Part I Commercial and Social Enterprises

Part I gives an overview of for-profit commercial businesses, for-purpose social enterprises, and the tandem hybrid social enterprise. These chapters trace the transition from business as usual to business as economic engine to bring about social change. Today, trail-blazing social entrepreneurs are tackling the world's most pressing problems that government, business, or charity have failed to solve. To do this, they are creating new social enterprises that harness the power of for-profit business to the passion of for-purpose mission. These are both/and organizations that pursue profit to fulfill a purpose—making the world a better place.

1. For Profit: Commercial Enterprises

The business of business is business.

— Milton Friedman

How does one become "the most hated man in America?" In the case of Martin Shkreli, by running a business to maximize profits.

As CEO of Turing Pharmaceuticals, Shkreli made a name for himself in 2015 by raising the price of a life-saving medication from $13 to $750 a tablet—a 5000 percent increase. His critics subsequently made a name for him, "Pharma Bro," immortalized as the title of a 2021 documentary that sought to make sense of his snarky, capitalism-at-all-costs approach to business.

Price-hikes in the pharmaceutical industry are not uncommon, and Shkreli was taking advantage of a system that allowed for-profit maximization in the absence of competition. However, an antitrust lawsuit finally caught up with his former company in 2020, resulting in a $40 million settlement because of what the Federal Trade Commission called "an elaborate web of restrictions to illegally block competitors from producing a cheaper option[3]." In early 2022, while Shkreli continued to serve a seven-year prison sentence for a separate case involving securities fraud, the ruling was announced in another lawsuit filed against him by the Federal

Trade Commission. In a final blow, Shkreli was banned for life from the pharmaceutical industry and ordered to pay $64.6 million in profits gained from the Daraprim price-hike. New York Attorney General Letitia James commented, “Americans can rest easy because Martin Shkreli is a pharma bro no more.”

The Shkreli saga included many made-for-TV tidbits: his less-than-mature responses at congressional hearings, dating the journalist who broke the story of his arrest, continuing to run his business behind bars with a contraband cell phone, requesting release from prison to work on a cure for COVID-19 (which the judge called “delusional self-aggrandizing”), and the forced sale of his one-of-a-kind Wu Tang Clan album to complete a $7.4 million forfeiture. Shkreli’s notorious antics led one health institute to honor the imprisoned executive by awarding the ten most egregious examples of profiteering and dysfunction in healthcare with the annual Shkreli Awards[4]. However, beyond the surface-level distractions, the Shkreli case study has sparked a deeper conversation about the obligations of business to society.

This conversation is not new to the pharmaceutical industry, or “Big Pharma,” as it’s known. From penicillin to vaccines, the industry that can be credited with saving millions of lives is also measured in trillions of dollars. Purpose and profit live in tension. “I could have raised it higher and made more profits for our shareholders, which is my primary duty,” Shkreli commented at the Forbes Healthcare Summit. “No one wants to say it. No one’s proud of it. But this is a capitalist society. Capitalist system. Capitalist rules. And my investors expect me to maximize profits[5].”

The pharmaceutical industry is known for this type of price-gouging, and the public has grown tired of criminal probes, penalties, and profiteering. This is not the future that drug pioneer George W. Merck envisioned when he said, “We try never to forget that medicine is for the people. It is not for the profits. The profits follow, and if we have remembered that, they have never failed to appear.”

It’s no surprise that the Gallup Poll’s annual trust ranking consistently lists the pharmaceutical industry near the bottom. In 2020, Big Pharma saw a slight bump in positive perception for its role in combating COVID-19, but in 2021 public trust dropped again, keeping the pharmaceutical industry only slightly ahead of the oil and gas industry and the federal government as the least-trusted sector of society[6]. It was in this industry that Scott Boyer sought to launch a new kind of business—a pharmaceutical social enterprise that would maximize purpose through profit, and turn the image of an industry upside-down. We will detail Scott’s story throughout these chapters.

