Cheryl
May

A New Model

The role of the for-benefit corporation in Canada

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Cheryl May

Submitted to OCAD University in partial fulfillment of the requirements for the degree of Master of Design in Strategic Foresight and Innovation

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Declaration

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Abstract

The role of the for-benefit corporate model could be central to Canada's social innovation ecosystem. This paper investigates how legislated for-benefit models could pave the way for social enterprises to transform how Canadians address social needs and solve social problems.

Design thinking and systemic design inform the research framework. A four-phase design cycle guides the research, with phases dedicated to analogous inspiration, documenting results, conducting analysis, and considering implementation.

A comparison of corporate features places Canada's social enterprise activities in the context of the United Kingdom and the United States. In-person interviews, an online questionnaire, and a survey of social entrepreneurs indicate that respondents, while mindful of the risks posed by getting the model wrong, are overwhelmingly positive about the for-benefit form. Comments reflecting the input of 75 respondents illuminate how the for-benefit corporate model can meet Canada's social enterprise aspirations.

Research results reveal barriers to moving forward with a for-benefit model in Canada and frame two problems associated with those barriers. The paper concludes with recommendations, intended to inform the design of a system that will move social entrepreneurs and social enterprise into the mainstream and support the next stage of social innovation.

Keywords: Benefit Corporation, Design Thinking, Dual Purpose Corporation, Community Interest Company, Community Contribution Company, For-benefit, Corporations, Hybrid Structure, Social Enterprise, Social Innovation, Systemic Design

Acknowledgements

I've been avoiding the topic of for-benefit legislation for ten years.

When my academic advisor, Nabil Harfoush, suggested I might consider this topic for my Master of Design Major Research Project (MRP) my first impulse was to say no, and run. As only he can, Nabil made a compelling case for the work to be done, so I accepted an assignment that I now realize had been a long time in waiting. Nabil's breadth of experience has contributed much to this work, and I could not have completed it without his guidance.

Allyson Hewitt first introduced me to the idea of legislative innovation when I was part of the SiG@MaRS team. Policy is not my favourite area. I am much more interested working with entrepreneurs and looking at ways to scale ventures, so I successfully sidestepped the topic during my time with SiG. My first call before launching this project was to Allyson. I would not have tackled it without her, and I am indebted to her for being a provocative force throughout my career.

While countless sources inform this work, the core knowledge base consists of online access to government documents, reports published by MaRS and Social Innovation Generation reports, B Lab's benefitcorp.net, and articles and papers written by lawyers working in Canada, the United Kingdom, and the United States. Without these resources, a study of the for-benefit model would be rudderless.

I came into this project a skeptic. Like many others, I thought B Certification could answer the need for businesses to demonstrate social benefit. I've been involved with not-for-profit organizations for much of my career, and since I'd found ways to work in the system, I thought others would too.

It didn't long for me to realize that design research is urgently needed. My questions shifted from "Do Canadians need a for-benefit model?" to "What role might a for-benefit model play?" The research methodology quickly evolved into a systematic study of how to provide design inputs, and ultimately, how to overcome implementation barriers.

Finally, authors always acknowledge their family, and now I know why. Thank you, I would never have got here without your support.

Cheryl May

Dedicated to my dad, Thomas James May (1927-2017) who taught me to be radically curious, to remove the back of things to see what's inside, and to push all of the buttons.

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1. A New Model

Social innovation is an approach to addressing social and environmental issues, and social enterprise operates within the social innovation system as a way to align the market economy with consumer needs and values and connect them with social needs and environmental issues. The current role of business in society, regardless of its status as for-profit or not-for-profit, is in flux, and the emergence of corporate models that blend financial returns with social and environmental outcomes are at the forefront of change (5.4). The change is indicated by the development of systems of measurement to capture social and environmental benefit (5.5), and the emergence and mainstreaming of social finance (5.2).

Corporate, environmental, human rights, and employment law regulate the parameters in which the market economy functions. Apart from the marketing benefits of meeting the needs and values of consumers, for-profit corporations operate without responsibility for the broader needs and values of society. Addressing social problems is considered to be the domain of government (through taxation) and philanthropy (as an expression of altruism).

