

A Healthy Profit

A new kind of business is redefining the private role in addressing social problems.

BY MELISSA HANSEN AND
HEATHER MORTON

Harnessing the power of private enterprise for social good may just be the key to improving our health—and reducing costs.

Pennsylvania and Maryland think so, and are trying to attract socially minded investors and entrepreneurs who want to make a profit—and make a difference. The business model may prove to be more efficient and effective than the government approach alone.

“Pennsylvania is open for business, the business of combining the best of capitalism with American idealism,” says Representative Gordon Denlinger (R).

What kinds of businesses is he talking about? Companies, for example, that offer prepackaged, healthy and inexpensive meals in neighborhoods with limited choices. Or a fresh, healthy food service that provides lunches to schoolchildren, to name a couple.

These companies with a cause strive to make a positive difference while making a profit, often in communities that struggle with problems such as a lack of healthy, inexpensive food, a high unemployment rate, low average wages, poor quality of schools, and a lack of available and affordable public transportation. All these “big picture” problems are what researchers call “social determinants of health.” And together they can have a harmful—and very costly—effect on the community’s health, resulting in higher-than-average rates of chronic diseases and premature death.

By addressing a void or a need in these communities, entre-



*Representative
Gordon
Denlinger (R)
Pennsylvania*

“Government has a role, but in many situations the free enterprise system can bring more efficient and effective results.”

—PENNSYLVANIA REPRESENTATIVE GORDON DENLINGER (R)

preneurs are discovering they can make a profit while making a difference. Policymakers may want to examine what support or barriers may exist in their districts for these mission-driven start-up businesses.

These mission- or impact-driven businesses are “not just a fringe interest,” says Don Shaffer, president and CEO of RSF Social Finance. “The whole impact-investing field is growing very fast.” His firm saw a 33 percent growth rate in its Social Investment Fund in 2012 over the previous year. With assets exceeding \$145 million, RSF has invested more \$275 million in these so-called “impact-oriented businesses” since its inception in 1984.

Making Money While Doing Good

Private, for-profit businesses “can do good if they have the support they need to enter these untapped markets,” says entrepreneur Saloni Doshi who, along with Chelsea Katz, started Fresh Takes Kitchen, a for-profit business in Denver, Colo., that sells healthy, prepackaged foods to the low- to moderate-income market—a market no big name companies were interested in targeting. Support, she believes, comes in the form of including socially minded ventures in start-up incubator programs, small business loans, direct financing and active mentoring by the business community.

But unlike previous do-gooder models, Doshi and Katz are also in it to make money. “This isn’t charity, just a new business model with less brick and mortar, smaller margins and more community focus,” says Doshi. Their company sells a complete

Melissa Hansen is a program principal in NCSL’s Health Program, and Heather Morton is a program principal in NCSL’s Fiscal Affairs Program.



Benefit corporations aren't the only businesses doing good. Fresh Takes Kitchen, for example, sells healthy, prepackaged foods in a low-income Denver neighborhood, and makes a profit doing it.

dinner for a family of three for around \$15.

Fresh Takes Kitchen relies on partnerships normally seen in the not-for-profit world. The kitchen works with community groups like the YMCA, churches and recreation centers to distribute their meals, which keeps their costs much lower than a business that must pay rent or buy property.

These entrepreneurs are part of a growing number of like-minded business owners. Kristin Groos Richmond and Kirsten Tobey are two more. They founded Revolution Foods in 2005 in Oakland, Calif., to provide healthy, fresh, affordable meals to schoolchildren across the country. The company also conducts health and wellness fairs and hands out educational material on healthy eating habits and snacking tips.

Revolution Foods has expanded from serving 300 meals a day to students in Oakland to more than 200,000 a day in 25 cities in 11 states, from California to New Jersey. The company employs nearly 900 people at seven regional kitchens.

Building Investors' Trust

For businesses that don't fit the typical profit-driven model, sparking interest in mainstream investors can be difficult.

“Benefit corporations allow for innovation within capitalism because it is written into these companies’ DNA that they can go beyond their core money-making function to create a positive impact in society and the world.”

—MARYLAND SENATOR JAMIE RASKIN (D)

According to Doshi, “There is more risk in investing in a social venture, but also more to gain.” Because of the risk, investors want assurance that their money will have a decent return on investment as well as a positive social impact.

That is why lawmakers in 12 states have created a new class of corporation—the Benefit Corporation—with higher standards of corporate purpose, accountability and transparency. Benefit corporations are taxed like traditional corporations, but are protected from potential shareholder lawsuits claiming they failed to maximize profits. Unlike other corporations, benefit corporations are required to maximize social benefits as well.

In Pennsylvania, Representative Denlinger co-sponsored legislation to create these benefit corporations with a broader defi-

*“This isn’t charity,
just a new business
model with less brick
and mortar, smaller
margins and more
community focus.”*

—SALONI DOSHI,
CO-FOUNDER OF FRESH TAKES KITCHEN

definition of what the “return on investment” means, allowing entrepreneurs to devote part of their profits to a social cause. Supporters of the benefit corporation designation believe investors will receive a different kind of security or satisfaction from knowing the businesses they invest in are actually doing the good they promised they would.

Concerns about these benefit corporations generally center around whether consumers and investors really understand how they are different. Skeptics say they blur the line between the for-profit and nonprofit worlds, resulting in false investment expectations and a confusing market that is difficult to understand.

“Benefit corporations do not compete with nonprofits because they do not receive any special tax treatments, and they cannot receive charitable donations like nonprofits,” says Maryland Senator Jamie Raskin (D). Maryland was the first state to create benefit corporations in 2010. According to Raskin, they “allow for innovation within capitalism because it is written into these companies’ DNA that they can go beyond their core money-making function to create a positive impact in society and the world.”



*Senator
Jamie Raskin (D)
Maryland*

Lawmakers have struggled to find effective public policies to address complex social problems. This growing group of social-minded entrepreneurs believe their for-profit, start-up business model might just be the answer.

“In a time of tight budgets, we need to pursue an all-of-the above approach when tackling social issues. Government has a role, but in many situations the free enterprise system can bring more efficient and effective results,” says Denlinger.

If these types of businesses can turn a profit, it’s a win-win for everyone. 