

**Right:** The goal of Bridge International Academies' for-profit "school in a box" model is to provide **quality education for \$5 a month**. Courtesy **Bridge International Academies**.

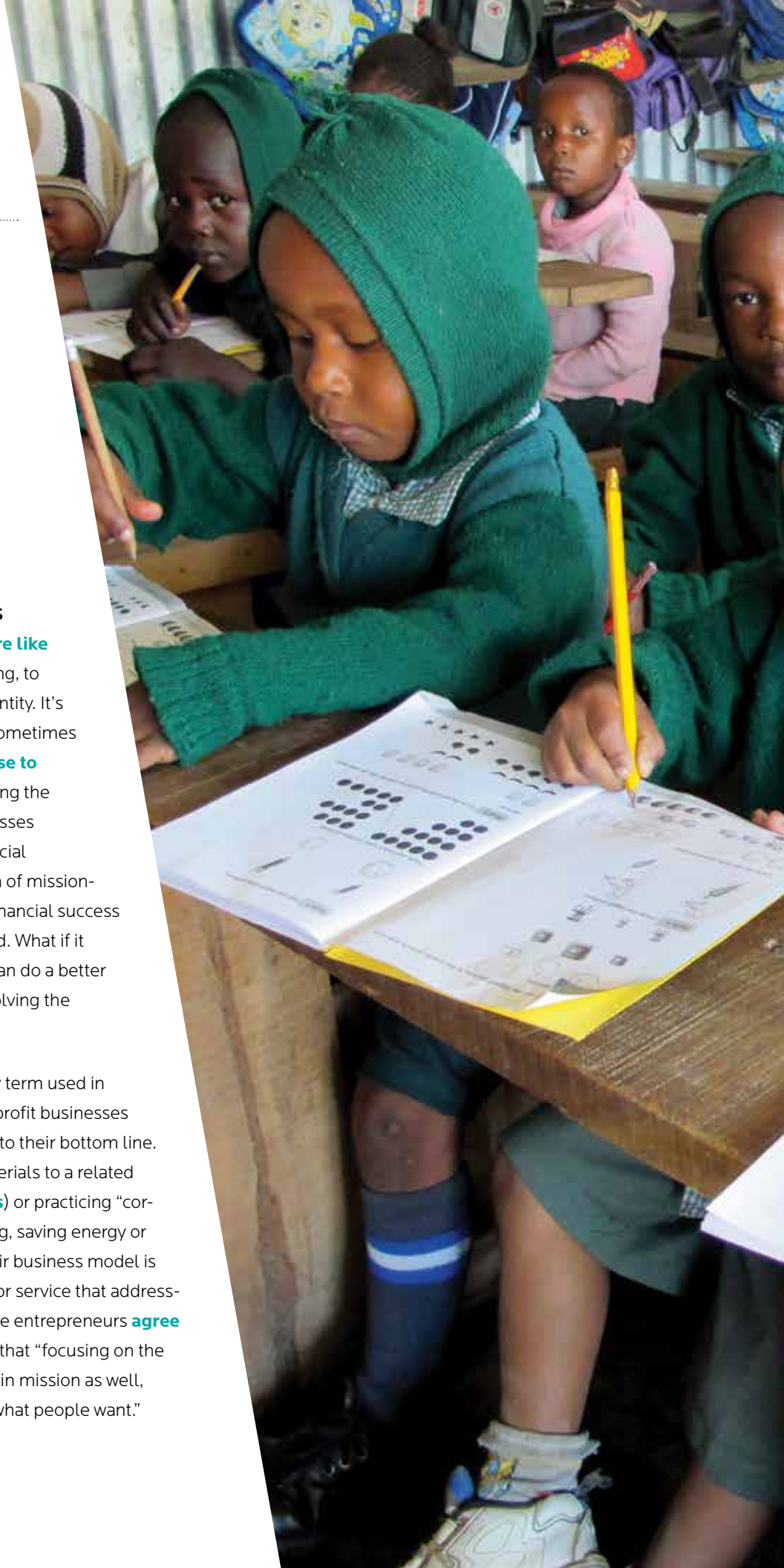
# For Profit for Good:

*The rise of the social  
entrepreneurs*

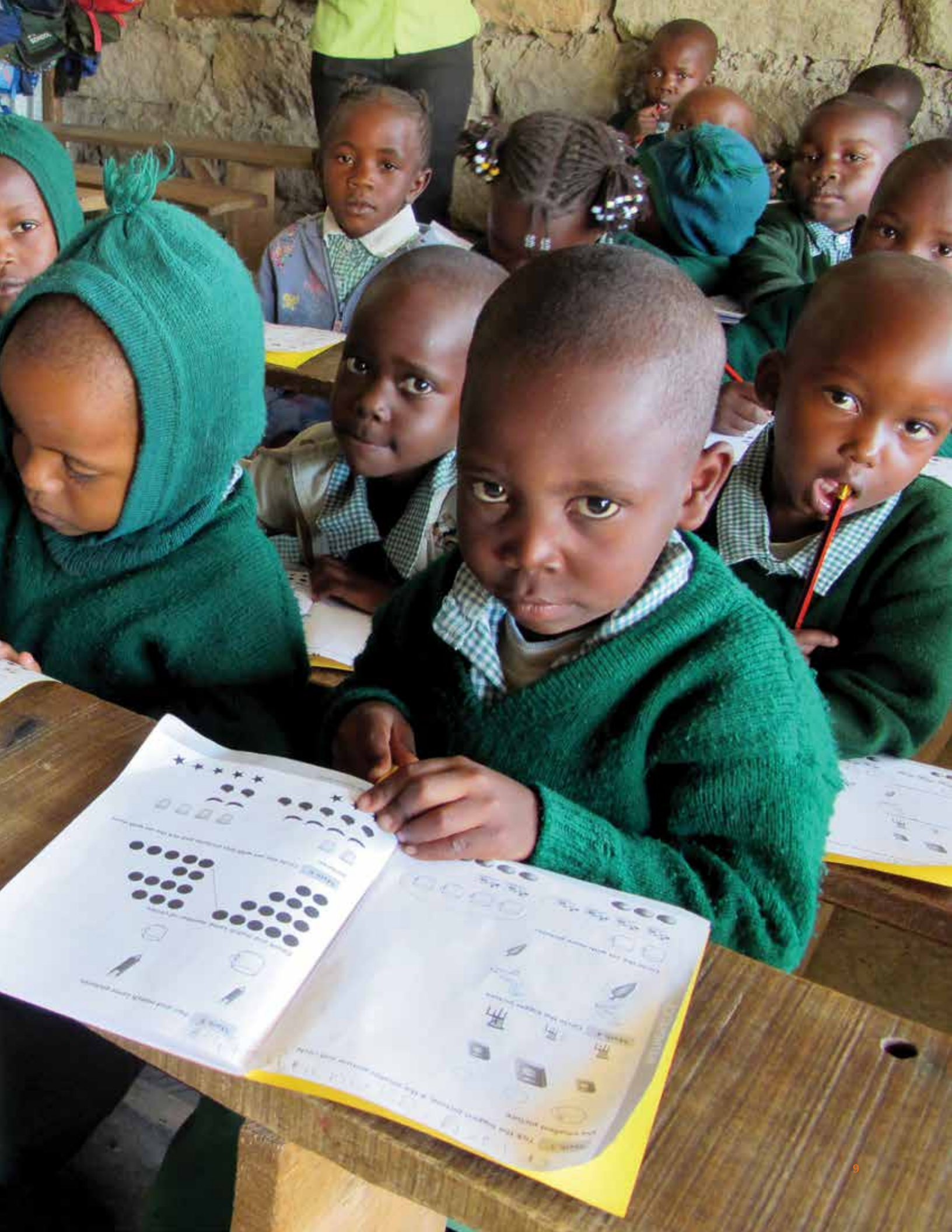
## **For years, well-meaning critics**

have been telling nonprofits to **act more like businesses**: to do a better job marketing, to innovate, to develop a strong brand identity. It's even been suggested that nonprofits sometimes use their tax-exempt status as **an excuse to operate inefficiently**. Now we are seeing the flip side of the coin, as for-profit businesses tackle traditionally nonprofit goals. "Social entrepreneurship" is the growing realm of mission-driven business enterprises that view financial success as a way to create more and better good. What if it turns out that for-profit organizations can do a better job than the "independent sector" at solving the world's problems?

Social entrepreneurship is a big, messy term used in many ways, but let's focus here on for-profit businesses that explicitly factor mission delivery into their bottom line. They aren't just donating profits or materials to a related issue (e.g., **TOMS shoes**, **Ben & Jerry's**) or practicing "corporate social responsibility" by recycling, saving energy or giving money to charitable causes. Their business model is structured around providing a product or service that addresses social or environmental needs. These entrepreneurs **agree with the founder of Zipcar**, who feels that "focusing on the business is what makes you successful in mission as well, because it makes you pay attention to what people want."