Friedman Vs. Fink

Those who risked coming to the unpopular defense of Martin Shkreli said he was well within his rights to run his business in a way that maximized profits for his shareholders. This, after all, has been the dominant philosophy of business for decades, espoused most notably by economist Milton Friedman. In 1970, Friedman wrote: "There is one and only one social responsibility of business – to use its resources and engage in activities designed to increase its profits so long as it stays within the rules of the game[7].” This doctrine, once held sacred, stated that the sole purpose of business is to generate profits for shareholders. Social responsibility was for the individual, not for the corporation. More than fifty years later, however, the rules of the game are changing. Stakeholder primacy—a broad view that includes employees, customers, suppliers, communities, and the environment—is taking the place of shareholder primacy. Ed Freeman, author of *Strategic Management: A Stakeholder Approach*, writes: "The idea that business is about maximizing profits for shareholders is outdated and doesn't work very well, as the recent global financial crisis has taught us. The 21st Century is one of 'Managing for Stakeholders.'"

In 2018, Larry Fink, the influential CEO of Blackrock—the world's largest asset management company with a portfolio of more than $9 trillion—penned his annual letter to CEOs. In what some have called a watershed moment, Fink flipped the table on Friedman, claiming that social responsibility is now an imperative for all businesses. "Society is demanding that companies, both public and private, serve a social purpose," wrote Fink. "To prosper over time, every company must not only deliver financial performance, but also show how it makes a positive contribution to society[8]."

Despite backlash that said Fink was wading into the territory of corporate socialism, he doubled-down in his 2019 letter, stating "Purpose is not the sole pursuit of profits but the animating force for achieving them. Profits are in no way inconsistent with purpose—in fact, profits and purpose are inextricably linked."[9] Fink's assessment of purpose in business is consistent with what studies are showing. McKinsey found that 70% of employees said their sense of purpose is defined by their work[10]. Deloitte found that 77% of business executives said social responsibility is important to their company's performance[11]. Edelman found that 76% of consumers think CEOs should take the lead on social issues[12].

In Friedman's world, it may have seemed reasonable to create a hard line between corporate social responsibility and personal social responsibility, leaving the business to focus on profits and the individual to focus on purpose. But now, the lines are blurred—for CEOs, employees, investors, and consumers. The game has changed because the players have changed. Indeed, the culture has changed. In recent years, every business had been forced to grapple with their response to a global pandemic, a racial reckoning in the U.S., and the urgent need for climate action. Some have even used their platform and power to speak and act in response to Russia's invasion of Ukraine, or in response to U.S. Supreme Court decisions. While what companies say and do to address social concerns can be controversial, few today would argue that a business is exempt from social responsibility.

The Responsibility Revolution

While Friedman's doctrine was taking root after his 1970 article, there was another movement brewing. In 1971, the Committee for Economic Development defined the idea of the "social contract" between business and society. Business, it said, has a responsibility to serve the needs of society because it functions under public consent. This "license to operate" should hold business to a higher standard. The social contract provided three tenants that should guide a responsible business—all of which still hold strong today:

1. Provide jobs and economic growth through well-run businesses
2. Run the business fairly and honestly regarding employees and customers
3. Become more broadly involved in improving the conditions of the community and environment in which it operates[13]

What's known today as Corporate Social Responsibility (CSR) can trace its roots back to the industrial revolution in the late 1800s, as some companies started seriously considering their worker's welfare. In the same era, the world's richest businessmen—Andrew Carnegie and John Rockefeller—who made their fortunes from steel and oil, respectively, began to funnel millions of dollars into educational, scientific, and religious causes. By the 20th century, many businesses already held themselves to high standards of responsibility, doing their best to give back to their workers and communities, often through the establishment of charitable foundations. Because of the scale and profitability of their companies, many had the capacity to make a significant impact. You'll read about some of these companies in our "lessons from history" chapters.

Then in 1953, with the publication of *Social Responsibilities of the Businessman*, economist Howard Bowen coined the term Corporate Social Responsibility—earning him the title of "Father of CSR." The CSR movement continued to grow in the latter half of the 20th century and reached critical mass heading into the 21st century, with large corporations like Coca-Cola, Walt Disney, and Pfizer implementing CSR into their business strategy. Over the last two decades the landscape has shifted at an even more rapid pace. While once upon a time private commercial entities could go about their business with little accountability to the public, save for certain governmental regulations, businesses are now being held to a higher standard as it relates to their workers, their communities, and the environment. The private sector is no longer so private.

