

# **Facilitating Social Betterment with Business:**

**A Presentation and Conversation with  
Drew Tulchin,  
Social Enterprise Associates**

Sponsored by:  
Santa Fe Alliance  
New Mexico Community Development Loan Fund

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**Social Enterprise  
ASSOCIATES**

# Agenda

- Introductions & Session Objectives
- Social Enterprise & Social Business
- New Business Entities/Structures
- Impact
- Q&A

# Introductions & Session Objectives

# Session Objectives

- Discuss Social Enterprise and Social Business
- Learn about entities that best foster social enterprise
  - B Corporations, L3Cs, social business, co-ops, ESOPs, etc.
- Discuss benefits of these options for business; social/ community betterment
- Explore broader impact of such efforts on society

→ *Questions anytime. Discussion, dialogue preferred.*

# About You

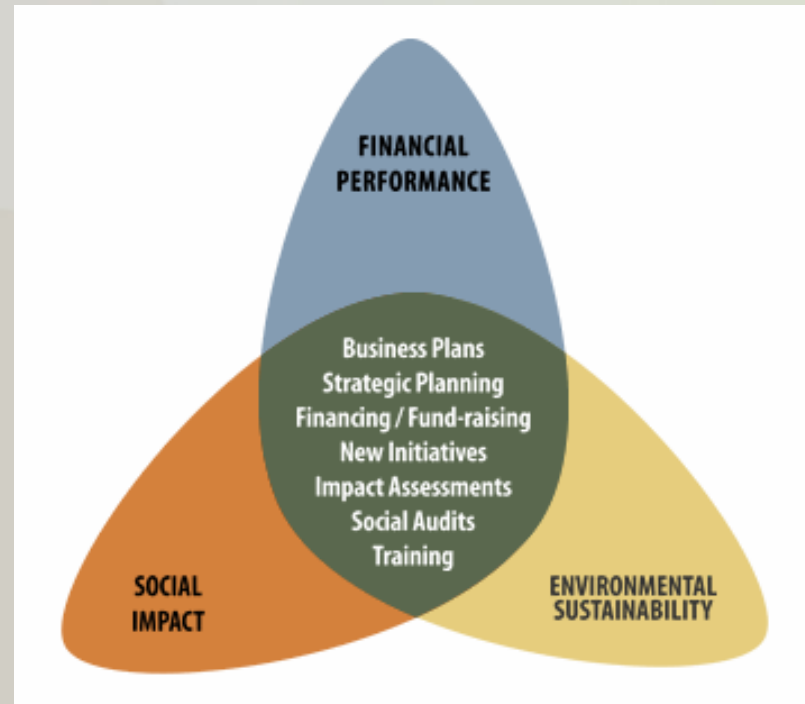
- Names and organization you are affiliated with
- What interests you most about this topic

# About Us

## Social Enterprise Associates

Private Consulting Firm

A network of professionals making communities better by applying business skills & sustainable practices.



### Drew Tulchin, Managing Partner, MBA:

- 13 years relevant professional experience
- Written >50 business/strategic plans, raised >\$100 mil. cumulatively
- Biz plan winner, Global Social Venture Comp; Prisma Microfin raised venture \$1.2 mil.

# Types of Work We Do

## Recent Santa Fe Engagements:

- City of Santa Fe, Div of Economic Development
- Global Center for Cultural Entrepreneurship (GCCE)
- Regional Development Corporation (RDC)

