

## Introduction

### The Most Successful Business on Earth

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If you're a businessperson who has picked up this book, chances are high that you already know something pretty important: we've got to change the way things are done.

There's a big pile of problems out there: violence, poverty, environmental degradation, human rights violations, disease, and more. It's a big and daunting pile. It's so well chronicled that we needn't repeat endless statistics about its scale and scope, nor endlessly debate how things got to this point and who is to blame. The point remains: we've got to change it—and change it fast.

The good news is, things *can* change. The pleasant surprise behind this book is that business—the same institution that by any measure must bear a fair amount of the responsibility for the current situation—is also the most potent force for turning things around. In fact, hundreds of businesses are *already* hard at work doing exactly that.

The business you run, the business you're starting, or the one you're simply dreaming of can change the world for the much, much better. Make that your aim, and you'll be running the most successful business on earth.

### The Power of Business

One way to understand the history of a civilization is to observe the history of its architecture. For long periods of history, the greatest power resided in the grandest seats of government and monarchy. In other epochs, the driving force of religion was

located in the great cathedrals, temples, and mosques, none more magnificently than the entire city-state of the Vatican.

Today, fifty-one of the world's one hundred largest economies are corporations. The vision evoked by the very title of David Korten's seminal book, *When Corporations Rule the World*, has apparently already come true. In this age, the defining architecture of the world reflects the primacy of business, whether that be epitomized by the skyline of Manhattan, the Google campus in Palo Alto, or the emerging towers of Dubai.

Many would argue, and rightly so, that commerce in general, and capitalism as its most highly evolved manifestation, is responsible for the great advances in what is generally accepted as our improved quality of life. Whether you're a fan of sliced bread or of the greatest thing since (as of this writing, the iPhone, in the authors' humble opinion), you can chalk it all up to business.

The mantra behind every successful business is repetitively simple: find a need or want and then figure out how to fill it at a cost to the seller that is less than the buyer is willing to pay to satisfy the need. Put another way, find a pain and then offer an antidote to that pain at a price below the pain threshold.

But why would anyone go to the trouble of meeting all of these buyers' needs and wants? Our system is built on the conventional wisdom that enlightened self-interest attracts sellers to the task of meeting needs. Thus, the pursuit of profit is the catalyst for the vast improvements we have seen in the human condition.

But what happens when human needs are fully met? What is the catalyst supposed to act upon then? Remarkably, it has learned to self-regenerate through a process of creating and filling *new* needs. Jerry Mander, in *Four Arguments for the Elimination of Television*, explains how this works:

The only need that is expressed in advertising is the need of advertisers to accelerate the process of conversion of raw materials with no intrinsic value into commodities that people will buy . . . The goal of all advertising is discontent or, to put it another way, an internal scarcity of contentment. This must be continually created, even at the moment when one has finally bought something. In that event, advertising has the task of creating discontent with what has just been bought, since once that act is completed, the purchase has no further benefit to the market system. The newly purchased commodity must be gotten rid of and replaced by the “need” for a new commodity as soon as possible.<sup>1</sup>

Underlying the propensity of the need-inventing market system to propagate itself is a deeper driving force. That force is an insatiable hunger for continual economic growth that stems from ownership of the market system itself. Marjorie Kelly has devoted an entire amazing volume to this idea, aptly named *The Divine Right of Capital*. She argues that many different stakeholders have an interest in the course of the market system. But only one, ownership, is awarded a *preeminent* right that trumps those of the other stakeholders:

If we go rummaging through [capitalism’s] entire basket of economic ideas—supply and demand, competition, profit, self-interest, wealth-creation, and so forth—we’ll find most concepts are sturdy and healthy, well worth keeping. But we’ll also find one concept that is inconsistent with the others . . . and it is these four words: maximizing returns to shareholders.<sup>2</sup>

Throughout this highly recommended work, Kelly crafts a powerful argument that the market system—the same well-intentioned organism that has broadly raised the quality of our life and civilization—creates havoc and ultimately threatens our survival by awarding “economic sovereignty” to ownership at the expense of employees, the community, and by extension, the natural world itself.

The primacy of ownership demands continued and growing returns. Business can meet this demand in only three ways: one, by inventing desire as Jerry Mander describes, despite the increasing raw material inputs and labor efficiencies required to satisfy those elevated passions; two, by focusing production on those who can afford to buy rather than those with the greatest unmet needs, creating vast and growing disparities between “haves” and “have-nots”; and three, by disregarding the real social, environmental, community, and human costs of production, or at the very least, by transferring those costs away from shareholders. In other words, by following the script of economic sovereignty for ownership, which does not require owners to pay their full share.

