AGENDA

- What is a social enterprise?
- Why be a social enterprise?
- What are the risks of being a social enterprise?
- How do you balance commitment to mission and risk?
- Fundraising considerations
- What is best for you?
A social enterprise is a for-profit mission-driven organization.

A social enterprise re-evaluates the priorities of a traditional corporation, moving away from a pure focus on the bottom line towards a focus on the triple bottom line: people, the planet, and profit.
WHY BE A SOCIAL ENTERPRISE?

- Traditional corporations: https://www.youtube.com/watch?v=SlwYq7t0ctw
- Evolving corporations: https://www.youtube.com/watch?v=56a3-Sc65M8
THE FINANCIAL ARGUMENT FOR BEING A SOCIAL ENTERPRISE

Firms of Endearment: How World-Class Companies Profit from Passion and Purpose by Raj Sisodia, Jag Sheth, and David Wolfe (2015)

- Firms of endearment (FoEs) seek to maximize their value to society as a whole. U.S FoEs had cumulative returns of 1,681.1% over 15 years; in comparison, S&P 500 was 117.64%.

Connect: How Companies Succeed by Engaging Radically with Society by John Browne (2016)

- Companies that engage radically in society survive longer and have a stronger bottom line – 2% per annum “superior stock market performance”.

In 2019, The Torrey Project found the FoEs enjoy 100% higher returns than S&P companies over a 20-year period.

From an investment perspective, ESG funds lost less money, were less volatile, in some cases, outperformed peers in 2020.
WHAT ARE THE RISKS?

- Social enterprises are a new business entities that have not been tested in the courts
- Potentially expanded liability for directors and officers
- Additional business/reputational risk
- Investment opportunities
- Financial cost to your business
HOW DO YOU BALANCE COMMITMENT AND RISK?

HIGH COMMITMENT/HIGH RISK

LOW COMMITMENT/LOW RISK
HOW DO YOU BALANCE COMMITMENT AND RISK?

- Incorporate as a Benefit Corporation
- Amend/draft governance documents
- Corporate policies
- B Corp Certification
BENEFIT CORPORATION

- Legal entity in 38 states
- Makes commitment to stakeholder considerations legally binding
- Requires appointment of a benefit director and a benefit officer
- Requires filing of annual benefit report
- Provides protection for directors and officers

Costs:
- $125 one-time filing fee (in Pennsylvania)/ $70 amendment fee
- $70 annual benefit report filing fee
- Lawyer fees in drafting bylaws/operating agreement
- Potential lawyer fees in drafting benefit report
AMENDING/DRAFTING CORPORATE DOCUMENTS

- Makes commitment to stakeholder considerations legally binding
- Provides protection for directors and officers
- Does not require an annual benefit report
- Costs:
  - $125 one-time filing fee (if you are not already incorporated)
  - $70 one-time amendment filing fee (if you are incorporated)
  - Lawyer fees in amending corporate documents/drafting corporate documents
CORPORATE POLICIES

- Internal guidelines (e.g. hiring, sexual harassment, non-discrimination, CSR, code of conduct, DEI, mission statements, etc.)

- Costs:
  - Lawyer fees drafting corporate policies
B CORP CERTIFICATION

- Third-party certification (similar to LEED Certification)
- Requires intensive B Impact Assessment
- Must recertify every two years
- Costs:
  - Certification cost is graded, based on your annual sales (starts at $1,000 - $50,000+)
  - Lawyer fees in drafting the certification
HOW DO YOU BALANCE COMMITMENT AND RISK?

- INCORPORATE AS BENEFIT CORPORATION
- AMEND GOVERNANCE DOCUMENTS
- B CORP CERTIFICATION

HIGH COMMITMENT/ HIGH RISK

LOW COMMITMENT/LOW RISK
FUNDRAISING CONSIDERATIONS – WHAT DO INVESTORS THINK?

- It depends on the investor – much like finding an investor that fits with your idea, you need to find investors who are aligned with your vision.
- Institutional investors starting to require more of public companies - how will this trickle down?
- Less risk in impact investing.
HOW BEST TO MERGE PROFIT AND PURPOSE?

- Pick a lawyer who understands what you are trying to do
- Give consideration to where you are in your development as an organization and what you are trying to accomplish
- Take a look at your budget and your resources
- Give yourself room to grow