## Other Recent Engagements:

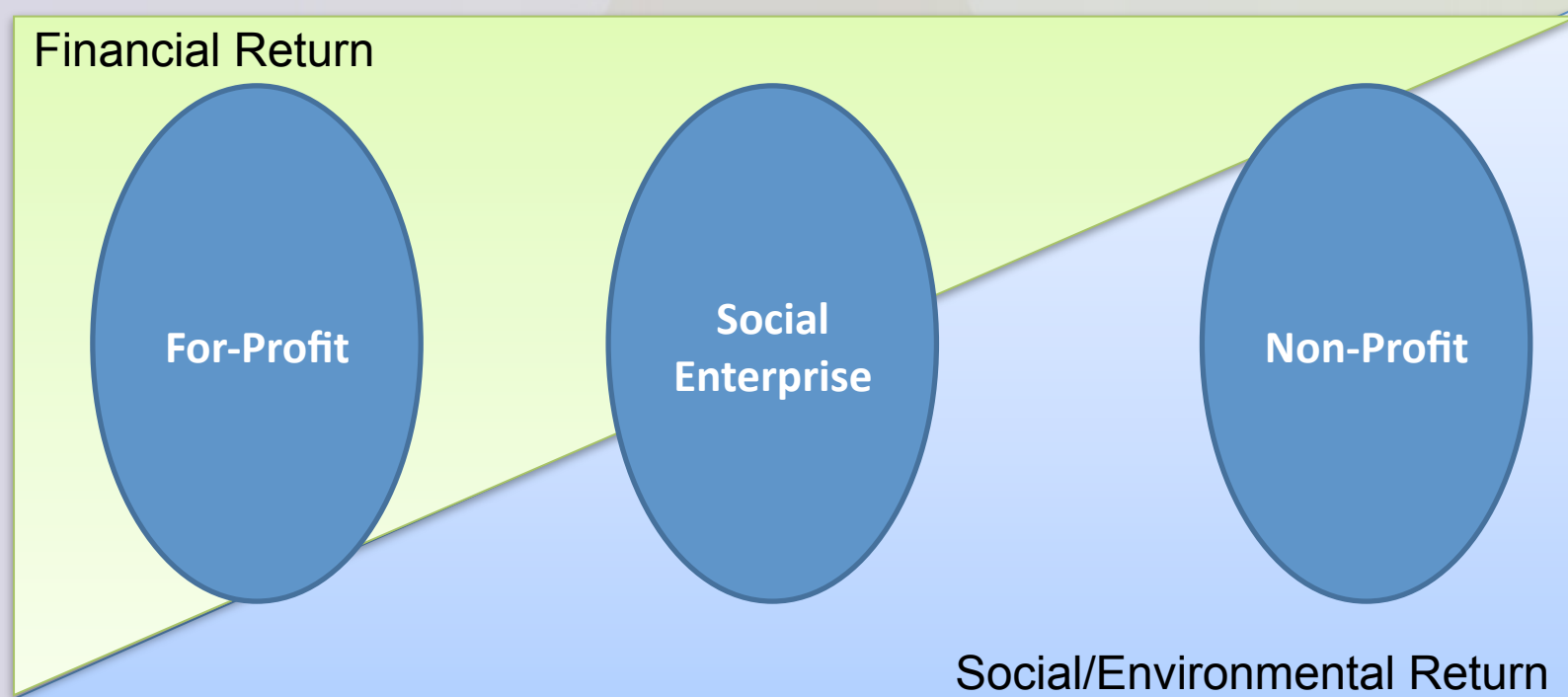
- Environmental Defense Fund, Mexico
- Microfinance Reporting Standards Initiative, SEEP Network
- Mississippi IDAs, Hurricane Affected Miss Coast
- Organic Exchange, TX
- USAID AED/ARIES, Afghanistan
- White Mountain Apache Indian Tribe (Fort Apache Historic Preservation), AZ
- Women's Opportunities Resource Center (WORC), PA

A Venn diagram with three overlapping circles in shades of purple, blue, and green, centered on a light gray background. The circles overlap in the center, creating a central intersection area.