## **Business for the Common Good**

But there’s a catch to this, of which more and more of us are becoming aware. We’re social beings. That means we have to live together. “Social,” simply put, means “living or disposed to live in companionship with others or in a community, rather than in isolation . . . of or pertaining to the life, welfare, and relations of human beings in a community.”<sup>3</sup>

Uh-oh. Being social beings creates a bit of a problem for business in modern times. Tasking the most powerful institution on earth with anything *other* than promoting the life,

welfare, and relationships of human beings in a community just won't do. Will it?

We started with the premise that there are some pretty big problems that don't seem to be getting any smaller. It's probably no coincidence that the challenges we face are growing every bit as fast as the institution of business. This should come as no surprise as long as the institution views the common good as an expense item that detracts from the primary purpose of creating shareholder returns.

We have to do things differently. So, what if we put the power of business in the hands of people who think differently? What if the purpose of a business were to fulfill a *real* human, social, or community need? What if the goal were to return value to the community rather than push off expenses on it? What if the obligation to employees were to elevate them rather than extract from them? What if the cost of a raw material were pegged to its replenishment, not its depletion? What if profit were not the *point* of business but the *means* by which the point of a better world were achieved?

Now *that* would be a successful business—perhaps the most successful business on earth. That would be the kind of business that could go by the name of *Mission, Inc.* And it would be the kind of business that would epitomize what we call a social enterprise.

We're far from the first people to use this moniker to describe a certain type of organization doing a certain type of work. In fact, we seem to be relative latecomers. As we were writing this chapter, we Googled “social enterprise” and came up with 15,700,000 immediate references. A lot of people have called a lot of things social enterprises. Here are some of them:

- “Social enterprises are organizations which trade in goods or services, and link that trade to a social mission.”<sup>4</sup>
- “An organization or venture that advances its social mission through entrepreneurial, earned income strategies.”<sup>5</sup>
- “Social enterprises are typically, but not always, related to a nonprofit’s tax-exempt function, and are often developed in partnership with for-profit partners. Social enterprise is a business tool often employed by social entrepreneurs.”<sup>6</sup>
- “A business trading for a social purpose.”<sup>7</sup>
- “A revenue generating venture founded to create economic opportunities for very low income individuals, while simultaneously operating with reference to the financial bottom-line.”<sup>8</sup>
- “The myriad of entrepreneurial or ‘self-financing’ methods used by nonprofit organizations to generate some of their own income in support of their mission.”<sup>9</sup>
- “A nonprofit venture that combines the passion of a social mission with the discipline, innovation and determination commonly associated with for-profit businesses.”<sup>10</sup>
- “Any business venture created for a social purpose—mitigating/reducing a social problem or a market failure—and to generate social value while operating with the financial discipline, innovation and determination of a private sector business.”<sup>11</sup>

Reasonable people hold different opinions on what constitutes a social enterprise, particularly on the question of corporate form and the closely related question of use of earnings (which we tackle as a matter of strategy in chapter 3). Yet the

very existence of such wide-ranging opinions suggests that social enterprise is an idea whose time has come. And among all the ideas about social enterprise are a couple of common elements: one, that a social enterprise involves some sort of business activity; and two, that it is driven by a social purpose of some sort.

Which raises another question, which you've surely guessed by now: What is a social purpose? (And who anointed Lynch and Walls to define it?)

After all, a business cannot survive without meeting a social need, real or invented. One could craft an argument, no matter how hollow, that *any* enterprise is a social one: the NFL's purpose is to provide an escape from everyday life; the fashion industry's purpose is to create and celebrate beauty; the beer industry's purpose is to help a guy take the edge off after a hard day.

So, yes, if you really want to argue about it, every business has a social purpose. But we all know better than that. Some things really matter, and some things really don't. Those things that matter are part of what we might call the common good, and everything else just isn't. We would argue that the social purpose that is the target of any social enterprise must be squarely aligned with this concept of the common good.

The common good: it's really hard to define, but you know it when you see it. The Markula Center for Applied Ethics, drawing upon the work of philosophers, ethicists, and theologians, offers as good a working definition as any:

The common good, then, consists primarily of having the social systems, institutions, and environments on which we all depend work in a manner that benefits all people . . . Because such systems, institutions, and environments have such a powerful impact on the well-being of

## Social Enterprise: Our Working Definition

The short version:

*A social enterprise is a business whose purpose is to change the world for the common good.*

The long version:

*A social enterprise is*

<i>a business</i>	an organization whose primary activity and means of revenue is the profitable trading of products and services, whether organized under a for-profit, a nonprofit, or some other legal or tax structure,
<i>whose purpose</i>	whose driving force—created by charter, form, bylaws, mission statement, governance, and/or shareholder fiat—
<i>is to change the world</i>	is to reform current conditions, not to maximize financial returns for ownership, although owners, too, may benefit,
<i>for the common good.</i>	so that the social systems, institutions, and environments on which we all depend work in a manner that best benefits all people.

