Promoting Social Enterprise through Public Policy

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Abstract

A new type of company, for-profit social enterprises, are emerging in the U.S. with the potential to revolutionize the way business, society and government interact. For-profit social enterprises reflect the American character, a duality of impassioned desire to do good and care for a neighbor, with a profound belief in the value of the opportunity for financial success through hard work and competition. They are the market’s response to an evolving consumer who is demanding more from companies than the pursuit of the financial bottom line. Through interviews with social entrepreneurs, business leaders, and policy experts, as well as a thorough survey of available research, this paper illustrates the extraordinary opportunity of social enterprise, while developing policy proposals carefully designed for business to catalyze growth in the sector.
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Social enterprise is the next frontier of American capitalism. It is the market’s response to inefficiency in the current economic system of the United States. Companies are financially rewarded for racing toward the bottom, while the government burdens them indiscriminately through a complex tax code. Meanwhile, non-profits spend their time soliciting donations from the wealthiest to patch holes in the social safety net and environmental policy. Social enterprises address social and environmental problems through earned revenue strategies. Solving social problems on every dollar earned has the capacity to revolutionize the way business and society interact, and the role of government in the United States. If companies create a competitive advantage through a social mission, while creating a quality product at a competitive price, all stakeholders win. Social entrepreneurs are chasing the American dream, and in the process are making the world a better place.

Imagine a customer with a choice between two websites to buy a book at the same price. The first will donate 8 percent of the profit from the sale to a literacy organization and give you free shipping that is carbon offset. The second takes 100 percent of the profit and the customer pays for the shipping. That choice exists today: betterworldbooks.com versus amazon.com. How can a company be competitive when it gives away 8 percent of its profits? Welcome to a new force in American business—for-profit social enterprises. For these businesses “mission equals margin,”2 and they are breaking into the mainstream.

Better World Books (BWB) receives a large portion of its books through donations from more than 1,800 college campuses and partnerships with over 2,000 libraries nationwide. For every book that Better World Books receives as a donation, with the exception of library donations that often include a financial donation to the library, the company’s only cost is
collecting the books and stocking them on the shelves, enabling a much higher margin on used book sales than traditional for-profit competitors. The increased margin on used books allows BWB to take a lower margin on new books, creating an online store that is price competitive with the likes of Amazon. In an economic recession and a time in which booksellers have been struggling, including the bankruptcy of the major chain Borders Books, BWB has grown its workforce by 31% in the last three years. In those years of significant growth, BWB has raised more than 8.6 million dollars for literacy and education, and in the process, diverted more than 26,000 tons of books from landfills. Today, BWB has donated more than 9 million dollars and recycled or reused 51.8 million books.

### Graphic 1.1

<table>
<thead>
<tr>
<th>BetterWorldBooks™</th>
<th>amazon.com®</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Mission/Vision</strong></td>
<td>Better World Books is a global bookstore that harnesses the power of capitalism to bring literacy and opportunity to people around the world.</td>
</tr>
<tr>
<td><strong>Sales</strong></td>
<td>$45 million (2010) $57 million (Projected 2011)</td>
</tr>
<tr>
<td><strong>Employees</strong></td>
<td>200-250 full time employees (all with full benefits)</td>
</tr>
<tr>
<td><strong>Shipping Policy</strong></td>
<td>Free international shipping on all products sold by BWB or in the BWB marketplace</td>
</tr>
<tr>
<td><strong>Philanthropy</strong></td>
<td>-Raised over $9 million for literacy including -$5.1 million for over 80 literacy and education nonprofits -$3.9 million for libraries nationwide</td>
</tr>
</tbody>
</table>
Better World Books demonstrates how a mission-oriented business model can change the competitive dynamic in a market. A company that donates eight percent of its profits to literacy programs is able to compete with the prices of the largest online retailer in the world.  

Better World Books is not alone. The company exists because market forces are calling for new business models that infuse environmental and social missions into products without sacrificing cost or quality. More than 60 million U.S. consumers, 23 percent of the U.S. consumers,
population, make purchasing decisions based upon social and environmental values. The percentage of consumers whose shopping or investing decisions are influenced by corporate behavior grew from 31 percent to 36 percent in the last three years; 45 percent of consumers rate sustainability as somewhat important or very important; and the population most interested in social responsibility, 25 – 34 year olds, will increase by 11.8 percent over the next five years. Additionally, the recession has intensified consumers’ focus on corporate behavior, and they are looking for a brand they can trust. An April 2010 report found that “49 percent of consumers will seek out similar products from a different brand if they hear that a company’s corporate behavior is especially bad.”

For-profit social enterprises are capitalizing on the changing consumer. However, they recognize that while social and environmental mission is factoring into purchase decisions, what drives consumers’ choices are price, quality, and service. In the age of social media and increasingly creative marketing schemes required to reach consumers, a new marketing phenomenon has emerged called Net Promoter Score (NPS). NPS is a quantitative assessment of a customer’s willingness to promote a product or a service recently purchased. The effectiveness of word-of-mouth marketing is well documented, and is being exacerbated by the ease of communication in a technology age dominated by social networking. Better World Books uses NPS to track customer satisfaction and CEO David Murphy believes it is essential to the growth of the company.

While the assumption might be that a social enterprise can overcome a price premium and slower service because of a mission-oriented product, an analysis of customer priorities through NPS proves that wrong. Out of seven themes tested in customers’ willingness to
recommend Better World Books, social mission ranked third, behind “attractive prices and quality service.” 28 Xavier Helgesen, co-founder of BWB, wrote in response to the data, “it seems that many mission-driven businesses try to command too much of a price premium upfront.” 29 He indicated that once a social enterprise has become successful, it has the potential to compound its success faster than solely profit-seeking business models, through better customer loyalty and more media attention. However, social entrepreneurs must know that success originates in a quality product at a competitive price, not a social or environmental mission. 30 Xavier’s perspective and the information learned from BWB’s NPS make it clear why for-profit social enterprises have the potential to change capitalism in the U.S. Social entrepreneurs must not settle for a niche market willing to pay a premium for a substandard product. Real change comes from scale, and in order to scale, highly successful and sustainable companies must be built.

**Seventh Generation**

The highest volume seller of dishwasher detergent at Target stores in North America today is a company whose mission statement reads, “To inspire a more conscious and sustainable world by being an authentic force for positive change.” 31 That company is Seventh Generation, one of America’s fastest growing companies of the last ten years. From 2001 to 2008 Seventh Generation grew at a rate of 25 to 30 percent per year, culminating in 50 percent growth in 2009. While the company did not grow in 2010, its growth from 2004 to 2009 far outpaced the industry of household cleaning products, which declined by 16 percent in that time frame. 32 Growing 50 percent in the heart of the economic recession indicates the profitability of a competitive price
and a brand that is inseparable from its environmental mission. Seventh Generation is in 60 to 70 percent of U.S. grocery stores, every Target store and 1,500 Walmart stores.33

Seventh Generation demonstrates the power of social enterprise to catalyze the race to the top.34 This is a paradigm change from the “race to the bottom,” which has consumed companies in the U.S. for decades.35 Race to the bottom, in a business sense, refers to the aggressive pursuit of improving the bottom line by sacrificing values. Common examples of racing to the bottom are laying off workers, ending or reducing health and retirement benefits, exploiting loopholes in environmental regulations, outsourcing jobs, and lobbying to reduce the responsibility of a company to protect the environment and its workers.36 Seventh Generation is racing to the top because its success is driving mainstream competitors to be more socially- and environmentally-conscious. By proving customer demand through financial success, in Seventh Generation’s case for a mission-based product, economic theory argues that in the long-term competitors will enter the market with a similar product.37 Another benefit is the reduction of cost when higher volumes are demanded for sustainable products. For example, Seventh Generation sets up a fully sustainable supply chain that requires different raw materials and procedures. As the sales of green products increase, suppliers can reduce their margins. Graphic 1.2 depicts how Seventh Generation has catalyzed a race to the top in the household cleaning and personal sanitation industry.

Graphic 1.2
The flood of competition is forcing Seventh Generation to find ways to differentiate its brand. The race to the top has pushed Seventh Generation to invest heavily in advertising, increasing exposure of the benefits of green brands, and to seek certification of its green credentials (there is currently no industry standard for “natural”). Seventh Generation has even lobbied the federal government to ban harmful chemicals that will force competitors to match Seventh Generation’s green standards. New CEO Chuck Maniscalco, a former PepsiCo executive, said in a Forbes interview, “[Customers] They don’t just want to buy a green-looking brand. We started as a grass roots company and continue to operate that way by tapping into our consumers’ ideals. Last fall we rallied consumers to join a push for new legislation on toxic chemicals, aiming to get more of them banned.”

Increased competition drives prices down for environmentally friendly products, the leading reason why people do not switch to green products. Sales of eco-conscious household products tripled in 2009, reaching $1.6 billion.

In 2010, Seventh Generation had the best selling dish cleaning liquid at Target, and 40% of the natural dish cleaning market. Seventh Generation’s increased market share helped lead competitors from the major cleaning brands and private labels (store brands) at grocery stores and pharmacies to enter the sustainable household cleaning and personal sanitation market. Social enterprises use competition to make change.

From 2001 to 2008 the company grew 25-30 percent per year, before growing by 50 percent in the recession year of 2009. Today Seventh Generation products are sold in every Target, 1,500 Wal-Mart stores and 60-70 percent of grocery stores.

As health food stores like Whole Foods went mainstream in the mid-nineties, so did Seventh Generation. The company began to drastically enhance and diversify its product line as it grew.

In 1988, Seventh Generation began selling household cleaning supplies in health food stores with the company mission: “To inspire a more conscious and sustainable world by being an authentic force for positive change.”

