

SOCIAL ENTREPRENEURS & SOCIAL ENTERPRISE ENTITIES

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Social entrepreneurship is an emerging trend premised on solving social problems on a large scale. Most people view entrepreneurship as a method of identifying a market flaw and creating a solution that can be scaled in order to address that need. This view is normally limited to a for-profit context. Social entrepreneurship, however, is the intersection of this method with the ultimate goal of solving a social issue.

David Bornstein stated in his book, "How to Change the World: Social Entrepreneurs and the Power of New Ideas," that "Social entrepreneurs identify resources where people only see problems. They view the villagers as the solution, not the passive beneficiary. They begin with the assumption of competence and unleash resources in the communities they're serving."

Social entrepreneurs generally possess a little bit of Steve Jobs and a little bit of Nelson Mandela. These individuals are motivated by long-term, systematic and sustainable change. These people have a sound understanding of finance, economics and market demand, a recognition of how all of these impact social, racial and economic inequity, and most importantly, the creativity to craft solutions that yield equitable results.

In order to provide social entrepreneurs with an alternative business entity that aligns social benefits within a for-profit context, many jurisdictions are creatively modifying corporate laws in order to allow for hybrid entities. Until recently, a corporate entity was either for-profit or not-for-profit. With many more entrepreneurs focusing on creating some societal benefit through their work or product, some states are creating a mechanism for these individuals to form social enterprise entities and merge the profit motivation with the social impact of their business.

These social enterprise entities take a few different forms, whether it is a low-profit limited liability company, a benefit corporation or a flexible purpose corporation. Generally, a low-profit limited liability company is formed for a charitable or

educational purpose that is akin to the purpose of a 501(c)(3). The low-profit limited liability company cannot have a purpose based on the production of income or property, although it will not be disqualified as one based on those facts alone.

Benefit corporations are more rigid and require the entity to further some sort of public benefit that can be measured or validated by a third-party standard. The board of directors of benefit corporations must also consider a wide range of interests other than those of the shareholders when making decisions. The adoption of the abandonment of the benefit corporation's status must be approved by a super-majority of the shareholders, which means it can be hard to unwind.

Flexible purpose corporations, on the other hand, are not required to satisfy any third-party standard for measuring public benefit. Flexible purpose corporations can pursue a purpose other than a profit-motivated purpose, i.e., some purpose that has a social benefit but is not obligated to do so. Flexible purpose corporations are generally subject to less rigid laws than low-profit limited liability companies and benefit corporations.

The evolution of these entities is in its infancy; but, the objectives and goals are here to stay. As social entrepreneurship grows and the capital markets for these companies mature, the demand for these hybrid entities will only increase. Every state should be looking closely at adopting legislation that allows for any of these three types of social enterprise entities. ■



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