

A social solution, without going the nonprofit route

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Alex Quesada for The New York Times

Conchy Bretos, right, advises housing agencies on how to care for older people in their homes. Her daughter Pilar works with her.

It used to be that people who wanted to solve a social problem — like lack of access to clean water or inadequate housing for the poor — created a charity. Today, many start a company instead.

D.light, a company cofounded by Sam Goldman, who spent four years in the Peace Corps in Benin before earning a master's degree in business from Stanford University, is an example. Mr. Goldman started D.light with the mission of replacing millions of kerosene lamps now used in poor, rural parts of the world with solar-powered lamps.

Having used kerosene lamps himself while living in Benin, Mr. Goldman learned firsthand of kerosene's problems — it is expensive, it provides poor light and it is extremely dangerous. When the son of his West African neighbor nearly died after suffering severe burns from spilled kerosene, Mr. Goldman said he realized he wanted to create a venture to solve both the social and economic problems caused by these lamps. His time in Benin also convinced him, he said, that only as a business could a project become large enough to reach the great number of people who use these lamps as their primary source of light.

"We could have done it as a nonprofit over a hundred years, but if we wanted to do it in five or 10 years, then we believed it needed to be fueled by profit," he said. "That's the way to grow."

Since the company incorporated in May 2007, it has raised \$6.5 million from a combination of investors who, Mr. Goldman said, are able to push the company on both its social mission and its profitability.

What to call these innovative businesspeople is the subject of some debate. The terms "social entrepreneur" and "social businesses" are generally used to characterize people and businesses that bring entrepreneurship to ventures that have a social mission. Yet there are those who would limit the social entrepreneur label only to those without any profit motive. A separate, but related, category are companies referred to as "socially responsible." These are generally companies whose core business does not necessarily have a social mission, but who display socially responsible characteristics, like environmental sensitivity.

Because of the difficulty of defining these social ventures, it is hard to gauge the exact number of them, but there are indications that there is increasing interest in the idea of using business to tackle the world's big problems. Last year, 630 people attended a new conference, Social Capital Markets, on social venture investing. According to Kevin Jones, the creator of the conference and a principal in Good Capital, an investment firm focusing on social business, two-thirds of the participants signed up after the collapse of Lehman Brothers, which he called a sign that people are flocking to what he calls a "new asset class."

Experts concede that not all social problems respond well to the for-profit model. One example could be early childhood education. "If you set it up as a business, you might be able to raise money more quickly and grow more quickly," said David Bornstein, the author of "How to Change the World" (Oxford University Press, 2004), an often-cited book on social entrepreneurship. "But if you want to be profitable, you might find that you have to make choices that diminish the quality of your program and then children won't learn to read as quickly. While Stanley Kaplan can make a fortune selling education to well-heeled people, providing the same services to low-income kids would probably not provide a very good income."

Mr. Bornstein said it came down to one crucial question: "As you grow, will the economics of your business work in favor of your mission or will they work against it? In the case of providing access to solar energy for people in villages, the bigger you get, the cheaper your product will be, so the economies of scale make sense."

Conchy Bretos, too, chose a for-profit model for her venture. While working as Florida's secretary for aging and adult services, Ms. Bretos learned of the difficulties that force older people to leave their homes and move into nursing homes for lack of proper care.

With a partner, Ms. Bretos started the MIA Consulting Group, a business that advises governments as well as private housing developers on how to bring assisted living services cost-effectively to low-income housing communities so that older people can be cared for in their own homes.

Ms. Bretos said that a business was the natural model for their venture. "We came from a strong business background and we developed a business plan," Ms. Bretos said. "By doing that, we discovered that we were offering something that no one else was offering. We got our first client even before we incorporated and within a few hours we had to form a company to be able to put together a contract. It was just easy to form an S corporation."

Ms. Bretos said she also had to make a living. "In this nation, we equate success with profit," she said. "We wanted to be profitable while also doing something that was right and giving back to the community."

Advisers who work with these kinds of companies say the rise in social business reflects the times. "Historically, social and legal norms tended to recognize and treat for-profit and progressive social or environmental motivations and activities separately," said Jonathan S. Storper, a partner at the law firm Hanson Bridgett who specializes in sustainable and socially responsible business. "These lines have blurred and converged as the business world attempts to respond to the modern culture's demand that businesses be good stewards of the environment and society."

Still, there are legal issues to consider. The basic analysis, Mr. Storper said, is whether the organization's primary goal is to maximize shareholder profit or to benefit the public. "If the primary goal is to benefit the shareholders, then the legal structure should maximize the ability to create wealth," he said. "While nonprofits have advantages, such as an exemption

from paying taxes and the tax deductibility of donations, nonprofit activities are restricted to its charitable purpose.”

He noted that the government and the public “generally are less able to scrutinize the operations and finances of for-profit businesses.” But, he added, “The mission of an organization may benefit from the broad public involvement and support inherent in nonprofit organizations.”

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