The benefits to the environment of the growth in eco-conscious household products are substantial. If every household in the U.S. replaced one 12-pack of traditional toilet paper and one roll of traditional paper towels with Seventh Generation’s alternatives, 3,000,000 trees would be saved next year.\(^{38}\) In addition, 1.08 billion gallons of water would be saved, a year’s water supply for 8,500 families of four, and 7.7 million cubic feet of landfill space would be avoided, equal to more than 11,000 full garbage trucks.\(^{39}\) If every household replaced one bottle of dishwashing liquid with Seventh Generation’s plant-derived product, it would save 127,000 barrels of oil, enough to heat and cool 7,300 U.S. homes for a year.\(^{40}\)

Competitive prices are essential to the continued growth of Seventh Generation, and the viability of green alternatives becoming the norm. The growth in recent years has been extensive. The market research firm, Packaged Facts, estimates “retail sales of green cleaners grew 229% between 2005 and 2009, more than doubling their footprint in dollar terms and more than tripling their share of the total household cleaner market.”\(^{41}\) One in four Americans report using green cleaners regularly, even though the products recently entered the market.\(^{42}\) Nevertheless, in 2011, roughly 40 percent have never tried a green cleaning product, largely due to a price premium, with about 21 percent unwilling to pay any price premium and 23 percent willing to pay a dollar or less more for a green cleaning product from the same sample population.\(^{43}\) While the differential in price between Seventh Generation and its competitors varies, Seventh Generation maintains competitive prices. The company’s vision, according to founder Jeffrey Hollender, is to stay within 15 percent of competitors, a figure that is within the price limits for most consumers.\(^{44}\) There are many prices that exceed the 15 percent goal, but the company is clear that they are committed to bringing prices down. For 12 rolls at 352 sheets
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Each, Seventh Generation is 90 cents more expensive at $10.49, to the most basic bathroom tissue of equivalent size. In regards to paper towels, Seventh Generation averages $2.00 per roll, when competitors vary from $1.75 to $2.25 for the same size rolls. A 45 oz. box of Seventh Generation dish detergent powder is only 50 cents more than the cheapest available powder detergent. While environmentally-friendly products usually cost more, gone are the days when consumers have to break the bank in order to make more environmentally-friendly purchasing decisions.

**Give Something Back Office Supplies**

Co-founder of the largest and most successful independently-owned office supply company in California, Mike Hannigan got his idea to start the company when buying Newman’s Own spaghetti sauce at a grocery store. He treasured the customer experience of knowing he was getting a high quality product at a competitive price with all the proceeds going to charity. The idea was profound, yet startlingly simple. For 13 years, he developed the skills necessary for starting his own business while working at Xerox. In 1991, along with a co-worker from Xerox and a combined investment between the two of 50,000 dollars, Sean Marx and Mike Hannigan started an office supply company with a distinctive mission:

We promise to make buying office supplies more fun, to provide an unmatched customer experience, to offer competitive, honest pricing, and to give our profits back to the community.

In the first year they totaled nearly half a million dollars in sales. After five years, without investing additional money into the company, they had retained earnings of $2 million, with each year’s sales average in the millions of dollars. Today Give Something Back Office Supplies is
the largest independently-owned office supply company in California, and is expanding nationally. Its primary competitors are Office Depot and Staples. Give Something Back keeps its prices at or below its competitors by selling at lower margins and reducing overhead by not having retail stores. Because the company is managed for its stakeholders, the Bay Area community, instead of for stockholders demanding increasing profits, Give Something Back retains management capacity over margins and other business decisions. In 20 years, Give Something Back has donated more than 5 million dollars to non-profits concerned with arts and culture, animal welfare, the environment, and human services. Give Something Back has given 75 percent of net earnings to charity, which is 74 percent higher than the corporate average. Give Something Back is also creating value for its stakeholders by selling a wide variety of environmentally-friendly office products and integrating “Green Your Office” consulting into its business model. Give Something Back is the largest seller of recycled paper in California. Additionally, the company’s headquarters in Oakland, California is powered by solar power on its roof and the company is committed to employing underprivileged populations and paying good wages while providing full health benefits to all of its employees.

The first reaction of many free-market fundamentalists to Give Something Back’s obsession with sustainability is likely that Give Something Back should scale down some of its business practices in order to increase profits. However, Give Something Back’s business is inseparable from its social and environmental mission, in addition to its fresh approach to the office supply business. The company believes they can continue to grow nationally because they fundamentally change the office supply customer experience by turning the mundane into a refreshing and feel-good exchange. While Give Something Back’s lower margins slow its ability to donate money in the short-term, the company has proven its long-term sustainability, which
will ultimately guarantee the most social and environmental value for its stakeholders. By growing slowly over a long period of time, without changing its pricing strategy, the company is now taking off. Inc. Magazine recently rated Give Something Back Office Supplies as one of America’s fastest growing, independently-owned companies. In 2010 they recorded more than 30 million dollars in sales, and have a goal to reach 1 billion in sales as they grow nationally.

**New Resource Bank**

New Resource Bank (NRB) is one of less than 10 mission-oriented banks in the country according to Bill Peterson, Chief Credit Officer. At NRB Peterson says, “We enhance sustainability with everything we do.” The DNA of the bank is to make the world a better place and it functions on four core principles: sustainability, transparency, community and teamwork. All internal and external activities of the company consider sustainability, including cutting-edge green IT programs, recycling 96 percent of all waste, and subsidizing employee public transit, as well as guaranteeing that every dollar of deposit will be used to reinvest in companies, organizations, or individuals who are committed to sustainability. NRB is a commercial bank in its fourth year of operation that does 80 percent of its banking in the Bay Area, primarily lending to businesses and major projects. The mission-oriented banking model is increasing in appeal to individual consumers, however, leading NRB to enter into the personal banking market, with the hope of competing against the largest names in the business, including Bank of America and Chase. The financial crisis has increased awareness about the behavior of banks, creating a more recognizable space for mission-oriented banks. NRB will not make a loan to a company, organization, or individual that is not established as interested in sustainability and working to improve the environment. CEO Vincent Siciliano explains,
“New Resource Bank only makes loans to sustainable businesses. They can be anywhere on the sustainability spectrum, they can be learners or leaders, but what is important is that they are on that playing field.” NRB refers to their lending model as, “impact lending.” The company foresees a growth strategy by separating itself from major banks that fund mountaintop removal projects, offshore oil drilling and other environmentally destructive behavior.

NRB is a publicly-traded and for-profit bank with approximately $158 million in assets. After a second round of equity financing in 2009 and reshaping its management team, NRB is on track to reach profitability and continue to expand by differentiating with its commitment to sustainability. NRB experienced significant difficulty as a start-up bank through the recession. It has proven its value to investors, however, in part due to its strategic position as a green bank in California with the renewable energy market growing rapidly. NRB seeks to grow through partnerships with green companies and organizations. NRB recently announced it is teaming up with the seventh largest producer of solar energy in the world, Enfinity Solar of Belgium, to help Enfinity expand aggressively in California and across the U.S. NRB’s mission gave them a competitive advantage in establishing the partnership with Enfinity Solar because of their expertise in, and passion for, the business of renewable energy. As the U.S. transitions to more renewable energy and a more sustainability-focused economy, New Resource Bank will not have to sacrifice profit margins for their mission. Their mission will be essential to their growth and financial success.

**Fair Trade Sports**

Fair Trade Sports is a for-profit social enterprise dedicated to reforming the production of athletic equipment. According to their website, “Fair Trade Sports Inc. is the first sports
equipment company in the US to launch a full line of eco-certified Fair Trade sports balls, ensuring fair wages and healthy working conditions for our adult workers. We have sports balls for soccer, football, basketball, rugby, volleyball, and more.” While Fair Trade Sports demonstrates the exemplary values and business practices of a for-profit social enterprise, its business model is substantially different than the majority of social enterprises. The company has two goals. A preliminary goal is to raise money for children’s charities by donating all after-tax profits to charity. The company’s ultimate goal is to push major athletic equipment and apparel manufacturers to be more sustainable. Scott James, founder of Fair Trade Sports, aims to demonstrate the consumer demand, profitability, and process of selling sports equipment made from environmentally-friendly materials with the highest labor standards at all points throughout the supply chain. Sports equipment, the rubber in soccer balls in particular, is damaging to the environment. Therefore, Fair Trade Sports has created both a breakthrough product and supply chain process.

With a $200,000 budget for philanthropy, James debated a donation to Amnesty International or other non-profits focused on holding businesses accountable for human rights violations. He became frustrated, however, with the opportunities available for him to donate. He claims, “everyone was saying don’t do this, don’t do child labor, don’t do environmental damage, no one was saying please do this.” In the process of discerning how he could maximize his impact with a 200,000 budget and willingness to commit himself to a new full-time job, James met with numerous non-profit leaders in the city of Seattle to evaluate his ability to succeed in managing a non-profit. The result for him was a resounding “no.” He was advised that his relentless business mindset would clash with the often slower moving and more political atmosphere of non-profits. After much thought, James decided to start Fair Trade Sports, and
produce the world’s first TransFair USA certified Fair Trade, sustainable soccer ball. His mission is to work himself out of a job by having one of the five major soccer ball manufacturers follow his lead for creating a sustainable ball. In fall of 2010, Fair Trade Sports was behind on its ambitious three-year break-even goal on the initial investment of $200,000, but still on track to reach profitability within a year. The success of Fair Trade Sports thus far has largely been through bulk order sales to school districts and soccer teams, but the company is on the horizon of expansion into retail stores, most notably, a few West Coast Costco stores.

Fair Trade Sports embodies the race to the top ideology of social entrepreneurship, utilizing competition for social change. Every product sold by Fair Trade Sports meets certified Fair Trade labor and environmental standards. This includes paying the average worker 50 percent higher than non-Fair Trade competitors, as well as reinvesting by Fair Trade Sports into the workers’ communities through community clinics, health insurance and micro-credit loans. The eco-certification for balls made by Fair Trade Sports comes from the Forest Stewardship Council (FSC) of the United States. Seventy percent of a soccer ball is rubber, most often from a particular region of Pakistan where 85 percent of all soccer balls originate. The farming of rubber from forests can be extremely damaging, but Fair Trade Sports has taken all the proper steps to ensure the protection of the natural resources in its supply chain in order to earn the FSC’s certification.

The company defies the norm of beating competitors with the lowest price point, forcing the company to reduce costs at the expense of the environment and its workers. Instead, the company is growing rapidly because it is proving that when given the option, customers will often choose a sports ball constructed by healthy and well-paid workers using environmentally-friendly materials. As Fair Trade Sports continues to increase its market share, James is
confident one of the major athletic ball manufacturers will purchase the company or move their suppliers to match the sustainability of his supply chain. His confidence is rooted in the movement toward sustainability in U.S. businesses, particularly businesses that rely on their brand’s image to sell products. If Fair Trade Sports continues to grow, James believes it is only a matter of time before one of the major athletic ball manufacturers adopts some of the supply chain standards of Fair Trade Sports. Unwilling to be tarnished with the reputation of being the anti-environmental sports company, once one company moves in the direction of Fair Trade Sports, the other companies are bound to follow.