**Right:** The New Museum of Contemporary Art, New York (shown here with sculptures by Chris Burden on façade) is developing space next door as a business incubator. Courtesy New Museum/Photo: Dean Kaufman.

Mission-driven companies have a lot of choices for how to structure their operations. As we discussed in TrendsWatch 2012, emerging hybrid legal entities (**benefit corporations**, **L3Cs**) provide the option of combining some of the advantages of the for-profit and non-profit worlds. But some entrepreneurs are deciding that the benefits of the for-profit model (e.g., access to capital) and the disadvantages of nonprofit structure (e.g., cumbersome governance) make straight for-profit the best way to do a lot of good.

Take, for example, the case of Saul Garlick, founder of the nonprofit ThinkImpact, a company that fosters microenterprise in third world countries to meet local needs. Garlick, struggling to meet payroll and expand services, assessed his options (nonprofit, hybrid, for-profit) and decided to **convert ThinkImpact into a for-profit** to free the company from the “treadmill of donor dependency” and increase his ability to amass capital and scale up. Or consider the way the D’Eri family tackled the challenge of employment for adults with autism: 80–90 percent, including their son, are unemployed. To address this social need, the D’Eris could have founded a nonprofit that provided jobs or training. Instead they started **Rising Tide Car Wash**,

a business designed to capitalize on the **abilities of autistic adults** rather than alleviating their disabilities. Not content to help just their own family and community, they are expanding the business into other geographic areas as well.

**“I think people make the mistake of distinguishing for-good versus for-money. The notion that nonprofits are the right—or even better—vehicle for doing good in the world is no longer true. That may have been the case at one time, but today, ethical, well-run businesses with products that make life better are remarkable at improving lives at scale.”**

**—Saul Garlick, founder and CEO of ThinkImpact**

The rise of for-profit social enterprise is being reinforced by the **parallel rise of impact investing**: people wanting to do good with their money not through charity, but through investing in companies that give a return both in cash and in mission-driven results. Funders, especially younger, high-wealth donors, fund according to measurable impact, rather than a fuzzy desire to “support the arts” or help their community. If they can have more impact for their dollars by investing in a hybrid nonprofit or a for-profit business (and get a modest financial return

on their dollar as well), well, that seems like a no-brainer, right?

The ranks of social entrepreneurs are increasingly populated by Millennials, driven by the economic realities of their generation, their aspirations and their values. Only **60 percent of Millennials have jobs**, half of which are part time. Perhaps in part because of the lousy job







Above: Courtesy SO-IL.

market, 54 percent either **want to start a business or have already started one**. It isn't just about the money, either—Millennials see small businesses as a social form, a **way to express their artistic or moral aspirations**. Polls show that 85 percent of Millennials want their work to make a difference in the world, and 71 percent want to work for a company that encourages global or community social responsibility.

While the popularity of for-profit social enterprise is soaring, the reputation of the nonprofit sector is taking a dive. Even reputable nonprofits are being criticized for not having a big enough impact on the problems they are trying to solve—**for being good, but not good enough**. Fundraiser and activist **Dan Pallotta** argues that American social attitudes and regulatory structures doom the nonprofit sector to be small and ineffective. In his **March 2013 TED talk** (over 2.6 million views and counting), Pallotta preached his message that expecting nonprofits to pay low (non-competitive) salaries and skimp on their marketing budget—all without access to investment capital—cripples their ability to solve problems.

### ***What This Means for Society***

The growing importance of social enterprises may signal a fundamental shift in the traditional division of responsibilities between the “three sectors”—government, for-profit and nonprofit. If for-profit companies with social missions rack up big wins in solving problems in areas of need such as health care, education, civil justice, **foreign aid** and the environment, will that change public perceptions about the best way to tackle social needs and social good? How might that, in turn, affect attitudes towards nonprofits, charitable contributions and tax-exempt status?

There is already a **growing split** between the way policy makers and donors regard nonprofits that perform social service functions such as feeding the hungry, housing the homeless and helping the poor, and their attitude towards cultural nonprofits. In current debates about budget and funding, the former are often treated as not only good, but as a group on which to offload the social safety net responsibilities heretofore assumed by the government. The latter are increasingly being seen as hobbies