# Social Enterprise: An Introduction



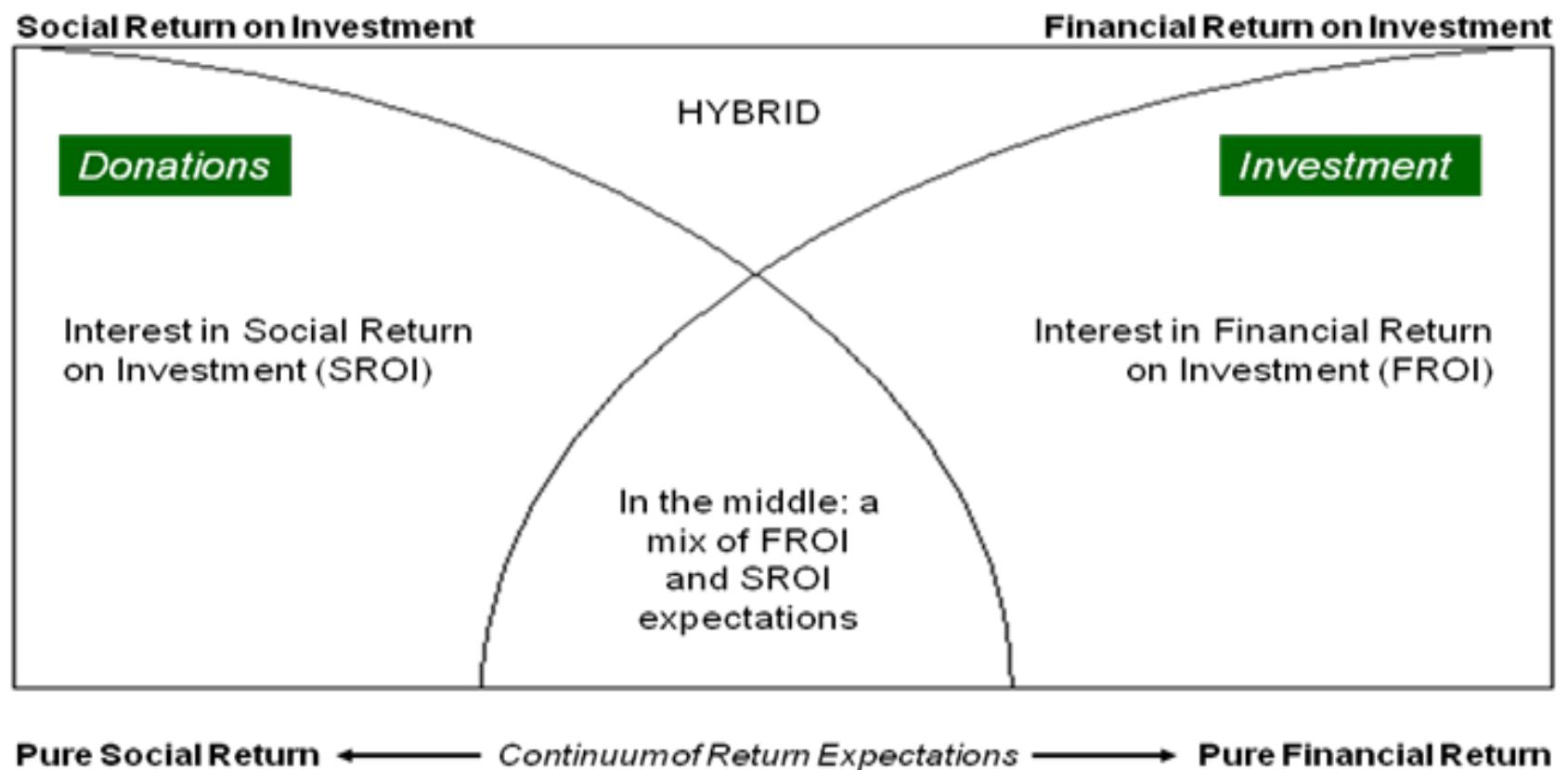
# For-profit vs. Non-profit



Social Enterprises meld For-Profit & Non-Profit Models

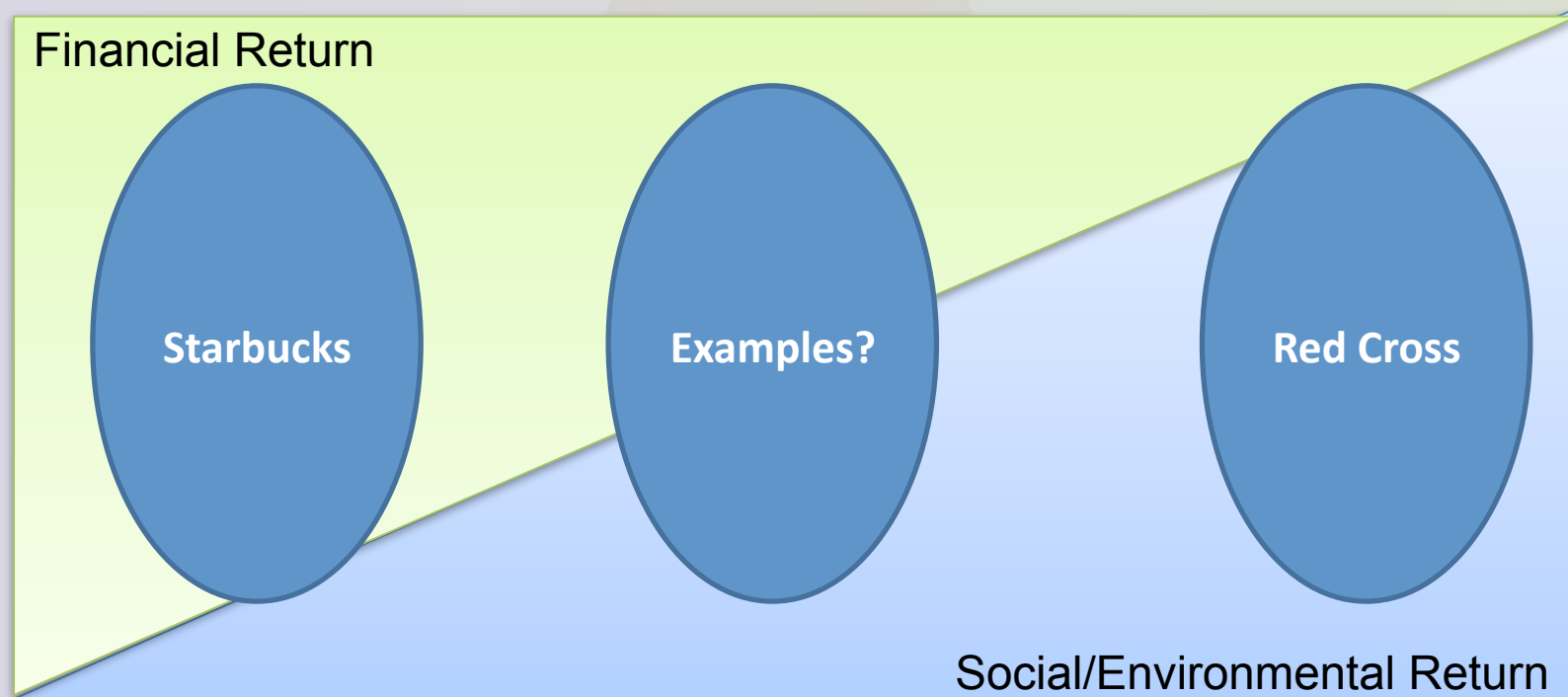
- Mission-driven seeking social and environmental returns
- Not charity, recovers costs from operations through business
- Blended value proposition

# Blended Value Proposition



*Morino Institute, Blended Value Proposition*

# Examples Anyone?



## Models

- Adapt for-profit model to achieve mission (affordable housing)
- Use business operations to achieve mission, such as employing disadvantaged people (Goodwill, Rubicon Ventures)

# Dr. Muhammad Yunus: Pioneering Social Business w/ Microfinance

- Founder, Grameen Bank, Bangladesh
- Recipient, Nobel Peace Prize w/ Grameen Bank, 2006
- **Mission:** To help the poor escape poverty by lending to them on terms that allow them to help themselves
- **Loan terms:** low interest rates, no collateral, no legal instrument. Recovery rate: 98%



Savings-led microfinance meeting in Mali

# Social Business

## **Author: Creating a World Without Poverty: Social Business and the Future of Capitalism (2008)**

- Social business is not a charity, a non-profit or NGO. It is a business in every sense. It has to recover its full cost while achieving a social objective.
- In its organizational structure social businesses are no different from profit-maximizing businesses.
- The difference is in objectives. While many have primary goal of profit maximization for shareholders; social businesses have a primary goal of creating social benefits for those whose lives are touched by it.