Better World Books, Seventh Generation, Give Something Back Office Supplies, New Resource Bank, and Fair Trade Sports are for-profit social enterprises that represent a variety of avenues pursued by social enterprise to change business in the U.S. Social enterprise signifies a commitment to alleviating social and environmental problems as a core part of the business model. This new company model is only part of the movement in the U.S. toward more sustainable business practices. Graphic 1.3 diagrams one perspective on the spectrum of the new frontier of business models.

**Graphic 1.3**

Research and theory on the implementation of business models to solve social and environmental problems is in its infancy. Therefore, the socially-beneficial continuum is far from universally
accepted. Many in the social enterprise community believe passionately that social enterprise should not include companies designed to make a profit unless that profit is used to scale the enterprise, reduce the cost of a socially-beneficial product or service, or increase the benefits for members of the workforce from a disadvantaged population. According to the Social Enterprise Alliance (SE Alliance), in order to be a social enterprise the company must fall into one of three categories: employee-focused, created specifically to provide permanent jobs, competitive wages, career tracks, and ownership opportunities to mentally, physically, economically, or educationally disadvantaged people; customer-focused that directly address social needs through a product or service; and hybrids that simultaneously deliver a product or service that directly addresses a social need and employs members of a target population. For-profit social enterprises often fall into one of the three categories, but many provide their primary social benefit through indirect means like corporate philanthropy. For example, Give Something Back Office Supplies would not qualify as a social enterprise under the SE Alliance’s definition despite the fact that the company donates 75 percent of its net revenue to charity, prioritizes green office products, and hires disadvantaged populations in Oakland, California. Give Something Back does not fulfill the standards of the SE Alliance because it is an enterprise designed to sell office supplies, but help others in the process. If Give Something Back was an enterprise with the purpose of training ex-gang members and convicts to become salespeople in the office supply industry, then it would be a social enterprise under the SE Alliance definition.

The SE Alliance definition is in line with the European interpretation of social enterprise, as well as the concept of social businesses developed by Grameen founder, Mohammad Yunus. The UK is far ahead of the United States in national awareness of social enterprise and utilization of the sector to increase the efficacy of government and reduce its role in society. In 2007 the
UK Government estimated approximately 62,000 social enterprises were operating in the UK and contributing at least £24 billion to the economy and employing 800,000 people.\(^9\) The most widely accepted definition for social enterprise in the UK is a Community Interest Company (CIC). Since 2005 social enterprises have had the opportunity to incorporate as CICs. CICs are companies that must be designed to benefit society and are limited by law to only redistributing profits to scale their business, lower the cost of products or services to a disadvantaged population, or to donate to charitable causes.\(^9\) Not all in the UK agree with such a limited view of social enterprise.\(^9\) A study commissioned by an economics consultancy from the UK, Delta Economics, widened the definition of social enterprise to include companies that are dedicated to creating social and/or environmental value with unrestricted profits. The Delta Economics study estimated as many as 232,000 social enterprises may be operating in the UK.\(^9\)

Non-profit or limited profit social enterprises in the United States are making a monumental impact on addressing social problems.\(^9\) Preliminary research on the effectiveness of these types of enterprises, particularly enterprises that focus on the employment of disadvantaged populations, shows extraordinary potential.\(^9\) Research indicates the value added to the economy of creating a job for a person who would otherwise be reliant on social safety net programs for survival could be as high as $100,000 per person, per year.\(^9\) Therefore a group of social enterprises that employ and provide benefits to just 10,000 employees that experience significant barriers to employment like the developmentally disabled, poorly educated, recovering substance abusers or ex-convicts, returns $1 billion in stimulus to the U.S. economy.\(^9\) Further information on the extensive benefits of non-profit or limited profit social enterprises, including profiles of many successful examples occurring in the U.S. today, is available in Appendix 1.
This paper, however, focuses on the accomplishments and potential of for-profit social enterprises. It is vitally important to separate for-profit social enterprises and companies with above average corporate social responsibility practices. Without meaningful separation, the opportunity of for-profit social enterprises designed to benefit society and/or the environment would be diminished by association with corporate sustainability and philanthropy practices as a marketing strategy. The United States is the international symbol of capitalism. The pursuit of profit is woven deeply into the cultural fabric and success of the country. Profit motive is responsible for bringing the best minds in the world to the U.S., who have unleashed their ideas and fundamentally changed the human experience. In just 250 years, the U.S. has become a world superpower with unforeseen levels of economic success. The extraordinary success of business often leads people to question what the role of companies should be in society. The current structure of the U.S. capitalistic system indicates people believe businesses should solely be responsible for maximizing profit, while government and non-profits have the responsibility of ensuring human rights, economic survival for the impoverished, and the preservation of the environment. Yet, at a time when the U.S. is encumbered with economic problems from the recession, it is now exemplary of the need for a new economic direction. No longer should the efficiency and sustainability of the private sector be reserved for companies focused solely on making a profit, and no longer should the ethical standards and environmental stewardship of non-profits be reserved for organizations that rely on donations to survive. For-profit social enterprises reflect the American character, a duality of impassioned desire to do good and care for a neighbor, with a profound belief in the value of the opportunity for financial success through hard work and competition.

**Rating System**
This in an age when advertisements are run for Exxon/Mobil, Chevron, and BP on alternative energy, Pepsi and Coke for helping children, Lay’s Potato Chips for being “all natural,” and Chevrolet for designing a hybrid Suburban. Major corporations have discovered the changing dynamics of the American consumer. Without a well-defined and nationally-established rating and certification system, for-profit social enterprises are vulnerable to losing their identity to corporate social responsibility. For-profit social enterprises are businesses designed to address a social or environmental problem through revenue-generating business models. Going forward, it must be clear to consumers which companies meet the for-profit social enterprise certification, as well as how, and to what extent the company creates social benefit. A nationally accepted rating system is necessary to hold companies accountable to their claims. In Europe, laws limit profit that can be returned to shareholders from social enterprises. That limitation is unnecessary if a rigorous certification process is instituted providing official recognition to social enterprises. If a company can make significant profits while meeting stringent social and environmental benefit standards, it should be celebrated and empowered, not stifled.

The national corporate movement toward sustainability creates new opportunities for consumers to practice their values in all of their purchasing decisions, but too often sustainability marketing outpaces the real benefit of sustainability claims. More than four in ten respondents, “feel that it is too difficult to know whether companies are truly behaving ethically to base shopping or investing decisions on this issue.” With 36 percent of customers admitting to the influence of corporate behavior and 75 percent willing to pay a price premium for authentic green claims, it is clear there is significant unmet demand for better information about companies’ business practices.
Economic efficiency is reliant upon a near-perfect exchange of information. Right now the marketplace is out of balance because consumers have a desire to reward companies for ethical behavior, but the information is so convoluted and unclear that consumers largely lack the confidence to incorporate social responsibility in their product choices. Research shows that, “less than one percent of consumers trust company advertisements or statements made on product packaging when deciding if a company is or does what it claims.” Consumers trust themselves and third parties in determining social consciousness, meaning a third-party rating system that increases transparency for consumers to express their values when buying would have substantial impact. Ratings for products that have societal or environmental benefit desperately need to be standardized and clarified. The obvious need for certification of sustainability claims has spawned a plethora of logos and certifications that may provide some beneficial information, but continue to make the buying process unnecessarily complex.

Graphic 1.4
Graphic 1.4 presents a different vision of the certification system that exists today. While a wide array of certifications should continue to have a place as marketing tools to inform a consumer of different attributes of a product or company, a single standard with a nationally-recognized quantitative value for the societal and environmental benefit of a company must exist for social enterprises. The rating is an opportunity for competitive advantage as companies try to earn respect and recognition from customers for having a low price and a high score. A quantitative score is important to increase efficiency in the market for all social enterprise goods.
sold. The score empowers the consumer who is choosing between competitors, to make a value assessment on the price they are willing to pay for a higher score on a similar product. Product ratings like “USDA Organic,” “Fair Trade” or “Wind Made” will continue to be included on packaging because companies with diverse product lines may offer certain products that meet those standards and others that do not. However, a single score available on the products of all social enterprises with a recognizable logo will help consumers navigate through the overload of marketing information. As technology and the social enterprise sector develop, the score should include a way for any consumer with a smart phone to instantly access easy-to-digest information about a company’s social and/or environmental benefit. The Quick Response code, the square bar code that can be interpreted by smart phones included in Graphic 1.4, is a technology that could be implemented today.

In today’s economy, social and environmental benefits are communicated to consumers, investors, and competitors in different languages and a different numerical system. Without any quantitative standards, explanations of benefits are entirely anecdotal and difficult to compare. It will never be possible to capture the entirety of social and environmental value within an equation, but business must move in that direction to unleash the full potential of social enterprise. Imagine the U.S. economy without the legal mandate of specific accounting practices. The inefficiency loss for investors trying to compare a variety of companies that all use totally different accounting procedures would be enormous. Consumers who want to use their dollars to purchase products from, or invest in, companies that meet a higher standard of social and environmental stewardship do not have a centralized location or specific document to access. A single rating for companies that is recognized and easily converted into a quantitative
value akin to the monetary price for the consumer would revolutionize the way people, from retail to heavy industry, purchase products.

The only model available today for a standardized rating system inclusive of both for-profit and non-profit social enterprises are certified Benefit Corporations (B Corporations or B Corps) certified by B Lab, a non-profit organization based in Philadelphia. As of April 2011 there are 399 B Corporations from 54 industries in the U.S. that account for $1.87 billion in revenue.\(^\text{103}\) From 2009 to 2010 the number of B Corp certifications grew by more than 75 percent.\(^\text{104}\) B Lab is in the midst of a campaign to make it possible in all 50 states to incorporate as a benefit corporation. As of April 2011, B Corp law has been enacted in Maryland, Vermont, and signed into law awaiting implementation in New Jersey and Virginia.\(^\text{105}\) Another incorporation form for social enterprise, which has made more legislative progress than B Corps, but excludes many for-profit social enterprises, is called L3C, or Low-profit Limited Liability Companies.\(^\text{106}\) Non-profit and limited profit social enterprises can incorporate as L3Cs in eight states. L3Cs, by definition, must not have the production of profit as a “significant business purpose.”\(^\text{107}\) Also, L3Cs would leave the verification process of social and/or environmental mission to the states, lacking the certifying third party role required in benefit corporation legislation.\(^\text{108}\) While excluding most for-profit social enterprises, the L3C law has some distinct advantages. The law can be passed as an amendment because the L3C incorporation form is a modification of the legally established LLC corporation form.\(^\text{109}\) Also, L3Cs comply with IRS regulations regarding Program Related Investments (PRIs), a qualification that should be pursued by B Lab for B Corps. PRIs are IRS-sanctioned investments made by charitable foundations and endowments that allow foundations to make investments instead of granting away money.\(^\text{110}\) L3Cs are very attractive, because foundations can accomplish their charitable purpose, as well as
potentially receive their investment back, including a small financial return. While L3Cs have advantages, B Corps are the most formidable way forward for institutionalizing social enterprise because their standards rely on a rigorous evaluation of social and/or environmental benefit by a third party certifier, avoiding the need for limitations on profit.