In Canada, the not-for-profit sector responds to these needs through fundraising and securing government transfer payment agreements (TPs). Shifting demographics, resource depletion, the gap between rich and poor, and political and environmental migration are challenging the current system, and people are concerned that the current system will not be able to meet the needs of the future (5.1).

Consider, for example:

- In Canada, 23% to 25% of the population will be seniors in 2031 (Statistics Canada, 2016)
- Canada's wealthiest 10% are earning closer to four times more than Canadians in the middle (OECD, 2016)
- Canada's foreign-born population represents 20.6% of the total population, the largest proportion since the 1931 Census (Statistics Canada, 2016)

Canada adopted the United Nations 2030 Sustainable Development Goals (SDG) in September 2015, and in 2017 the Government of Canada's Innovation Agenda called for ways to bring together economic and social outcomes (5.1). The Innovation Agenda includes a commitment to social enterprise and social finance, and this paper responds directly to the question asked by the Social Innovation and Social Finance Strategy Co-Creation Steering Group (SISFSC Steering Group): "Changing the whole social innovation ecosystem is complicated. Are there one or two actions you think would kick-start the process?" (SISFSC Steering Group, 2017)

Social innovation is core to Canada's Innovation Agenda and the United Nations SDGs, and social enterprise is a catalytic agent that could transform the market economy into a force for social and environmental benefits.

In the context of for-benefit legislation UK-CICs represent almost four times the number of Benefit Corporations in the US, while Canadian for-benefit corporations represent just 1/27th of the US baseline (Appendix A). Canada has some catching up to do – for every 104 CICs in the UK there are 27 Benefit Corporations in the US and only one in Canada.

People working in social innovation have begun the spadework on legislative change; however, if social enterprise is to a fully realized part of the system, work to align legislation with social innovation will need to accelerate.