- Muhammad Yunus, Creating a World Without Poverty

# Grameen Network

~30 organizations linked to Grameen Bank including:

- **Grameen Danone:**
  - Partnership between Grameen and Danone
  - Produces affordable, nutritious yogurt for malnourished youth
- **Grameen Phone:**
  - Joint venture between Grameen and Telenor
  - Leading cellular operator in Bangladesh (>50% market share)
- **Grameen Telecom**
  - Non-profit with partial stake in Grameen Phone
  - Brings IT to rural people via programming
  - Village Phone, its largest program, provides cell-phones to rural poor to support entrepreneurship

A Venn diagram with three overlapping circles in shades of light blue, light green, and light orange, set against a light grey background. The circles overlap in the center and at the intersections.

# New Business Entities/Structures for Social Enterprises

# B Corporations: B for “Beneficial”

- B Corporations: a new kind of company which uses business to solve social and environmental problems
- To qualify, meet high performance and legal standards regarding social/environmental work
- Why B Corporations are important?
  - Distinguish “good companies” from “good marketers”
  - While many companies claim to be green or socially responsible, B Corps stand out as having real substance behind their claims
  - Helpful for employees, consumers, suppliers, investors who want to support companies making positive impact on society



# B Corporations: Examples

190 B Corporations across 31 industries

Social Enterprises Associates: First Certified B Corp in NM!



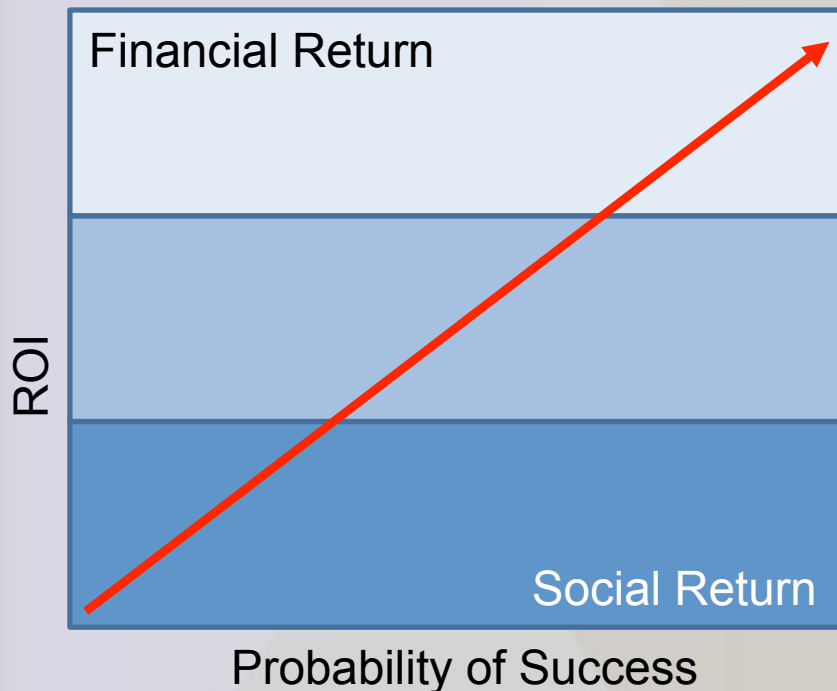
# L3Cs

- L3C: Low-profit limited liability company
- New legal entity combining financial advantages of an LLC with social advantages of non-profit
  - Treated as an LLC for legal and tax purposes
  - Must fulfill additional social/environmental requirements
- Purpose / Benefits
  - Indicates a clear commitment to social objectives to investors, foundations and contractors
  - Eligible for Program-Related Investment (PRI) from foundations, which typically focus on charitable grants
  - By attracting a wider range of investment sources, L3Cs are more likely to succeed

# International Examples

- Bangladesh and Grameen Bank's examples
- India Sec. 25 designation for financial institutions to allow int'l investors into 'banks' that are doing social value work (a la Grameen Bank). Otherwise, foreign bank ownership a no-no.
- Businesses that just never made any money. Break-even propositions.