Creating legal status for B Corps will empower policy makers to make targeted reforms and policy proposals to promote social enterprise, which will catalyze entrepreneurs to start social enterprises and help existing social enterprises expand in the U.S. B Lab believes in competition, so the legislation to create a legal status for B Corps only requires a third-party certifier, not specifically B Lab. Therefore, the new legal incorporation form created by the B Lab law (passed in four states with a goal of all 50 states) is a benefit corporation. B Lab refers to companies it certifies as certified Benefit Corporations, B Corporations or B Corps, enabling other third-party organizations that meet the statutory criteria to certify benefit corporations. To be clear, benefit corporations, not capitalized, can be certified by any qualified third party organization, but a B Corp refers to a company that has passed the B Lab Impact Assessment. A company can be a B Corp without legally being a benefit corporation in today’s political environment, because it is possible the B Corp is in a state without the legal means to incorporate as a benefit corporation. B Corps can be LLCs, S-corps, or other types of incorporation forms, but can only become legally recognized as benefit corporations in states that have passed legislation to create the new incorporation form. While most for-profit social enterprises will not be able to become legally recognized as benefit corporations in 2011, from this point forward in the paper, the term, benefit corporation, will be used interchangeably with for-profit social enterprise, and double- or triple-bottom line business. Benefit corporation will
be used because it is likely on track to becoming the legal term to describe for-profit social enterprises.

The benefit corporation legislation has no financial cost, focusing solely on the fiduciary responsibility of corporations. Under current corporate law, without benefit corporation legislation, executives are legally responsible to their shareholders, public or private, to maximize profit. Any decision made to the contrary could end up in court. This legal barrier deters social entrepreneurship, but most importantly, it limits social enterprises from scaling by taking on additional investors. Giving away ownership, whether diluting ownership through additional financing or by retiring or selling the business, comes with the risk of losing the social and/or environmental value of the enterprise.

Two of the three B Lab founders, Jay Coen Gilbert and Bart Houlahan created the athletic apparel and footwear company AND1. AND1 practiced much of what B Lab preaches today about business practices and values, but when the company was purchased in 2005 by another athletic company, it became evident there was no way of guaranteeing that AND1’s social and environmental business practices would remain. Jay and Bart, along with a college friend Andrew Kassoy, decided to develop a framework that would create a standard for doing business according to their social and environmental principals. The framework has the opportunity to institutionalize a movement in business toward social entrepreneurship. It will also provide security to owners of both current and future social enterprises, if their companies can incorporate as benefit corporations, that their hard earned business and social success will not be at risk in an ownership transition.

A rating system provides an identity for a company that does not fit neatly within the profit-maximizing business model. National recognition of the term, benefit corporation, would
save company executives the time of explaining why the companies they manage donate portions of profits or choose to source with more expensive materials because they are certified Fair Trade or environmentally-friendly. Whether companies are seeking access to loans, gaining certification from the FDIC, or soliciting investors, having an identity in the socially-beneficial spectrum provides more credibility. Every company interviewed for this paper mentioned struggling to communicate its identity to investors, banks, government agencies, or customers. Having a rating system that is standardized and universally respected allows companies to not only reduce the hassle of explaining the double- or triple-bottom line concept, but to capitalize on the reputation of being an authentic social enterprise.

The strength of B Lab as a leader in rating companies is its business identity. B Lab is an organization founded and managed by business people to solve business problems. B Lab is equipped to take sustainable business to the mainstream through its comprehensive B Lab Impact Assessment. The Impact Assessment establishes five pillars of social responsibility: accountability, employees, consumers, community, and the environment.119

**Graphic 1.5**

<table>
<thead>
<tr>
<th>Accountability</th>
<th>Employees</th>
<th>Consumers</th>
<th>Community</th>
<th>Environment</th>
</tr>
</thead>
<tbody>
<tr>
<td>-Governance</td>
<td>-Compensation &amp; Benefits</td>
<td>-Beneficial Products &amp; Services</td>
<td>-Suppliers</td>
<td>-Facilities</td>
</tr>
<tr>
<td>-Transparency</td>
<td>-Employee Ownership</td>
<td>-Work Environment</td>
<td>-Local</td>
<td>-Energy Usage</td>
</tr>
<tr>
<td></td>
<td>-Charity &amp; Service</td>
<td></td>
<td>-Diversity</td>
<td>-Supply Chain</td>
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<td></td>
<td></td>
<td></td>
<td></td>
<td>-Manufacturing</td>
</tr>
</tbody>
</table>

The Impact Assessment was designed to assess a company’s overall effect on its various stakeholders, which is in contrast to rating a company based on creating value for shareholders. The system was developed over a two year period and was reviewed by more than 600 entrepreneurs before the first version launched in 2007.120 In April of 2011, an updated “Version
2.0” is being used, with “Version 3.0” likely to be released by the end of 2011. Every two years, B Lab updates the rating system and requires all of its companies to renew their certifications. Ten percent of B Corps are audited every year, meaning every two years, all B Corps have a one in five chance of being audited. It is essential that companies not only demonstrate their social and/or environmental benefit to earn the certification, but that they are held accountable to those standards for the duration of their B Corporation status.

To be a certified B Corporation, a company must meet a combination of the five pillars to reach a point value of 80 out of 200 possible points, which is determined by a 181-question assessment. The questions are listed in the order of the categories in Graphic 1.5 and each section has questions that range from “less weighted” to “equally weighted” to “more weighted.” The breadth of questions, weights and categories was designed to be as efficient as possible for a range of industries. While some industries have a customized addendum, the Impact Assessment provides adequate opportunity for companies to do good in ways that are feasible within their respective industries or business capacities. It is unrealistic that all companies will be able to excel in each area of the assessment. Therefore, the assessment is designed to reward as much positive behavior as possible while prioritizing core values through a weighted question system.

The expansiveness of the Impact Assessment often has the positive externality of driving changes in businesses undergoing the certification process, by stimulating ideas for companies racing to the top. The effect of their thorough assessment is that companies often learn additional ways that they can improve their social mission, and thereby, their score. Even companies that are incapable of attaining the score needed to earn the certification have implemented reforms to run a better business where possible. Standardization of business
practices that benefit stakeholders lead to behavior changes because standardization yields recognition for the right choices.

**Shareholder versus Stakeholder Capitalism**

For-profit social enterprises exemplify the evolutionary progression of companies’ priorities in a capitalistic system, from a parochial focus on shareholders, to valuing all stakeholders in a company. A shareholder is an individual, group, or organization that owns one or more shares in a company.127 Despite what many believe, stakeholder advocates are not demanding companies disregard the interests of their shareholders. Stakeholder capitalism seeks to increase the scope of purpose for a company to benefit all stakeholders, people or organizations, that have a direct or indirect stake in a company because they can affect or be affected by the company’s actions, objectives and policies.128 While many characterize stakeholder capitalism as contrary to shareholder capitalism, focusing on stakeholders is a more reliable long-term profit strategy for companies and in the shareholder’s best interest. John Mackey, founder of Whole Foods, said, “Long-term profits are maximized by not making them the primary goal.”129 His words are not solely descriptive of his experience with Whole Foods, but indicative of a trend established by years of research that connects corporate social performance with corporate financial performance.

Esteemed business researchers, Joshua Margolis of Harvard University and James P. Walsh of the University of Michigan, collectivized data from 127 studies on the relationship between social and environmental stewardship and financial returns.130 They concluded, “a clear signal emerges from these 127 studies. A simple compilation of the findings suggests there is a positive association, and certainly very little evidence of a negative association, between a
company’s social performance and its financial performance.”\textsuperscript{131} Another group of researchers compiled and analyzed 52 studies amounting to information on 33,878 companies and reasoned, “Corporate virtue in the form of social responsibility and, to a lesser extent, environmental responsibility is likely to pay off.”\textsuperscript{132}

Stakeholder capitalism implies business with a more human purpose. In a debate with Milton Friedman over stakeholder theory, Mackey explained why companies should go even further beyond customers, employees and investors if they want to build a brand with the best prospects for long-term profit:

For that (why give money to the community and spend extra dollars to be green), you should turn to one of the fathers of free-market economics, Adam Smith. \textit{The Wealth of Nations} was a tremendous achievement, but economists would be well served to read Smith’s other great book, \textit{The Theory of Moral Sentiments}. There he explains that human nature isn’t just about self-interest. It also includes sympathy, empathy, friendship, love, and the desire for social approval. As motives for human behavior, these are at least as important as self-interest.\textsuperscript{133}

For a business to holistically meet the demands of its customers, it must not ignore its impact on its customers, employees, investors, community, and the environment. By focusing beyond maximizing short-term profits, the company is better positioned for long-term profits. While it is unclear if Whole Foods would qualify as a certified B Corporation, their business model, as depicted in Graphic 1.6,\textsuperscript{134} displays how a stakeholder approach to business becomes profitable.

\textbf{Graphic 1.6}
CEO of Better World Books, David Murphy, believes even the most ardent followers of Milton Friedman will be forced to move in the stakeholder direction because there is more opportunity to make money. Murphy believes companies based on a stakeholder model have two distinct competitive advantages regardless of the industry or size of the business. The first is the customer experience. Providing a great product at a competitive price is most important, but having a product that creates social and environmental value when purchased creates happy customers. The enhanced customer experience increases loyalty, perhaps a reason green companies like Seventh Generation fared better than their traditional counterparts during the recession. Also, happier customers are more likely to spread the word about a company. In the age of social networking, word-of-mouth campaigns can be extraordinarily effective and affordable.