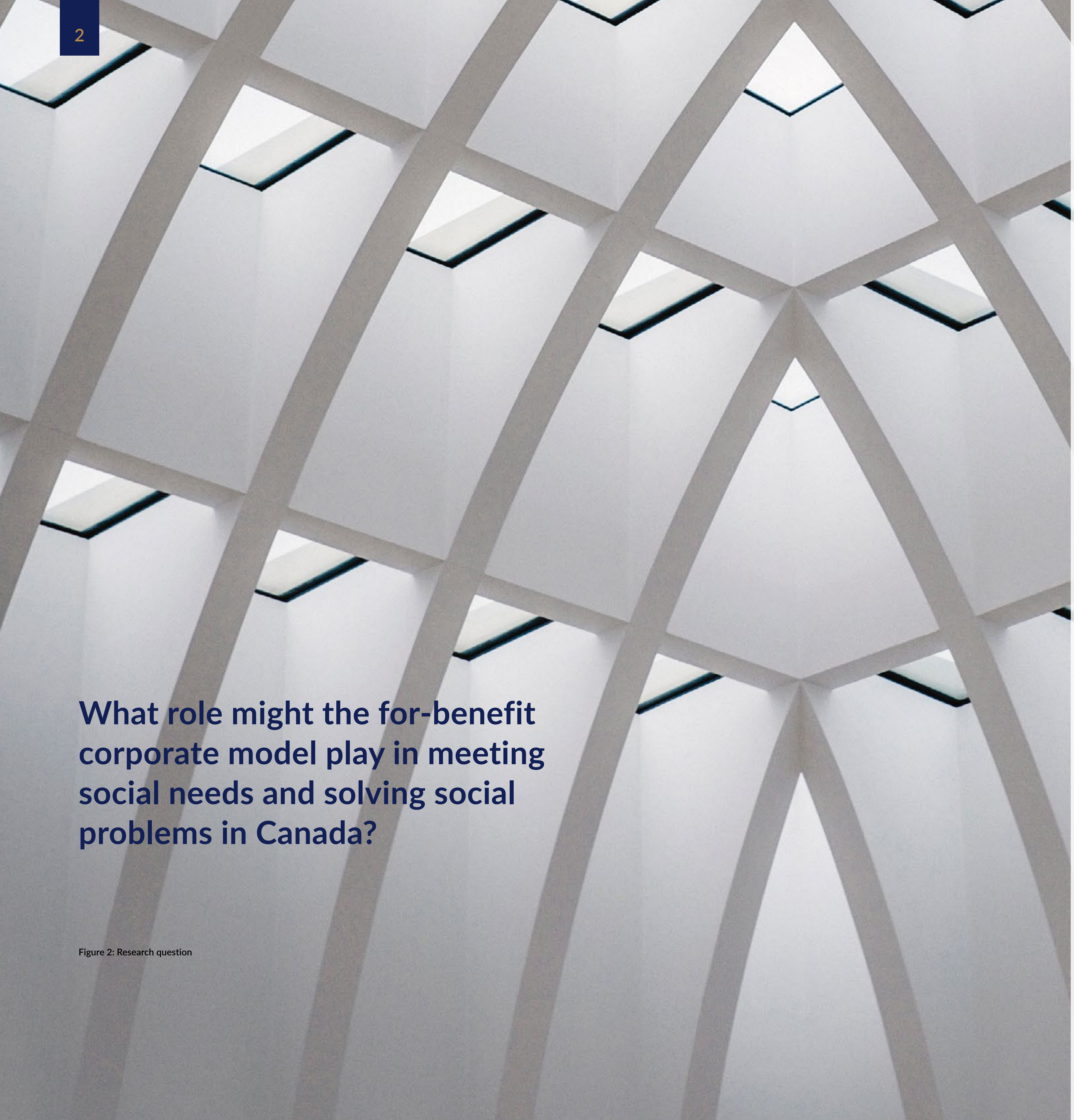


Figure 2: Research question

1.1 Research Question

The Social Innovation and Social Finance Strategy Co-Creation Steering Group held a consultation in Toronto in August 2017 (SISFSC Steering Group, 2017).

One of the questions they asked:

> Changing the whole social innovation ecosystem is complicated. Are there one or two actions you think would kick-start the process?

The answer begins with the question that drives this inquiry and the subset of questions that guide its structure.

> **What role might the for-benefit corporate model play in meeting social needs and solving social problems in Canada?**

- What are the similarities and differences between corporate models in the United Kingdom, the United States, and Canada?
- Why is a hybrid corporate structure needed to serve social innovation?
- How can barriers be overcome?

Figure 3: Project raationale and scope

1.2 Why a New Model?

This research is grounded in contemporary Canadian corporate legislation (Figure 7). Canada's corporate structure has been established for over a hundred years, with little change despite significant changes in society – including increased population, shifting demographics, globalization, and the rise of the Information Age. Upon Confederation, the corporate model was established as a legal entity for doing business in Canada. One hundred years later, in 1967, charitable causes could obtain tax-exempt status from the Canada Revenue Agency and offer tax benefits to philanthropists.

A brief history of social enterprise (Figure 7) represents the milestones that relate to this study and tell a story that's necessary for a deeper dive into the research question. These place Canada's social enterprise and social innovation activities in the context of the UK, US, and two international events.

The promotion of the case for a specific form for social ventures, such as the UK Community Interest Corporation (CIC) or the US Benefit Corporation have been championed by people working for policy change, a fact that is reinforced by the research and interviews conducted for this project.

The research leading to this paper, which included document reviews and individual interviews, revealed mixed perceptions of different forms of incorporation in Canada, and the use of specialized knowledge to make the case for or against the idea of a new corporate model, or one type of for-benefit model over the other. There is a lack of clarity in understanding the models, and perhaps more significantly, their purpose, which this paper attempts to address.

The current system has provided enough elasticity to support the first wave of social innovation in Canada. Social entrepreneurs have adopted and adapted the established corporate models to realize their ideas.

Although the for-benefit company balances shareholder preeminence with stakeholder capitalism[1], it is, after all, an economic model, and financial returns are a consideration when making the case for the up-front investment asked of government and corporate allies. However, no detailed business case examining the future of the for-benefit market from an economic standpoint surfaced in the knowledge base accessed for this paper.

The design inputs provided are offered as an aid to advocates for social innovation and social enterprise as we strengthen the foundations of the architecture that supports Canadian society.

The results of this research are intended to inform the design of a system that will move social entrepreneurs and social enterprise into the mainstream and support the next stage of social innovation.