# Multiplier Effect of PRIs



## Investment Tranches

### Market Rate Investment

- Market risk and return (i.e. bonds/stocks 5-7%)

### Socially-Conscious Investor

- Risk, non-market return
- Low financial return (3-5%)

### Foundation PRI

- High-risk
- Minimal financial return (0-3%)
- Retains initial capital

Using PRIs, foundations can play catalyzing role like venture capital. Early capital matched to risk profile, add'l capital for social enterprises

Source: Marc Lane, Social Enterprise Alliance

# What Other Investment Options Exist?

	Grants	Program-Related Investment	Mission-related Investment	Regular Investment
Primary Purpose	Charitable Benefit	Charitable Benefit	Financial & Social Benefit	Financial Benefit
Investment Profile	Negative Financial Return	Minimal Financial Return (below market)	Market or Near Market Return	Maximum Risk-Adjusted Financial Return
Constraints	“Charitable purposes” must satisfy IRS requirements		“Jeopardizing investments” are subject to penalties	

Source: <http://www.smallfoundations.org/atf/cf/{C787FF7B-7EF1-45BB-A4C5-0AAD614C9B5F}/SRI%20MRI%20PRI%20lunch.pdf>

IRS requires AT LEAST 5% of foundation assets used for “charitable purposes” annually. Other 95% may be used for mission-related investing and regular investment



# Potential L3C Organizations

- Affordable Housing Projects
- Community Development Organizations
- Childcare Centers, Charter Schools
- Health Clinics
- Media Outlets/Newspapers

*A potential business model for news organizations seeking alternatives to maximize profits or avoiding them with non-profit status...The L3C model has bubbled up in discussions about saving newspapers...and could be relevant to foundations committed to helping create and maintain journalism .*

*- Bill Mitchell, The Poynter Institute*

# Other Shared Models

## **Employee Stock Ownership Plan (ESOPs):**

Compensation system providing employees ownership stake

Ex: W.L. Gore & Associates (makers of Gore-Tex)

## **Worker Co-Ops:**

Owned, democratically controlled by worker-owners (1 person = 1 vote)

Ex: Mondragon, Indian Coffee Houses, Grain Distributors in U.S., Water

## **Credit Unions:**

Financial institution owned, democratically controlled by member-owners

Ex: Permaculture Credit Union (NM), Navy Federal Credit Union

## **Company Foundation:**

Charitable foundations created by donation of company stock

Ex: Entrepreneurship Foundation



# Implications for Society

## *What do you think?*

- Provide transparency for businesses dedicated to their stated missions
- Build collective voice for social, environmental business to impact policy-making (New Voices of Business)
- Multiplier effect leading to additional funds directed to triple bottom line efforts that provide financial return, social betterment, and environmental good

# Business Planning Fundamentals

**Like hygiene, do it b/c you have to, learned behavior, not if want to.**

Write it down. Look at it. Revise it. Repeat.

10. Register your entity
9. Pay taxes, licenses on time
8. Know your credit score – personal and business
7. Put assets in business's name
6. Know your banker by first name
5. Use available financial products, services
4. Hire good staff; pay them an appropriate wage
3. Use an accounting system
2. Monitor cash flow: get paid fast, time bill paying
1. Have system to organize sales, client info – and use it!

# Financing 2 Cents

## Foundational thoughts:

- YOU must be credit-worthy
- Business needs to document why worth an investment
- If you aren't willing to put skin in game, why should an investor?
- Be realistic and know what market based risk costs are

## Options:

- Better to go to outsiders earlier than later
- Self finance: bootstrap, leverage assets, watch credit card debt
- Friends, Family, Fools – put it in writing with real docs
- Peer to Peer Lending – cool new options, caveat emptor

# Marketing: Don't Forget

**The 4 P's:** Product, Price, Place (distribution), Promotion

**The 5 W's:** Who, What, Where, When, How

## Your Customer, Your Reputation

- Describe them. Be specific
- Quantify them. Find numbers that back you up
- What do they think about you? How do you know? Ask them

## Your Competition

- There is always competition. Who are they?
- How much do you know? (products, price, customer service, etc.)

## Guerrilla Marketing

- Lots of cheap ways to get the word out – *what's your best idea?*
- Save money: ask for discounts, trade, etc.

**Thank you!**

**Questions?  
Answers?**

**Drew Tulchin**

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