The second clear competitive advantage is happier, more productive, and often higher quality employees. The Conference Board, a business research organization, reported in January 2010 that job satisfaction is at an all-time low, in the more than 20 years they have been doing the survey. An abysmal 45 percent of respondents were satisfied with their jobs, a 16.1
percent drop from 1987. In that time period job satisfaction dropped in all categories including interest in work, job security, employee engagement, job design, organizational health, managerial quality and extrinsic rewards. Research verifies that companies with a purpose beyond making a profit have a stronger appeal to prospective employees, and increase employee well-being. A researcher articulated the phenomenon in a review of literature on the topic, “Employees are forced to leave parts of their selves at home, while showing up at work with only a focus on profit.” Many for-profit social enterprises interviewed for this project cited their ability to attract top-tier talent from corporate America at a fraction of the salary due to the value the manager earned through pride in working for a company that makes money and works to improve its community and the environment. Therefore, social enterprises can reduce overhead compared to their competitors by paying less for human capital in executive and management positions, and likely achieve better productivity from all employees in the process.

Stakeholder capitalism redefines the paradigm of corporate America today, by pushing companies to race to the top. In a stakeholder system companies become more profitable as they do more for their community and the environment. Clearly there are limits and marginal rates of return on societal benefit, but if a company can produce an exceptional product at a competitive price it can differentiate from its competitors by improving its benefit to stakeholders. For-profit social enterprises add value to more than their community, environment, customers and employees. Traditional companies are eager to partner or develop business relationships with for-profit social enterprises, because they can add value to the traditional company as well. The 399 certified Benefit Corporations in the U.S. today save more than one million dollars annually through partnerships with companies that provide business services, which is another way of lowering overhead to better compete with traditional companies. For example, certified B
Corps receive significant discounts through B Lab partnerships with Salesforce.com, Intuit QuickBooks, NetSuite, CSRWire, law firms, web design consultancies, and others. Better World Books saves more than $100,000 per year in discounts because of its certified B Corp status. Stakeholder capitalism incentivizes the high road to profitability: improving the bottom line by being a better business is the future of the American company. Stakeholder capitalism advocate, Dr. Rajendra Sisodia of Bentley College, who received his Ph.D. in marketing from Columbia University writes, “The search for meaning is changing expectations in the marketplace, and in the workplace. Indeed, we believe it is changing the very soul of capitalism.”

Social Enterprise and Public Policy

Many believed the election of President Obama in 2008 was a critical juncture for the United States. His election personified this generation’s response to economic crisis—a desire for a better political discourse, more effective and efficient governance, and a step out of the entrapped arguments of past generations. Unfortunately, the optimism and idealism of the campaign disintegrated into one of the most divided and vitriolic political atmospheres Americans have ever seen. Instead of being the solution to America’s problems, the election of President Obama in a moment of crisis continues to reveal the most ubiquitous fault line dividing politics in the United States – the conflict between free markets to promote individual opportunity and government involvement to ensure a standard of living. Political opponents are entrenched in a fruitless tug of war between regulation and taxes to promote social and environmental programs, and a resolute faith in the capacity of the free market to create the best possible societal outcomes. For-profit social enterprises are a new way forward, built on America’s core values of opportunity through the free market and caring for one another.
Policy has a role to play in catalyzing the growth of social enterprises in the U.S., not by subsidizing products to prop up companies incapable of succeeding in a free market, but by building an infrastructure for social enterprises to validate their place in the U.S. economy. The growth of social enterprises could radically reduce the role of government in the U.S. It will always be more efficient for the private sector to solve, or avoid the creation of problems, but too often the private sector does not fulfill its responsibility to stakeholders, creating the demand for government to get increasingly involved in society. Policy must start by recognizing that social enterprises present a new type of company that does not fit into business law as it is structured today.

For-profit social enterprises must have a means to incorporate under law in a manner that reflects the totality of their social, environmental, and profit-driven mission. In many ways, the legal structure of business defines the culture of business. A for-profit social enterprise in 46 out of 50 states has no path to legal recognition except abandoning its financial returns and becoming a non-profit, or it is legally obligated to maximize profit with every business decision as an LLC, C-corp, S-corp, or other type of incorporation status. As stated previously, B Lab is pushing to make benefit corporation legislation the law of all 50 states. The legislation creates a legal infrastructure for a double- or triple-bottom line company, protecting the social and/or environmental mission as an integral part of the business despite ownership changes, and empowering managers with the ability to make decisions to benefit all stakeholders. The legal infrastructure opens the door to policy targeted at for-profit social enterprises, providing both state and federal legislators and executives to advocate for laws that apply to benefit corporations. The legislation has been passed with overwhelming bipartisan support in Maryland and Vermont, and with unanimous support in Virginia and New Jersey. A summary
of the bill from Virginia demonstrates why the legislation has generated levels of bipartisanship unseen in today’s rancorous political environment:

(The bill) authorizes a Virginia stock corporation to elect to be a benefit corporation. A benefit corporation is required to have, as one of its purposes, the purpose of creating a general public benefit, which is defined as a material positive impact on society and the environment taken as a whole, as measured by a third-party standard, from the business and operations of a benefit corporation. In addition, a benefit corporation may have the purpose of creating one or more specific public benefits, which include providing low-income or underserved individuals or communities with beneficial products or services; promoting economic opportunity for individuals or communities beyond the creation of jobs in the normal course of business; preserving the environment; improving human health; promoting the arts, sciences, or advancement of knowledge; increasing the flow of capital to entities with a public benefit purpose; and conferring any other particular benefit on society or the environment. In discharging their duties and considering the best interests of the benefit corporation, the board of directors and individual directors consider the effects of any corporate action on shareholders, employees, customers, and other persons and issues. A benefit corporation shall deliver to shareholders an annual report describing the ways in which the corporation generally pursued its general public benefit and related matters. 146

While only four states have passed the legislation, seven more are advancing bills in their state legislatures. The vision of B Lab is to pass legislation in every state that creates the benefit corporation status for companies that meet a third party certification verifying their double- or triple-bottom line claims. 147 Because corporate law is most directly handled at the state level, in particular the process of incorporation that goes through the Secretary of State office of each individual state, B Lab is focused on working with state governments. For the purposes of this paper, policy ideas and analyses will assume a legal environment in which all 50 states have passed laws enabling companies to incorporate as benefit corporations, and that benefit corporation is the official legal term to describe for-profit social enterprises. Therefore, the policies proposed in this paper will share the goal of creating the best possible business environment for benefit corporations.
Methodology

A prominent businessman once said, “The difference between lawyers and businesspeople is, businesspeople create and lawyers take.” This mindset may often apply to the business perception of government and policy as well. In many ways the view is justified, but as discussed at length in this paper, the paradigm can be shifted. This project began with interviewing seven business people deeply immersed in the benefit corporation movement, ranging from social entrepreneurs in the start-up phase, to CEOs of some of the largest certified B Corporations. Policy for business must start and finish with a business mindset. How can we enable companies to be successful? Regardless of a company’s size, industry, or target market, everyone interviewed was not interested in government subsidies of their products or services. For-profit social enterprises refuse to earn the reputation that government subsidization is required to earn profits. They have a deep pride in their ability to challenge and work with some of corporate America’s most profitable companies without sacrificing their social and environmental values. As a result, there is a barrier to overcome in creating business policy for social enterprise. While benefit corporations recognize the capacity of their business model to reduce the burden on government, justifying government support of their products or services, businesspeople in benefit corporations have a wide variety of opinions on accepting policy ideas designed to promote benefit corporations. Some offered concrete policy proposals. Others endorsed the idea of a better legal infrastructure for benefit corporations, but little more.

Following interviews with the business community, and performing extensive research on the range and scope of the triple-bottom line movement, the results were compiled and processed into an outline, which was used to interview a wide variety of policymakers ranging from congressional staff to conservative and progressive think tanks to the U.S. Chamber of
Commerce and small business advocacy groups. The round of policy interviews, in tandem with research on economic and business policy, yielded a wide variety of policy proposals for both state and federal governments to adopt, which will increase the recognition and competitiveness of benefit corporations.

Businesses demand a particular type of policy. They may disagree on content, but rarely part ways in structure or means of implementation. Policy that addresses business directly should be transparent, simple, and provide adequate time to make the proper adjustments. Every decision in business is made on a basis of cost and benefit, even in a double- or triple-bottom line company that has multiple levels of cost-benefit analysis – financial, social and/or environmental. Therefore when policies are undefined, unclear, or do not provide enough time for a business to do cost-benefit analysis, they create unnecessary inefficiency. For example, the implementation of a carbon tax could be done in a variety of ways. A carbon tax with an exact tax rate, implemented in two years, and designated to grow at a fixed rate over a defined time, would be preferable to a carbon tax with a variable rate depending on pollution levels, implemented immediately, and that gives the EPA the right to raise the tax at undefined levels in the future.

Policy proposals in this paper are crafted to meet the standards of business. The proposals are numerous, because competition of ideas creates the best possible result. The goal of each idea is to maximize results for all stakeholders by empowering benefit corporations to succeed. The philosophy of each policy is grounded in the words of business lawyer, William Clark, speaking of benefit corporations, “Personally, I’m pretty conservative. I like this approach because it’s voluntary, not imposed. I think government can’t solve all our problems and the private sector is a much bigger player in the economy anyway. If we can help businesses behave
in a different way, we can actually harness the power of the free market to make social changes.”

**Policy Proposals**

Benefit corporations are on track to enter the mainstream, but the right combination of policies will drastically accelerate the process. In order to be clear and straightforward, the following four proposals should be passed individually, but within a small time frame to make the largest impact. These four policies enacted from a federal level, implemented by a combination of federal and state governments, address four elements of business: financial capital, human capital, hiring employees, and a customer base.

