



What is a SOCIAL ENTERPRISE?

An organization that uses business strategies to maximize its social or environmental impact.

*There are
approximately
10,000 social
enterprises in
Ontario.*

Social Enterprises:

- **generate revenues** from the sale of goods and services
- are founded and operated with an **intention** to achieve positive social/environmental outcomes
- **measure**, or intend to measure, their social/environmental impact
- have built their social/environmental mandate into their business model such that **social/environmental impact increases in lockstep with business growth**



SOCIAL ENTERPRISE VS COMMERCIAL ENTERPRISE

Social & Commercial Enterprises have most of the same characteristics.



The biggest difference is denomination of the returns.



Source:
Ontario Ministry of Economic
Development and Growth

STRUCTURING A SOCIAL ENTERPRISE

There are four essential questions that every social entrepreneur must ask at the outset of a social venture:

1. **Motivation:** What is the fundamental purpose of the venture: to make money for myself/my investors, or to further a social purpose?
2. **Control/Governance:** How much control do I want to maintain and with whom am I willing to share control?
3. **Market:** How will the venture be positioned in the market?
4. **Capital:** How will this venture be financed, both at start-up and on an ongoing basis?

MOTIVATION

What is the venture fundamentally intended to accomplish?

Generate private profit? Or further a social mission?

These goals are not mutually exclusive, however their relative importance will influence the optimal structure as they will often come into conflict during the life of the enterprise.

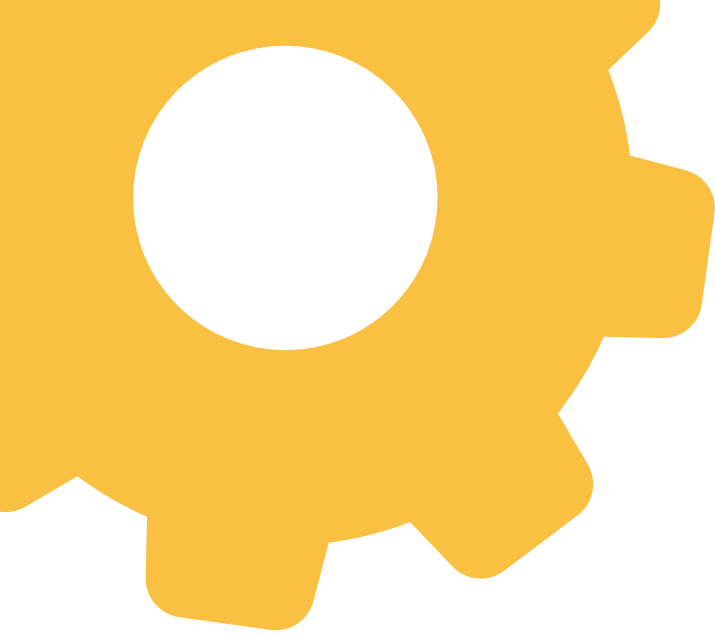
How will the social enterprise define success?

Personal wealth? Or making a positive difference in the community?

How will outside pressures influence the definition of success?

Are outside investors involved? Does the social entrepreneur need to define success in terms of the returns delivered to them? How important is the social mission to the investors? If the principal operator or investor in the enterprise is a charity, then the social mission must be paramount. What is the personal (or institutional) motivation of the social entrepreneur(s) and investor(s) who will drive and finance the venture?





If financial return is the primary goal — either as a source of personal profit or as a method of funding a related charity — then the optimal structure may be one that affords greater flexibility to adapt to changing financial conditions and to pursue economic opportunities.

If the social goal is paramount, then investors may wish to choose a structure that ensures that the social purpose remains the dominant factor in operational decision-making.

CONTROL / GOVERNANCE

This is central to the structural decision. Whereas there is considerable flexibility in how a for-profit organization may be controlled — particularly one that is not publicly traded — entities that benefit from favourable tax treatment are generally subject to greater limitations on the extent to which a single person or related group may control the organization and on the factors that must be considered when making operational decisions.

The greatest flexibility comes when a social entrepreneur or founding organization can retain complete control over the operational decisions.

MARKET

Prospective entrepreneurs must consider and understand their market. This requires consideration of the customers, the value proposition, and the competition. As with any business, the success of the venture will depend on understanding and thinking through these issues.

Investors in the enterprise must decide whether it's acceptable if they cannot recoup sunk costs if the business fails, and which may never be recouped even if the venture achieves sustainability.

CAPITAL

One of the fundamental determinants of whether a venture will be structured as a for-profit or non-profit are the capital requirements of the enterprise.

Will the venture be funded by investors who expect to be repaid or receive a return on investment?

If yes, the social entrepreneur needs to determine the likelihood of generating sufficient returns to pay such investors.

If no, the social entrepreneur needs to determine whether the venture can be funded entirely out of the funds of the founder, or whether traditional sources of nonprofit funding — grants and donations — will need to be factored into the business model.


What is the likely ability of the venture to obtain loans?

Non-profit organizations and charities cannot generally access share capital and so must rely on debt financing (in addition to grants and donations) as a means of attracting capital.

Also consider the significance of an exemption from income and property tax:

Charities and non-profit organizations benefit from a general exemption from income tax. Some also may qualify for tax exemptions from taxes on real property.





STRUCTURAL OPTIONS

How best to structure the enterprise from a corporate and tax perspective?

Canadian law is in many ways still catching up to social enterprise as a distinct form of operational model.

FOR PROFIT STRUCTURE

Although not specifically designed for social purposes, for-profit entities can make an effective vehicle for carrying out a social enterprise. This could take the form of a business corporation incorporated under the Canadian Business Corporations Act or provincial equivalent, but could also be structured as a sole proprietorship, a partnership or a business trust (though these latter approaches are less common).

REGISTERED CHARITY

These benefit from the most favourable tax treatment extended to nonprofit entities in Canada and are accordingly subject to more restrictions on the purposes and activities that they may carry out. Charities are required to be constituted for exclusively charitable purposes and to carry on exclusively charitable activity. Among the restrictions applicable to registered charities are limits on the types of business activities in which they may engage and the types of investments they may make. Charities are also subject to restrictions on the entities to which they may transfer funds and on their ability to provide financial returns on public investment.

Social entrepreneurs must adapt the available for-profit and non-profit structures to the particulars of the enterprise. Each structural option has pros and cons, and the optimal form will vary according to the considerations and its priorities.

NON-PROFIT ORGANIZATION

Non-profit organizations are established for exclusively social purposes — including social welfare, civic improvement, pleasure or recreation and any other purpose other than profit — but are not charities. They benefit from a general exemption from income tax, but are not eligible to issue donation receipts to donors. As they are typically established as non-share capital corporations, it is difficult for investors to invest in a non-profit entity in the same manner as they would invest in a for-profit business corporation. This limits the ability of non-profit organizations to raise capital from non-traditional sources.

CO-OPERATIVE

Co-operatives are a special form of corporation incorporated under legislation specific to co-operatives rather than under a general corporations statute. They are membership corporations, owned and democratically controlled by the members and generally designed to operate for the benefit of the members through the use of the cooperative's services. Co-operatives are required to operate on a "co-operative basis," which requires that they have several statutorily mandated structural elements that distinguish them from typical share capital or non-share capital corporations.





For more information, visit wetech-alliance.com