Businesses now face a new set of questions, driven by the values of their customers, investors, and regulators. Gone are the days when one might simply ask, "How much does it cost?" Now, people are asking: “Who makes your clothes and what are their working conditions?” “Where is your coffee grown and do the farmers make a living wage?” “Can your packaging be recycled or will it biodegrade?” “Can people actually afford your life-saving medication?”

By 2015, 92% of the largest 250 companies in the world produced a CSR report to highlight their responsible practices to their shareholders and the public. That was up from 2005, when 64% produced CSR reports. In 2018, Global Fortune 500 firms spent more than $20 billion on CSR activities[14]. The need to track, measure, and report on a company’s social performance gave rise to even more tools, networks, and movements over the last fifteen years.

B the Change

With all of the corporate do-gooding, it became harder to distinguish between a business making a legitimate social or environmental impact and those who were masters of marketing. Then along came the certified “B Corp.” In 2006, three friends founded B Lab with the vision of making business a force for good. After successfully launching, growing, and then selling the basketball apparel brand AND1, Jay Cohen Gilbert was disheartened when the new owners quickly dismantled the values-based corporate responsibility efforts that had been baked into the company culture. In response, he sought to create a new movement of businesses for whom their social and environmental impact could be quantified and verified by an independent, third-party—B Lab.

In 2007, the first nineteen businesses were certified through a rigorous assessment of the good they do for their workers, their communities, and the environment. By 2021, there were over

4,400 certified companies spanning seventy-seven countries employing more than 370,000 workers. Rose Marcario, former CEO of one of the early certified B Corps, Patagonia, described its impact: “The B Corp movement is one of the most important of our lifetime, built on the simple fact that business impacts and serves more than just shareholders—it has an equal responsibility to the community and to the planet.” While only a fraction, but growing number, of global companies choose to pursue B Corp certification (there’s a cost involved as well), it’s an indicator of the increased desire to validate, measure, and promote the good that business can do. The advocacy work of B Lab has also led to a majority and growing number of states in the U.S. that now offer the “Benefit Corporation” legal structure (more on this in chapter 2), which gives them the ability to codify their values by being held accountable to all stakeholders, not just shareholders.

The reality is that all businesses make a social impact, whether or not it’s positive is another question. In sync with the assessment-focused B Corp movement were advancements in the standards used in measuring and reporting impact. Profit and purpose were combining to create the new double bottom-line; however, most businesses were only good at measuring profit. How does a business quantify its social impact? Measurement was becoming the new obsession as a wave of awakened investors wanted to put their money where their mission was. They called themselves impact investors.

The Global Impact Investing Network (GIIN) launched in 2009, giving structure to the growing movement that sought a social and environmental return on their investments, as well as a financial return. By 2021 the GIIN included more than 20,000 members devoted to expanding the impact investing industry. A 2020 GIIN survey found that the impact investing market size had reached $750 billion—more than $200 billion above the year prior. Importantly, more than 88% of impact investors reported their investments were meeting or surpassing their financial expectations[15].

The focus of these investments often centered around the Sustainable Development Goals (SDGs) outlined by the United Nations, which first mentioned the concept of ESG (Environment, Social, and Governance) factors in their 2006 Principles for Responsible Investment report[16]. ESG, a specific approach to considering these factors in the lifecycle of an investment, has now gone mainstream. BlackRock's Larry Fink suggested in his 2021 letter that companies that don't already have robust ESG policies and practices may soon be required to do so by regulators.

A New Consciousness

The purpose train was gaining steam, and businesses large and small were now on board. For example, in 2013, Whole Foods founder John Mackey teamed up with marketing professor Raj Sisodia to release the book *Conscious Capitalism: the Heroic Spirit of Business*. While naysayers accused Mackey of using this as a smokescreen to avoid government regulation, it was yet another vote for stakeholder primacy, articulating four guiding principles:

- Higher Purpose: A business that adheres to the principles of conscious capitalism focuses on a purpose beyond pure profits.
- Stakeholder Orientation: A conscious business concentrates on the whole business ecosystem to create and optimize value for all of its stakeholders.

