on the young to empower the rising generation.
- **Research on social enterprises** can be supported to clarify how these entities affect communities and what rules and supports they need to function. Without good data and analysis, it is difficult to truly gauge the success of any one enterprise. Once data collection and performance measures are in place, policymakers and investors will better know how to direct their resources, and entrepreneurs will be able to run their companies more effectively.