1 "A market system in which companies treat the interests of all major stakeholders roughly equally, rather than explicitly favoring investors" (Landry, 2009).

1.3 Project Scope

The intention of this paper is to support the application of systemic design principles to social innovation and social enterprise, and contribute to a for-benefit model design brief.

The Three-Country Study is a layperson's description of corporate features. A legal review has not been conducted, and the information should not be taken as legal advice.

Co-operatives are governed by the *Co-operative Corporations Act* and can be established with or without share capital. Accordingly, they are within the corporate spectrum that serves as a framework for this paper (Figure 5). While the framework is conceptually inclusive of co-ops, this research does not extend to considerations for co-ops specifically.

Community Economic Development (CED) represents activities that create economic opportunities and is often associated with social enterprise. CED might occur within any of the forms that are part of this research.

It is a fact that federal initiatives in Canada require bilingualism, an aspect of Canadian life that is governed by the *Official Languages Act*. It is important to state that all of the literature for this report was reviewed in English and the interviews have been conducted in English.

The literature that comes from the US and the UK is written in English, and a scan of the available literature reveals that many critical reports, social innovation websites and publications are not published in French. Primary Canadian proponents for social enterprise working in French-language and context are Chantier de l'économie sociale, Centre de documentation economie finances, Économie sociale et solidaire, and mécèn ESS.

This study does not extend to the implications of language on social innovation but acknowledges that language, and by extension culture, are fundamental considerations in design thinking, strategic foresight and innovation.

1.4 Framework

Term Used

The research focuses on the four types of corporations referred to throughout the paper as “for-profit,” “for-benefit,” “non-profit,” and “charity.” The terms represent generalized names for the forms that exist the UK, US, and Canada.

The corporate spectrum and simplification of terms (Figure 5) serves as a framework for a design-based inquiry into the way that for-benefit corporations might play a part in meeting social needs and solving social problems.

Following the first instance, in which a full formal name is used, acronyms are used throughout (Figure 4). When referring to legislation, this paper primarily refers to Canadian federal corporate legislation or the provincial legislation governing for-benefit corporation (Figure 6).

For-benefit

For consistency, the term “for-benefit” is used throughout this paper. This concept is also commonly referred to as a dual purpose or hybrid corporation.

Definitions

The definitions used in this document are consistent with Social Innovation: A Primer, published by Social Innovation Generation (SiG, 2015). They are, as follows:

SOCIAL INNOVATION: In the context of changing the system dynamics that created the problem in the first place, a social innovation is any initiative (product, process, program, project or platform) that challenges and, over time, contributes to changing the defining routines, resource and authority flows or beliefs of the broader social system in which it is introduced.

SOCIAL ENTERPRISE: A social enterprise is defined by its purpose: its social and/or environmental outcomes and its mission informs the structure and governance of the enterprise.

SOCIAL ENTREPRENEUR: Social entrepreneurship is the practice of responding to market failures with transformative and financially sustainable innovations aimed at solving social problems.

ACRONYMS

This report uses the following acronyms.

BC – British Columbia

C3 – Community Contribution Company (BC)

CBCA – *Canada Business Corporations Act*

CED – Community Economic Development

CHPI – Community Hypertension Prevention Initiative

CNCA – *Canada Not-for-profit Corporations Act*

CIC – Community Interest Company (UK and NS)

CRA – Canada Revenue Agency

CSI – Centre for Social Innovation

CSR – Corporate Social Responsibility

GST/HST – Goods and Services Tax/Harmonized Sales Tax (Canada)

HMRC – HM Revenue and Customs (UK)

ITA – *Income Tax Act* (Canada)

NS – Nova Scotia

NS-CIC – Community Interest Company (NS)

OECD – Organization for Economic Co-operation ad Development

ONCA – *Ontario Not-for-profit Corporations Act*

SDG – Sustainable Development Goals (UN)

SiG – Social Innovation Generation

SISFSC Steering Group – Social Innovation and Social Finance Strategy Co-Creation Steering Group

TCHC – Toronto Community Housing

UK – United Kingdom

UK-ITA – *Income Tax Act* (UK)

US – United States

UN – United Nations

VAT – Value Added Tax (UK)