Access to capital is essential to the success of every business. The Small Business Administration (SBA) plays a crucial role in reducing the cost of capital for small businesses through a variety of mechanisms, most notably through loan guarantees. Therefore, benefit corporations should be fully integrated into the culture and programming of the SBA. While the SBA differentiates companies based on ownership by underprivileged populations or location in an economically-challenged area, the SBA makes no official acknowledgment of benefit corporations in their programming. This leaves benefit corporations in a disadvantaged position when seeking access to the SBA Loan Guarantee Program, known as SBA 7(a) loans. The 7(a) loan program is designed to make capital more accessible to small business and start-ups through a deal that shares the risk of a loan between a lender, the government, and the borrower. By sharing the risk, the SBA makes it financially feasible for lending institutions to provide loans to businesses that would not have received a loan without the SBA guarantee. The 7(a) loans have established maximum interest rates depending on loan amounts. The maximum
value of an SBA guarantee is $1.5 million, with a guarantee percentage of 90 percent. Therefore, the largest 7(a) loan the SBA can make is $1.67 million.\textsuperscript{152}

Two variations exist for the 7(a) program: prequalification and Certified Development Company (CDC) loans, which are designed to better target microventures and small businesses that may represent a higher risk, but also have a higher added value if successful.\textsuperscript{153} The prequalification program helps streamline the loan process for low-income borrowers, business owners with disabilities, new and emerging businesses, veteran-owned businesses, exporters, and rural and specialized industries.\textsuperscript{154} CDC loans are debt capital provided through Community Development Corporations that are non-profit organizations, specializing in localized economic development.\textsuperscript{155} The SBA uses these organizations to better target borrowers in need, who will have a high impact on their communities. Both variations rely on the assumption that the government has a stake in providing access to capital based on the potential of business and economic development to overcome the problems that paralyze underprivileged populations and struggling areas.

Today, when seeking a loan, benefit corporations are more likely to be encumbered by, than benefit from, their social and/or environmental missions.\textsuperscript{156} The SBA is on the front lines of business development and has a responsibility to recognize and empower benefit corporations. Policy should be put in place, vis-à-vis the prequalification program, which streamlines the loan process for benefit corporations. One of the largest benefit corporations today, Better World Books, owes its success to a 7(a) loan, received when the company was in need of scaling its operation, but did not want to dilute ownership through equity financing.\textsuperscript{157} In the loan-seeking process Better World Books had to spend significant time explaining its triple-bottom-line business model. Banks are trained to find areas for expense reduction, making expenditures
related to social and environmental missions irrational to many banks, because they may appear secondary or tertiary to the financial bottom line. Instead of being punished for adding social and/or environmental value on every dollar earned, benefit corporations should have their own path to 7(a) loans. Benefit corporations that prove their company is on a path to increased profitability should be put on the fast track for receiving a loan guarantee. An institutionally included program variation for benefit corporations would provide a rubric for banks to process double- and triple-bottom-line business models, which will lead to a more efficient lending process, resulting both in speed for the businesses, and the ability to evaluate the viability of the company for banks.

While benefit corporations have the ability to pull in talent – those who are seeking a more meaningful job experience, they will face the same barriers as other small businesses to hiring the most competent workforce because of their size and ability to invest in employee recruitment. The advantage benefit corporations have is a workforce that is more committed and enthusiastic about their jobs. Taking the energy and passion for doing good from the non-profit mentality, combined with a financial incentive, benefit corporations have a strategy for maintaining a highly motivated workforce. Therefore, if the motivation to work hard is not an obstacle for most, then education remains the only barrier to career and productivity advancement for the majority of employees at benefit corporations. The four part policy package should include grants for job training targeted to benefit corporations, modeled on the State of Michigan’s Economic Development Job Training (EDJT) program. The program provides grants to job training organizations, including government training facilities, universities and community colleges, and private companies that offer job-training, as well as grants directly to companies to hire job training resources. The EDJT program is designed to not only train or
re-train low skilled workers to a new trade like green energy, but also to help advance managers and executives to higher levels of productivity and competency. Imagine the resources saved for benefit corporations if they could promote within their organization to fill top-level management positions, instead of having to spend the time and resources to locate and hire external candidates. Benefit corporations have an enthusiastic employee culture that, if combined with the highest levels of training and academic study, would prove extraordinarily effective.

A variety of deficit commissions, non-partisan policy researchers, and a politically diverse array of politicians believe short-term reductions in payroll taxes are a rapid and efficient means of stimulating the economy. Payroll taxes, also known as FICA taxes, are levied on both employees and employers to fund Social Security and Medicare. Every legal employee and employer in the U.S., regardless of income, pays the flat rate of 7.65 percent, excluding the self-employed that pay 12.4 percent. Employers pay the tax on the value of every wage or salary they provide. The tax is capped at $106,800 for those of higher incomes. In March of 2010, Congress passed, and President Obama signed, the HIRE Act (Hiring Incentives to Restore Employment). The HIRE Act created a payroll tax exemption on any new employee until December 31, 2010, as long as the employee hired had been unemployed for more than 40 hours in the preceding 60-day period. While implemented to create an economy-wide stimulus, the idea can be translated into a targeted strategy to reduce the cost of hiring for benefit corporations. Such a strategy would create more jobs, and expand the impact of benefit corporations – a significant advantage over a tax break on income of benefit corporations. A tax break on net income of benefit corporations would not ensure that the tax break would have the combined value of creating direct incentive for job creation and social and/or environmental benefit.
However, the policy for benefit corporations should extend beyond one year. A one-year tax holiday may not have the same effect because of its temporality. A five-year tax break would likely amount to savings significant enough to factor heavily into hiring decisions. Also, a longer duration would provide ample time for the generous tax break for benefit corporations to generate media attention and discussion in the business community, raising the profile of benefit corporations. The cost would depend on the quantity of benefit corporations, and the size of those corporations, in the U.S. at the time of the enactment, but would likely be a small cost compared to the societal benefit created from the lost revenues.

Finally, the fourth and final proposal is for the federal government to give procurement preference to benefit corporations. The way that the federal government spends its money reflects the values of the nation, and creates an opportunity to empower the type of businesses that make the largest positive impact on their stakeholders. Government contracts are an enormous market for business in the U.S. In 2009, $442.27 billion was paid to private companies in government contracts, with $96.83 billion paid to small businesses. Preference is given to disadvantaged business owners because the success of those businesses is a higher added value to the taxpayer than the same contracts or loans provided to businesses that have not had to overcome social disadvantage. Disadvantage is defined by circumstances that have a direct negative impact on entry into, or advancement in, the business world such as an applicant’s economic class, race, ethnic origin, gender, physical handicap, or mental handicap. Business owners will not receive preferential status simply by meeting these criteria, nor will a business owner that is not a member of those groups be immediately excluded. Proof of social disadvantage is required to earn the preferred status in receiving government contracts.
The success of disadvantaged businesses is of higher value because of the higher differential between potential tax revenue if a disadvantaged business is successful and the tax expenditure on government programs if the business is unsuccessful. Therefore the government is willing to pay a slightly higher price to patronize disadvantaged businesses. For example, the General Services Administration (GSA), the federal agency in charge of real estate and purchasing for the federal government, may have a statute that says if a disadvantaged company comes within 5 percent of the lowest bid, they should win the contract. With that same reasoning in mind, benefit corporations should be granted preferential status in government contracts and expenditures because their success will create value beyond direct investors in the companies. Small disadvantaged businesses receive $33.47 billion in revenue from federal government dollars; HUBZone businesses, and companies in economically challenged regions or areas, receive $12.41 billion. Combined, the two categories make up more than 10 percent of government expenditures to private companies. As of April 2011, total revenue for Benefit Corporations is $1.88 billion dollars. Therefore, ensuring preferred access to government contracts for benefit corporations could raise revenues significantly. In 2011 President Obama signed an executive order that required federal agencies to examine means to reduce greenhouse gas emissions, in particular through the procurement process. Benefit corporations make the government’s job in selecting high-impact businesses significantly easier because they have already met a third-party certification that guarantees the double- or triple-bottom line values of the company.

In addition to providing an additional customer base, procurement policy could prove pivotal in accelerating national acceptance of the benefit corporation standard. In the late nineties, the GSA took leadership on the issue of green buildings, requiring any building built on
government property to be LEED Certified. LEED Certification is managed by the U.S. Green Building Council, a non-profit third party that is similar to B Lab’s role with certified B Corporations. Today LEED Certification is widely recognized, with more than 35,000 projects currently participating in the LEED system, comprising over 4.5 billion square feet of construction space in all 50 states and 91 countries. The insertion of language requiring LEED Certification into the GSA code helped catalyze the rapid movement toward green buildings and the acceptance of LEED Certification as the standard. The GSA can play the same role with benefit corporations. As a federal agency, it is under the jurisdiction of the Executive Branch, meaning President Obama’s new Office of Social Innovation could build momentum within the administration to create a procurement preference for benefit corporations.

Policies to promote benefit corporations should be both direct, like the previous four proposals, and indirect, which will create a more just business environment, making it easier for benefit corporations to succeed by reforming the national business environment.

Capital Gains Tax Cut

It may be easiest to implement investor side policy to aid benefit corporations, once benefit corporations are recognized in all 50 states. Many companies interviewed advocated for policy aimed at investors, and the U.S. Chamber of Commerce indicated in an interview that a capital gains tax cut would be the best opportunity for starting the creation of federal policy to promote benefit corporations. An incentive to investors, like the reduction or elimination of long-term capital gains taxes on benefit corporation investments, has little risk for the government and is a direct policy to stimulate benefit corporations. If the government eliminates capital gains taxes on benefit corporations, it will not lose significant tax revenue unless benefit
corporations are performing in the marketplace.\textsuperscript{178} Capital gains are not earned in the aggregate if benefit corporations are not becoming increasingly financially valuable. If benefit corporations are succeeding in the marketplace and attracting investment, then social and/or environmental value is being created, offsetting some, if not all of the uncollected capital gains tax revenue.

In the tax year of 2011, long-term capital gains (capital assets held for one year or more) are taxed at a 0 percent rate for the two lowest tax brackets and at 15 percent for all other taxpayers.\textsuperscript{179} Short–term capital gains (capital assets held for less than one year) are taxed as ordinary income.\textsuperscript{180} In pursuit of promoting social enterprise through public policy, the federal government should eliminate capital gains taxes on benefit corporations for a ten year period, once benefit corporations become established in all 50 states. Taking into account business concepts for policy, it is important the tax cut last for multiple years, preferably a decade, and that the cut is phased out after ten years depending on a governmental cost-benefit analysis performed after analyzing data. If the tax cut is too temporary, investors will have a disincentive to invest and an incentive to sell quickly – creating the inverse of the desired effect. Phasing out the tax cut is also important, in order to avoid a shock that could lead to overselling of benefit corporation stock prior to a tax hike.