- Conscious Leadership: Conscious leaders emphasize a "we" rather than a "me" mentality to drive the business.
- Conscious Culture: A conscious culture is one where the policies of conscious capitalism permeate the enterprise, fostering a spirit of trust and cooperation among all stakeholders[17].

Beyond the book, the non-profit organization Conscious Capitalism now boasts local chapters in more than two dozen U.S. cities and ten countries[18].

Further driving a stake into shareholder primacy was the Business Roundtable Proclamation in 2019. The Business Roundtable is the collective voice of the CEOs of America's leading companies, overseeing 20 million employees and $9 trillion in revenues[19]. Executives representing the likes of Apple, General Motors, and JP Morgan Chase work together to promote a thriving and equitable U.S. economy. In 2019, they released a "Statement on the Purpose of a Corporation" signed by 181 CEOs committed to leading their companies for the benefit of all stakeholders—customers, employees, suppliers, communities, and shareholders. Describing the Statement, the announcement noted: "Since 1978, Business Roundtable has periodically issued Principles of Corporate Governance. Each version of the document issued since 1997 has endorsed principles of shareholder primacy—that corporations exist principally to serve shareholders. With today's announcement, the new Statement supersedes previous statements and outlines a modern standard for corporate responsibility[20]."

While some critics have argued the Business Roundtable Proclamation does not yet reflect corporate actions—especially those of large and complex multinational corporations—more and more companies are attempting to walk the talk. For example, in early 2022, Howard Schultz, the visionary who built the Starbucks brand from 11 stores to more than 28,000 in 77 markets over four decades, returned to the coffee giant as interim CEO following the retirement of Kevin Johnson. Faced with a growing unionization movement from dissatisfied frontline employees, Schultz made an announcement on his first day on the job: Starbucks would immediately suspend its $20 billion stock repurchasing program to be able to invest more into their workers and stores. Schultz stated: "Our vision is to once again reimagine a first-of-a-kind for-purpose company in which the value we create for each of us as partners (employees), for each of us as customers, for our communities, for the planet, for shareholders—comes because our company is designed to share success with each of us and for the collective success of all our stakeholders[21]."

Clearly, a stakeholder focus is the future of commercial enterprise. Gone are the days of profit maximization followed by fix-it philanthropy, often seen as an attempt to undo the damage of unchecked capitalism. Toxic short-termism is giving way to a long-term strategy that benefits people and the planet, while delivering profit as well. As former Unilever CEO Paul Poleman states in his 2021 book *Net Positive*, the goal is "financial gain *because* of sustainability, not despite it—not profits with a side of purpose, but profits *through* purpose." Companies are now betting on their values, hoping that purpose, in the long run, is profitable.

But what if it's not? Despite the advancements in corporate social responsibility, values-based leadership, and environmental and workforce regulations, commercial businesses are still, at their core, structured to run on profit. There is an inherent tension for the business who wants to run on purpose. Historically, there was a clear distinction between organizations that wanted to pursue a profit and organizations that wanted to pursue some form of social purpose. And the rules of the system were created to facilitate these competing priorities.

Are You For-Profit, or Not?

When entrepreneurs are ready to formalize their business entity, they have to choose a legal structure. The structure chosen will dictate a number of important factors, including how the business is taxed, how it can raise money, how it is governed, and how transparent it must be about finances and operations. One of the first questions a mission-driven enterprise needs to navigate is the difference between for-profit and non-profit organizational structures. There are now mission-centric for-profit options that we'll discuss in the next chapter, but it's important to first understand how the rules of the game were historically set up, and why this can be limiting when your goal is to scale both profit and purpose.

For-Profit Business: Profit Over Purpose

Structurally speaking, the primary function of a for-profit business has been to make money. The business may improve society through the sale of products or services, by how it employs workers, and by how it interacts with the community, but the business entity itself is structured to make a financial profit. That well-earned profit can then be distributed to investors or shareholders who have risked their capital to support the business. Hence the concept of shareholder value.