Figure 4: Acronyms used in this paper

Corporate Spectrum and Simplified Terms

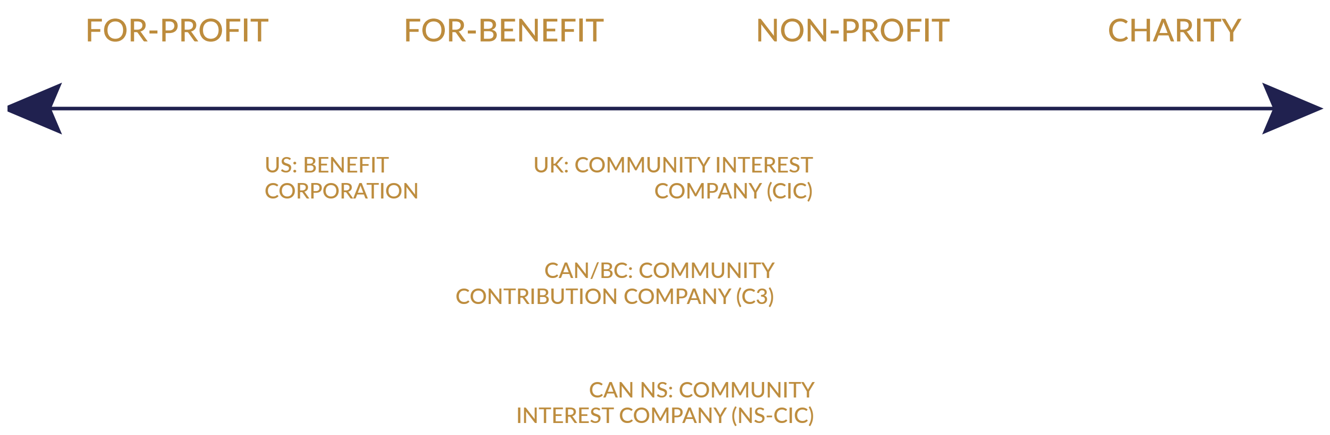


Figure 5: Simplified corporate spectrum

CANADIAN CORPORATE LEGISLATION

Income Tax Act

FOR-PROFIT

Canada Business Corporations Act

FOR-BENEFIT

Business Corporations Act (British Columbia)

Community Interest Companies Act (Nova Scotia)

NON-PROFIT

Canada Not-for-profit Corporations Act

CHARITY

Canada Not-for-profit Corporations Act

Figure 6: Canadian Corporate Legislation

A Brief History of Social Enterprise

1867

Incorporation established

The *Constitution Act* gives provinces the right to make laws about "The Incorporation of Companies with Provincial Objects," 92(11) – and the federal government the power to make laws concerning "The Regulation of Trade and Commerce," 91(2) (Canada, 1867).

1975

A new act for incorporation

The *Canada Corporations Act* (1970) and *Canada Business Corporations Act* (1975) mark a shift away from legislation based on the *English Companies Act* to legislation based on New York State corporate law (Historica Canada, n.d.).

1997

School for Social Entrepreneurs

Michael Young founds the School for Social Entrepreneurs in London, England, building on a lifetime of social activism.

2005

Community Interest Company

The UK government expands the corporate system to meet the new paradigm of social entrepreneurship through an amendment to the *Companies Act* in 2005 that introduces Community Interest Companies.

2006

Nobel Peace Prize awarded

"The Norwegian Nobel Committee has decided to award the Nobel Peace Prize for 2006, divided into two equal parts, to Muhammad Yunus and Grameen Bank for their efforts to create economic and social development from below." (Nobel Prize, 2006)

2009

First Canadian B Corp certification

B Lab certifies Better the World with help from MaRS and law firm Blake, Cassels & Graydon LLP (B Lab, Our History).

2010

Canadian Task Force on Social Finance

The Task Force on Social Finance is convened to identify opportunities to mobilize private capital for public good, within either non-profit or for-profit enterprises (MaRS, 2010).

2011

Canada Not-for-Profit Legislation

The *Canadian Not-for-Profit Corporations Act* is put in place to "foster greater public trust and confidence in the not-for-profit sector" (Canada, 2012).