Critics of capital gains tax cuts argue that the cuts adversely benefit the wealthy, and do less to stimulate the economy than other types of tax cuts.\textsuperscript{181} The nonpartisan Congressional Research Service supports those claims, but a capital gains tax cut for long-term capital assets from benefit corporations would not be designed to stimulate the economy in the short-term. Instead, the purpose of the tax cut is to create sustainable social and/or environmental value by driving investment into benefit corporations and generating investor attention on a new class of
companies. The result of increased investment in benefit corporations would be significant growth in companies that create social and/or environmental benefit on every dollar earned.

**Designed for Business, Revenue Neutral Carbon Tax**

A carbon tax is the most transparent, feasible, and efficient strategy to make the United States a leader in the international green economy, reduce dependence on foreign oil and address the crisis of global warming. It also is one of the most important policies to the success of the benefit corporation movement.\(^{182}\) While benefit corporations specialize in many areas beyond the new green energy economy, many of the businesses have a definitively green mission, positioning them to benefit from any legislation that forces companies to absorb the pollution costs associated with greenhouse gases. A carbon tax, if proposed correctly, is an essential tool in harnessing the market to slow global warming and prod U.S. businesses into catching up to international competition in the green revolution, creating a resoundingly positive economic impact.

Even the most ardent free-market proponent would be challenged to argue that the problem of global warming will be solved without some government intervention. Pollution is an economic externality, meaning the entity profiting from the polluting activity is not fully absorbing the external costs of pollution on society in the price of the good or service. Therefore, the key is a policy solution to force energy suppliers to internalize pollution costs that has the smallest possible negative impact, while creating the most effective incentive for innovation or behavior change to reduce pollution. Much of the additional costs on energy suppliers will be pushed onto consumers, both organizations and individuals. Therefore companies that are more energy efficient in the production or providing of goods or services will
gain a competitive advantage. Many of the certified B Corporation executives interviewed for this paper enthusiastically support a carbon tax, or some mechanism of pricing carbon, believing that benefit corporations would benefit immensely from such a tax.

A carbon tax prices carbon in the most business-friendly manner, by levying an exact and quantifiable fee on carbon emissions per metric ton. In contrast to the open-ended pricing mechanism of a cap-and-trade system, the proposal that failed to pass Congress in 2010, a carbon tax will provide certainty in the market that will best allow all stakeholders to prepare for additional costs. Concomitantly, the IRS is equipped to implement the tax, significantly reducing the need for additional bureaucracy to manage a more convoluted federal solution.

The implementation of a carbon tax would ignite a wave of innovation by making renewable technology and energy-efficient decisions cheaper, or price competitive, to their environmentally-unfriendly alternatives. Yet, for the tax to be successful in promoting innovation without inducing economic contraction, a carbon tax must include a variety of stipulations to minimize negative impact on U.S. businesses and low-income families. Implementation must occur on a lengthy timeline that includes a two-year grace period for companies and families to increase energy efficiency or transition to renewable power sources in advance of increased costs. Also, the tax should be set to increase at defined intervals over a long period of time to account for increasing feasibility of improving energy efficiency as technology develops.

The passing of a business-friendly carbon tax will lead every small business and major company in the U.S. to evaluate options to lower energy usage or transition to renewable sources of energy that are not taxed. Cost benefit analysis can be applied to a variety of strategies to ensure the most efficient outcome for the company. This would catalyze vast growth in the
green economy, and create countless opportunities for benefit corporations to grow. If the tax passed tomorrow, benefit corporations would race to exploit the opportunity of meeting the needs of businesses across the U.S. to become more efficient. Examples of these companies include:

**Bright Works (OR):** We provide comprehensive sustainability planning and facilitation services, helping our clients increase asset value, reduce operating costs, manage risk and enhance their brand, while helping address pressing global ecological challenges.  

**Watershed Capital (TN):** Through the two divisions, Sustainable World Capital focusing on Europe and Watershed Capital focused on North America, Watershed Capital Group brings an international capacity to its clients. As the sustainable investment sector matures, this geographical coverage gives Watershed a particularly unique perspective in assisting its clients.  

**Miles Post Consulting (WA):** Together with your talent we’ll help make phrases like “sustainability” and “green” meaningful to your business, navigate you through the complicated world of climate change and carbon emissions, help you solve your critical business problems, and enable you to communicate with your stakeholders in a way that inspires them to action. And... have fun along the journey.  

**Healthy Buildings (VA):** Healthy Buildings works with building owners and managers to optimize indoor environments, increase operating efficiencies and lower business risks. The result is a more sustainable building and an improved bottom line for our clients. We do this with hands-on inspections of building systems, detailed reporting and world-class communications.  

**Cascade Engineering (MI):** Our world class engineering, technology and manufacturing allows us to provide leading-edge products and services, while maintaining a strong commitment to lean manufacturing and environmental stewardship. We employ a sustainable business model based on diversification, innovation and sustainable development. We are committed to bringing sustainable products to market that contribute to the triple bottom line.  

**Mindful Investors (CA):** Mindful Investors is the leading private equity fund which invests exclusively in companies providing sustainable and healthy living focused products to consumers. We source scalable investment opportunities in the leading companies within the rapidly expanding $60B natural, organic, and sustainable consumer products market.
Each example is a company that will directly benefit as businesses across the country hold meetings to assess available options to increase energy efficiency as a result of their tax burden being shifted from income to impact on the environment. While sustainable consulting companies and financial companies will benefit the most directly and rapidly, many other benefit corporations will see their bottom lines improve. Products and services from benefit corporations will become more price competitive because of their emphasis on a sustainable supply chain and energy-efficient operations. Competitors that are more fossil-fuel intensive in their operations or supply chain will face increased fixed costs.

To make the carbon tax politically feasible, the implementation should specify unequivocally that all revenues will go toward reducing the U.S. corporate income tax and providing a payroll tax rebate and equivalent social security rebate to help offset the increasing energy costs that will be faced by businesses, low-income families, and senior citizens. The U.S. has the highest corporate income tax in the world at 40 percent. The high tax rate is pushing away investment from the U.S. and is an unreasonable burden on U.S. companies trying to compete in the global economy. A carbon tax, coupled with a significant decrease in the corporate tax rate, would not only lead to the expansion of the green economy, but drastically stimulate business growth across every sector. If the tax is implemented, inevitably technology will improve, making renewable energy options increasingly affordable. With lower energy costs, payroll tax and social security rebates will become long-term tax relief for low-income families and senior citizens, without affecting the reduction in the corporate income tax. Current legislative proposals for a carbon tax, that vary in the amount charged per metric ton, project between 69 billion and 126 billion dollars in tax revenues in 2015, and between 263 billion and 361 billion dollar revenues in 2030, in 2005 dollars. To put that in perspective, the federal
government in 2005 earned 771 billion in tax revenue from payroll taxes and 307 billion from corporate income taxes.\textsuperscript{194}

**PACE Financial Program**

There is a large unmet demand for sustainable technology and renewable energy. People are interested in transitioning to a greener lifestyle, but too often cost is the barrier. For example, though the price of solar has dropped precipitously in recent years, to purchase enough solar panels to power a building or a home, the investment typically requires the equivalent of pre-paying seven to ten years of an electric bill.\textsuperscript{195} The PACE Financial Program demonstrates that innovative policy can address this market inefficiency. The Property Assessed Clean Energy (PACE) Financial Program allows homeowners to borrow for home energy-efficiency improvements, most notably solar panel installation, and repay the loans over 20 years.\textsuperscript{196} The complete PACE process is included in Appendix 2. In addition to solar panel financing, homeowners can receive loans for a variety of projects including, but not limited to: weather sealing, improved insulation, and upgrading heating and cooling systems. Each of these changes alone can reduce energy consumption by as much as 35 percent.\textsuperscript{197}

The PACE program was started in Berkeley, California but spread within two years to a coalition of 24 states, both red and blue.\textsuperscript{198} In short, the government provides, “the legal framework, program structure and property tax system to provide loan collateral and a collections mechanism.” Clean Fund, a certified B Corp from California argues, “With this structure (local government PACE financing) in place, clean energy projects make excellent economic sense for private sector financial partners.”\textsuperscript{199} The lender fronts the cash, the government guarantees the loan by raising property taxes on the homeowner, and the homeowner
offsets the increase in property taxes by saving a proportionally larger amount on the power bill. The homeowner saves money in year one and permanently enhances the sustainability of his or her home. Because the financing vehicle is property taxes, the loan stays with the house if it is sold within the 20 year term of the loan.²⁰⁰

The lending partner is an essential element to make the financing project efficient and simple for consumers. Cities partner with renewable energy providers like SolarCity, who then offer the financing option as a key part of their sales pitch to new customers. Co-founder of SolarCity, Peter Rive, said of PACE financing, “This is a way to get solar without putting any money down and to start saving money from day one. That’s a first.”²⁰¹ Additionally, cities can partner with a fund or lending institution, like certified B Corporation, Clean Fund, designed to connect property owners seeking reduced environmental impact with the best financing options to accomplish the project.²⁰²

Graphic 1.7
In order to ensure the property owner will benefit from the investment in increasing energy efficiency of a home or commercial property, the first step in the PACE process is an energy audit performed by a certified engineering firm.\textsuperscript{203} The audit is essential to establish that a property owner will be able to both save money in the first year of the financing agreement and be able to pay off the loan in 20 years.\textsuperscript{204} Research shows that the installation of solar systems or other energy-efficient investments is likely to increase the value of a home, providing further incentive for a homeowner to participate in the PACE program.\textsuperscript{205}

PACE loans have received considerable praise from politicians of both parties, clean energy advocates, green businesses, and were rated as one of Scientific American’s “20 Ideas that Will Change the World in 2009.”\textsuperscript{206} In what could be a case study of the inefficacy of the federal government, however, PACE programs have been shut down nationally since the summer of 2010 because of a decision made by the private corporations heavily funded with government dollars and responsible for millions of mortgages in the U.S. According to Fannie Mae and Freddie Mac, PACE financing “could damage the mortgage market.”\textsuperscript{207} The overseeing agency of the two private organizations, the Federal Housing Finance Agency (FHFA), cites two central concerns: “PACE benefits defined by the laws of 24 states do not meet a valid public purpose and PACE programs threaten the safety and soundness of the mortgage industry.”\textsuperscript{208} Appendix 3 invalidates both claims with an examination of data and evidence.