members of a society, it is no surprise that virtually every social problem in one way or another is linked to how well these systems and institutions are functioning.<sup>12</sup>

The center gives several examples of the elements of the common good:

- An accessible and affordable public health-care system
- An effective system of public safety and security
- Peace among the nations of the world
- A just legal and political system
- An unpolluted natural environment
- A flourishing economic system

Business is a vehicle of incredible power. It can be used for the good, it can be used for the bad, or as is most often the case, it can simply be used selfishly for the merely mundane. We have to change how things are done. We have to, and we *can*, harness this power for the good. The opportunity is great because the need is great.

We need *businesses whose purpose is to change the world for the common good*. In other words, we need social enterprise.

## The Practitioners

The good news is that social enterprises are already accomplishing amazing social purposes. We'll tell you about some of them throughout this book. They're doing it by landscaping properties, by selling hot dogs at ball games, and by creating art. They're doing it by making toilet paper, by running restaurants, and by doing diversity counseling. They're doing it by importing herbs and by making clothes. They're doing it by building playgrounds and by making soap. And without exception, they're doing it for the common good.

*We're* doing it by printing T-shirts and making brownies.

Lynch is the leader of Rebuild Resources, Inc., in St. Paul, Minnesota. Rebuild's mission is to help recovering addicts and alcoholics become sober, self-sufficient, and of service to society by offering them transitional employment in its business units. The largest of these is a custom apparel and promotions business that screen-prints and embroiders every manner of logo'd apparel and promotional good.

Walls runs Greyston Bakery in Yonkers, New York. The Bakery hires men and women who have little or no credentialed work experience, many of whom have come to Greyston with backgrounds that include homelessness, incarceration, substance abuse, welfare dependence, domestic violence, and illiteracy. It bakes for the industrial and gourmet markets and is especially renowned for its brownies. Greyston pursues the dual objectives of job creation and personal development for local residents and financial support for its parent, Greyston Foundation, which, in turn, operates several intensive self-sufficiency programs in Yonkers.

You could walk into Rebuild and Greyston and miss the fact that they are social enterprises. We have receiving departments that take in raw materials, production floors that convert the materials to finished goods, and shipping departments that send out the goods to customers. We have salespeople who sell, customer service people who serve, and accountants who count. We have profit and loss statements that break out the cost of goods, labor costs, and operating costs and balance sheets full of inventory, work-in-process, receivables, and payables.

At first blush, you wouldn't know that we are running anything other than going businesses. We wouldn't want it any other way because a social enterprise, first and foremost, *is* a business. But if you looked closer, you'd see something more.

You'd see that Greyston (a for-profit subsidiary of a non-profit parent company) is hiring whoever walks in the door, teaching him or her to bake, and diverting 100 percent of its profits to the housing, health-care, and AIDS hospice projects of its parent, Greyston Foundation. You'd see that Rebuild (a nonprofit social enterprise) is hiring people that no one else will touch, investing heavily in training them, sending them to work for its competitors, and then starting over with someone else—and taking pride in the *300 percent annual turnover* this strange model creates.

We love what we do. We've both run businesses our entire lives. We're into it. And we both found that our higher callings demanded that we put our capabilities at the service of a social purpose.

Our enterprises have enjoyed some degree of success, if measured by no other than the mere fact that they are still in business after twenty-six and twenty-three years, respectively. They've made a substantial impact in the communities in which they've operated and in the lives of the innumerable human beings who have benefited from them.

They've also faced huge challenges and have spent more than their fair share of time at the precipice. These social enterprises are *not* easy to run. Just about everything a traditional business takes for granted is a challenge for a social enterprise (and an opportunity, as we'll reveal throughout the book).

Consider that 80 percent of businesses fail after five years under the best of circumstances. Now add all the challenges of running a business as a social enterprise, and you'd be a little bit proud too.

As leaders of social enterprises, we've been blessed with work that is more gratifying than anything else we could imagine doing. Achieving any degree of success has stretched every

fiber of our capacity. Along the way our processes have often seemed more error than trial. What has saved us time and time again is the good fortune of being part of some great networks of people who have helped show us the way. Mostly we've learned from other practitioners, and it is in that spirit that we offer this guide to you.

Lots and lots of people are doing this right—building sustainable social enterprises that are creating the common good in big and small ways. They're doing it in a myriad of models and industries and are located near and far. Many of them have become our friends through Social Venture Network, under whose auspices we've written this book, and the Social Enterprise Alliance, on whose board we are both privileged to serve.