The for-profit status of the business has implications on how it can raise funds, as well as the responsibility it has to the IRS for taxes. For-profit businesses can attract money from private investors (angel investors, private equity, venture capital) in exchange for equity or dividends. This gives entrepreneurs a potential path to quick growth to scale the venture, but comes with some risks we'll discuss later. For-profit businesses are also subject to taxes on income and property.

If you've determined you want to register as a for-profit entity in your state, you're not done with your decisions. There are a variety of for-profit structures that have implications related to how profits are taxed, the complexity of setup and ongoing administration, and liability protection for the owners. The typical options are: Sole Proprietorship, Partnership, S-Corp, C-Corp, and LLC (Limited Liability Company). The first three options are generally best for smaller, simpler operations, and utilize "pass-through" taxation—the taxable income from the business "passes through" to the personal tax returns of the owners. If and when you plan to operate on a larger scale with more complexity, and the possibility for more impact, a C-Corp often becomes a better option. The largest publicly-traded companies are C-Corps. An LLC can be structured to be taxed as any of the previous entities, and offers liability protection to the owners in a way that proprietorships and partnerships do not.

Regardless of the for-profit business entity that is chosen, all options were created to help fulfill the primary purpose of the business—to profit. A lot of good can be achieved with immense profits, as you'll see in later chapters. But as much as a company prioritizes values, purpose, responsibility, and impact, there will always be some level of tension between serving shareholders and all stakeholders. The best businesses get good at the dance, but in the end, form dictates function.

Non-profit Organization: Purpose Over Profit

Non-profit organizations, on the other hand, exist to serve the public good. While they can certainly make a profit—think universities and hospitals—they cannot distribute the profit; rather, it is reinvested into the organization to further its mission. Non-profit organizations benefit from being exempt from paying taxes, and donors benefit because financial gifts to the nonprofit are tax-deductible. Individuals, foundations, and corporations can find it attractive to fund nonprofits both for the social impact and the tax benefits they provide, even though there is no additional financial return. Nonprofits, also called NGOs (non-governmental organizations), are afforded these benefits because they are working to solve problems that governments have not been able to solve on their own. However, because nonprofits often rely on donations, in part or in full, their funding sources are often inconsistent and can't reach the scale of business investments. And because nonprofits are technically owned by the public, they are subject to public transparency in reporting their financial and operational details.

While there are more than thirty different types of non-profit organizations recognized by the IRS, many seek to meet the requirements of Section 501(c)(3) in the U.S. Internal Revenue code.

This allows non-profit organizations such as charities, churches, and foundations to receive favorable tax treatment as long as they do not deviate from their stated mission.

Not to be confused with non-profit organizations, "not-for-profit" organizations are a different type of entity. Not-for-profit organizations are considered "recreational," are not necessarily focused on the public good, are run by volunteers, and are focused on the specific goals of the owner and its members—such as a private club or society. Regardless, each of these structures was created to maximize and incentivize their benefit to society.

While the non-profit structure was designed to produce social impact, these organizations often struggle to address a social issue at scale because of the limitations of their structure. In his popular 2013 TED talk "The Way We Think About Charity is Dead Wrong," Dan Pollata outlined five inherent limitations that non-profit organizations face when trying to accomplish their ambitious missions:

- Low compensation of staff
- Aversion to advertising and marketing
- Inability to take risks for innovation
- Short time horizon for growth
- Not enough profit to attract capital investments[22]

These limitations—or "discrimination" as Pollata states—prevent nonprofits from using the levers available to commercial businesses to truly put a dent in global issues. So, if neither the for-profit nor the non-profit structures are ideal for combining profit and purpose, what are entrepreneurs to do?

Both/And

While corporate social responsibility was revolutionizing the commercial business world over the last few decades, a parallel movement was also taking place. Despite the lack of a system built with them in mind, trail-blazing entrepreneurs who desired to tackle the world's most pressing challenges began creating businesses with a *primary* mission of social change. Beyond simply being responsible corporate citizens while producing their products or services, these entrepreneurs intentionally built their enterprises to tackle a specific problem that government, business, or charity had failed to solve. They weren't capitalizing on a market opportunity, they were tackling a market gap. And they needed profit to fulfill their purpose. This was the mission of the social enterprise.