A case study of the largest county PACE program, Sonoma County, demonstrates the extraordinary potential of the PACE financing concept, and the ignorance of the FHFA’s claims. In Sonoma County 1,148 homes and 22 commercial properties have participated in the program. For the duration of the study, not a single PACE property defaulted, in contrast to the seven percent general mortgage default rate in the county.\textsuperscript{209} The PACE program resulted in 330 new
jobs, 1900 tons of carbon reduction, 74 percent increase in retail sales for energy efficiency products per Home Depot, and $30 million disbursed for economic recovery and energy efficiency.\textsuperscript{210}

Congress is working on legislation that would put the power back in the hands of the states and local governments.\textsuperscript{211} It is in the best interest of the benefit corporation community and the U.S. to reinstate the PACE Financing Program. There are many benefit corporations that would directly profit from the PACE Financing Program, if it returns, from solar energy providers to sustainable banks and capital funds to sustainability consultants. Strategies like PACE display the opportunity of government to make the market work more effectively. By acting as a financier of activities that benefit the public good, local governments can empower citizens to change for the better and save money in the process.

PACE Financing is another example of an indirect policy that will create significant opportunity for benefit corporations by using market mechanisms to create more demand for environmentally friendly alternatives. It is a voluntary program that uses finance to better connect the desires of the American people to be greener, with the need to stay within a reasonable budget.

Finance will be an important area of innovation for the transition to a stakeholder economy, and the growth of benefit corporations. For stakeholder capitalism to be institutionalized like shareholder capitalism is today, quantifying social and environmental return is a necessity.

**Global Impact Investment Rating System**

Scaling the social enterprise movement will require access to capital for companies designed to do more than earn a financial profit. Benefit corporations are a part of an asset class
called impact investments that are entering mainstream investment markets, but still are in
desperate need of standardization and third-party evaluation of claims. While social and
environmental benefit may never be quantifiable in the exact sense of financial return, a standard
must be set for quantifying the benefits of goods sold. In today’s business environment
companies and social enterprises of all types communicate their social and environmental benefit
anecdotally to potential investors, creating a conundrum for investors trying to decipher where
their money can make the biggest impact and financial return. The investor, looking to make a
profit and create social and/or environmental value, must navigate through claims by companies
of their benefit to the world in a way that is entirely unstandardized. Imagine if Fortune 500
companies each put out different types of financial statements at the end of the year that could
not be compared in a direct and quantifiable way. That is the reality of impact investing today.
Standardization of quantifying social and/or environmental return is a barrier that must be
overcome for impact investing to reach its full potential.

B Lab, the source of the certified B Corporation, refers to the lack of standardization in
communicating impact as “impact investing’s Tower of Babel.” The Global Impact
Investment Rating System (GIIRS) is B Lab’s attempt to create a universally accepted means of
quantifying social and/or environmental return. GIIRS aims to be to stakeholder capitalism
what the International Accounting Standards Board’s International Financial Reporting Standard
is for international shareholder capitalism. In April of 2011, B Lab released its first-ever
comprehensive report of progress for GIIRS. The report details the activity of the 25 GIIRS
Pioneer Funds that “represent $1.2 billion in assets in more than 200 high-impact companies in
30 countries.” Out of the 201 companies and 25 Pioneer Funds, 71 companies and 12 of the
funds are from North America. While it will likely take many years to refine the GIIRS
process, the goal must be to become the official standard accepted by the Securities and Exchange Commission of the U.S. government. The concept is making progress toward greater national awareness with the financial and intellectual backing of JPMorgan and the Rockefeller Foundation. \(^{217}\) JPMorgan sees significant growth potential with impact investing. \(^{218}\) While the company has not surveyed the size of the entire impact investment market, it commissioned a study to assess the value of five sectors in emerging markets: housing, rural water delivery, maternal health, primary education, and financial services. \(^{219}\) JPMorgan found that in just these five sectors in emerging markets, where the population is earning less than $3,000 a year, over the next ten years there is the potential of $400 billion to $1 trillion in invested capital, and profits ranging from $183 billion to $667 billion. \(^{220}\) The potential of the five sectors in emerging markets is only a fraction of the potential for the market of impact investments. Quantifying social and environmental return is a crucial step toward the new stakeholder economy.

**Conclusion**

While policy is a part of the movement to stakeholder capitalism and the proliferation of benefit corporations, the success of double- and triple-bottom line companies will be limited until people understand the value of every dollar spent. Every dollar is a vote. As options multiply for consumers to exercise their values in purchasing decisions without sacrificing significantly in convenience, quality or price, consumers must take advantage of their newfound opportunities. Consumers are becoming increasingly empowered with choices on how to vote with their dollars. They can choose to endorse the business practices of companies that seek the bottom line through a low-road strategy, prioritizing short-term profit at the expense of their communities and the environment, or companies that seek the bottom line by racing to the top,
focusing on long-term profitability by integrating community and/or environmental benefit into their business models. The role of policy in the social enterprise movement is to increase the amount of choices consumers have, while standardizing and making available information that will enable consumers to make the right choices.

This paper set out with the goal of assessing data available on social enterprise in the U.S. and creating a policy case grounded in quantifiable arguments of the reduced role of government that would result from the proliferation of benefit corporations. Unfortunately, research was impeded by a severe lack of quantitative and aggregated data on both for-profit and non-profit social enterprise in the U.S. The combination of case studies, anecdotal evidence and marketing data reveal the opportunity in benefit corporations, but for the movement to enter the mainstream, institutions of higher education must become engaged. Business schools, in particular, both for societal good and the success of their business students in a modern economy, must teach social enterprise in the classroom and commission research that will collectivize available anecdotal data. They should follow the lead of the Fuqua School of Business at Duke University, that established the Center for the Advancement of Social Entrepreneurship, and Yale University’s School of Management that provides loan forgiveness for graduates that take jobs with L3C companies or certified B Corporations. No business student should leave college without understanding stakeholder theory, benefit corporations, and the spectrum between a solely for-profit company and non-profit organizations. No political science or public policy major should leave college without understanding the value of business models to pursue goals of social and environmental justice. All can unite behind the idea that if business does more to ensure societal well-being, the government does less.
From their website, “The specific terms of most Better World Books partnership agreements
CEO of Better World Books, David Murphy, “mission equals margin” in an interview on
March 2, 2011
http://www.betterworldbooks.com/info.aspx
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27 CEO of Better World Books, David Murphy, interviewed on March 2, 2011


29 Ibid

30 Ibid

31 Seventhgeneration.com

<http://academic.mintel.com.proxy.library.nd.edu/sinatra/oxygen_academic/my_reports/display/id=482666&anchor=atom/display/id=533299?select_section=533283>

33 Interview with Dave Rappaport, Senior Director of Corporate Consciousness at Seventh Generation, November 1, 2010

34 It is unclear where the idea of “race to the top” originated, but for this paper the idea came from B Lab that regularly features the idea in its content, including: <http://www.bcorporation.net/resources/bcorp/documents/2011-AR_Race2Top.pdf>

35 http://definitions.uslegal.com/r/race-to-the-bottom/

36 http://lexicon.ft.com/Term?term=race-to-the-bottom

37 Long Run Equilibrium Theory.
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45 Prices were calculated using Seventh Generation’s online store, and surveying competing traditional products on Amazon.com. Price calculations took size and quantity into effect.

46 Interview with Mike Hannigan, Co-founder and President of Give Something Back Office Supplies, November 2010

Interview with Mike Hannigan, co-founder and President of Give Something Back Office Supplies, November 2010.

Corporate philanthropy information can be verified at https://www.givesomethingback.com/about.


Interview with Bill Peterson, Chief Credit Officer, New Resource Bank, Fall 2010.


84 Interview with Scott James, Founder of Fair Trade Sports, November 17, 2010

85 Ibid

86 Graphic 1.3 diagrams a new interpretation of an existing idea of a socially beneficial spectrum: <http://www.4lenses.org/Setypology/se_in_context> . The new interpretation removes the concept of hybrid models because social enterprise should not be associated with corporate social responsibility.

87 Social Enterprise Alliance White Paper on Social Enterprise. 7-29-2010. Located in Appendix 1.

88 Ibid

89 Interview with Mike Hannigan, co-founder and President of Give Something Back Office Supplies, November 2010.

90 http://www.socialenterprise.org.uk/pages/frequently-asked-questions.html#whatarethethreemovements

91 http://www.cicregulator.gov.uk/aboutUs.shtml


93 Ibid

94 Social Enterprise Alliance White Paper on Social Enterprise. 7-29-2010. Appendix 1.

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102 Ibid

103 http://bcorporation.net/


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106 http://www.americansforcommunitydevelopment.org/concept.php


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110 Ibid


112 Ibid


115 Interview with Jay Coen Gilbert, Co-founder of B Lab, November 24, 2010


117 Interview with Jay Coen Gilbert, Co-founder of B Lab, November 24, 2010

118 Telephone interview between Melissa Paulsen and B Lab Co-founder Bart Houlahan August, 2009.


120 http://www.bcorporation.net/become/BRS

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Model B Corp legislation:


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Interview with Jay Coen Gilbert, Co-founder of B Lab, November 24, 2010

Paul Ellingson, President of Bargreen Ellingson, full biography available at: <http://optimedia.com/about.htm>


Ibid

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Ibid

Ibid

Ibid

Ibid

Most businesses interviewed expressed a history of difficulty in defining their companies to investors, it is assumed similar challenges would be confronted in seeking debt capital. New Resource Bank struggled significantly with the FDIC to become FDIC insured because of its
mission-oriented lending model. Therefore, it is fair to assume corporations with alternative business models that include social and environmental benefit at the expense of short-term bottom line may face increased scrutiny in the loan seeking process.

157 CEO of Better World Books, David Murphy, interviewed on March 2, 2011
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158 Ibid
159 Ibid
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166 Small Business in 2010 Table 1.16
168 Ibid
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173 Interview with Jay Coen Gilbert, Co-founder of B Lab, November 24, 2010
175 Ibid
176 Interview with Jay Coen Gilbert, Co-founder of B Lab, November 24, 2010
177 Interviewed high ranking legislative staff member of the U.S. Chamber of Commerce, January 6, 2011.
178 Policy idea generated in part by Jay Coen Gilbert of B Lab, who emphasized investor side policy as an opportunity because losses in revenue are only realized when companies are attracting investment.
181 Ibid
While multiple business leaders mentioned a carbon tax in the interviews, New Resource Bank was the most enthusiastic supporter. 


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