Much of what we're going to tell you about running a social enterprise came from a series of interviews with some of the best practitioners in the country. Here's a brief profile of each:

*Rick Aubry* creates and delivers integrated solutions to profound social problems at *Rubicon Programs, Inc.*, via a landscaping business and branded bakery.

*Shari Berenbach* runs *Calvert Foundation*, which raises investment capital through individuals and institutions and uses it to provide affordable loans to nonprofit organizations that help underserved communities.

*Scott Blackwell* founded and leads *Immaculate Baking Company*, which makes incredible gourmet organic cookies and is built around a mission of supporting American folk art.

*Allen Bromberger* practices law at *Perlman & Perlman* and is one of the top experts in the country on the formation and financing of nonprofit business models.

*Jim Fruchterman* is a Silicon Valley entrepreneur who founded *Benetech*, a high-tech firm that uses technology innovation and business expertise to solve unmet social needs. The firm's global endeavors have been instrumental in improving literacy, human rights, and land-mine detection.

*REDF*, a nonprofit organization formerly known as the Roberts Enterprise Development Fund, provides financial investments and forms alliances with a portfolio of businesses in order to employ people who would otherwise remain living in long-term poverty. *Carla Javits* leads REDF, and *Cynthia Gair* heads up REDF's field advancement activities.

*Darell Hammond* is the big kid at the head of *KaBOOM!*, a national nonprofit organization that envisions a great place to play within walking distance of every child in America. To date, it has over thirteen hundred play spaces under its belt.

*Mike Hannigan* cofounded and coleads *Give Something Back*, a business products company that sells office supplies for less and gives the profits back to the community.

*Jeffrey Hollender* founded and still leads \$100 million *Seventh Generation*, the leading brand of green cleaners, laundry detergent, dishwashing soap, diapers, baby wipes, tampons, recycled toilet paper, tissues, and paper towels.

*Kevin Jones* is one of the principals of *Good Capital*, an investment firm that accelerates the flow of capital to innovative ventures and initiatives that harness the power of the market to create sustainable solutions to some of society's most challenging problems.

*Scott Leonard* styles the world in organic, fair-trade fashions via the company he cofounded, *Indigenous Designs*.

*Chris Mann* coleads *Guayaki Yerba Mate*, which uses this unique rainforest drink as the new currency fueling reforestation projects and providing income for the indigenous peoples of South America.

*Kevin McDonald* helps fellow addicts and alcoholics get back on their feet at *TROSA*, a comprehensive, long-term, residential substance-abuse recovery program in Durham, North Carolina, that supports itself with the largest moving company in the Triangle area and several other ventures.

*Clara Miller* provides impartial analysis and flexible, frequently unsecured, financing that nonprofits typically can't get from other sources through *Nonprofit Finance Fund*, which she started twenty-five years ago and still leads.

*Frederick A. Miller* is CEO and lead client strategist of *The Kaleel Jamison Consulting Group, Inc.*, an internationally recognized team of facilitators and consultants with an emphasis on change, difference, and inclusion in the workplace.

*Joan Pikas* helps women advance from poverty by making a delightful line of gift soaps at *The Enterprising Kitchen*, which she founded in Chicago.

*Mal Warwick* founded and still leads *Mal Warwick Associates*, which helps nonprofits and political organizations build long-term, mutually rewarding relationships with individual donors through integrated fund-raising and marketing programs.

*Judy Wicks* lures people into becoming social activists by feeding them well at an amazing organic, fair-trade, locally focused, and community-involved restaurant called the *White Dog Cafe*, in Philadelphia.

*Alfred Wise* provides strategic advice to social enterprises of every stripe through *Community Wealth Ventures*, the consulting arm of *Share Our Strength*.

*Lee Zimmerman* and his partners started *Evergreen Lodge*, a historic hotel nestled in the woods bordering Yosemite National Park, to provide supportive employment to help young people build momentum in their lives and realize their fullest potential.

It's really their wisdom, more than ours, that we want to impart to you.

You may have noticed that 100 percent of the colleagues we have featured in this book are American practitioners—and you may wonder, as one good and honest friend did, if ours is a typically insular American perspective. Well, yes, frankly, it is an American perspective. Social enterprise is an idea that is rapidly blooming all over the globe, yet the demands of our own enterprises keep the two of us pretty close to home. As to typically insular, you be the judge. We suspect that—at the practitioner level, at least—many but certainly not all of the challenges and opportunities we and our colleagues face will be familiar to our counterparts elsewhere. To the extent you find that not to be the case, we certainly welcome your feedback.

Let's get to work.