2012

Benefit Corporation begins state-by-state roll-out

State-by-state policy reforms begin. Presently 33 states have for-benefit company legislation and there are over 4,700 for-benefit corporations in the US, including high-profile adopters such as Kickstarter and Patagonia (B Lab, 2012).

2013

BC introduces C3; Ontario Social Enterprise Panel

Community Contribution Company (C3) legislated in British Columbia (BC, 2012, C 57). The Government of Ontario convenes the Social Enterprise Panel and publishes "Dual Purpose Corporate Structure Legislation" (2014).

2016

Sustainable Development Goals; NS legislates CIC

"The 17 Sustainable Development Goals of the 2030 Agenda for Sustainable Development ... officially came into force." (UN, 2016). Nova Scotia (NS) passes the *Community Interest Companies Act* (NS, 2014)

2017

Innovation Agenda; First Benefit Corporation IPO

The Canadian federal government commits to developing a Social Innovation and Social Finance Strategy for Canada.
Laureate Education begins trading on the Nasdaq Global Select Market (Laureate Education, 2017).

Figure 7: Social enterprise milestones

1.4 Chapter Organization

Chapter 1: A New Model

The introduction sets the framework for the discussion regarding the for-benefit model and a brief history of social entrepreneurship and enterprise.

Chapter 2: Knowledge Base

The breadth of the Three-Country Study encompasses hundreds of books, articles, and resources.

Chapter 3: Research Methodology

Research conducted includes in-person interviews and questionnaires, and a survey of social entrepreneurs. Design and systems thinking are the overarching research methodology used for this paper.

Chapter 4: Three Country Study

What are the similarities and differences between corporate models in the UK, US, and Canada?

The Three-Country Study is a problem-finding exercise that takes a deep dive into the features of corporations across three countries. The approach taken is to parse out differences in how each of the corporate forms are structured.

Chapter 5: Canadian Context

Why is a hybrid corporate structure needed to serve social innovation?

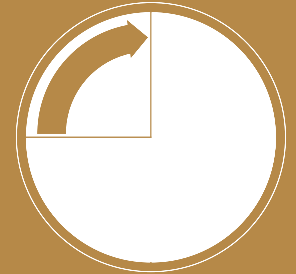
The Canadian Context shares the insights of people who were interviewed, completed the project questionnaire, or participated in the survey. Respondents are subject-matter experts in fields connected directly or indirectly with social innovation, social entrepreneurs who have founded more than one venture, and people who identify as social entrepreneurs and run social enterprises in all organizational forms.

Chapter 6: Identifying Barriers

How can barriers be overcome?

The penultimate section reviews two fundamental design problems uncovered in the research and provides ideas about how to adress them.

1. Concepts related to corporations are unclear to most people.
2. The for-benefit model needs a business case.



Chapter 7: Toward Solutions

The concluding section summarizes the research. It extends to notes on the implementation of for-benefit legislation informed by systems considerations and an imperative for action.

Figure 8: Implementation phase of design cycle

No forward-looking work in Canada can commence without acting on the Truth and Reconciliation Commission of Canada: Calls to Action. This paper calls on all people who are proponents for social enterprise and innovation to recognize the TRC Call to Action 92 (i).

- **Thank you to Bob Goulais Nipissing First Nation and Deborah Richardson, Pabineau First Nation for insights (page 15).**
- **The Canadian Context (5.2) refers to the Lower Mattagami Project, an economic development project of the Moose Cree First Nation and Ontario Power Generation.**
- **The first of five critical questions for further research (7.3) includes: What role might the for-benefit corporate model play from the perspective of Indigenous Peoples?**

92i

Commit to meaningful consultation, building respectful relationships, and obtaining the free, prior, and informed consent of Indigenous Peoples before proceeding with economic development projects.

(TRC, 2015)

2. Knowledge Base

Government Sources

When it comes to policy innovation, there's no escaping an in-depth legislative review, and it is impossible to compare corporate models without access to legislation. The governments of all three countries that were part of this study publish legislation and related documents online, making it feasible for a layperson to conduct the research needed for this paper.

There are many differences between the UK, US and Canadian corporate models. It would be impossible to conduct a review of for-profit and not-for-profit forms (inclusive of charities in the US and UK, and charities and non-profits in Canada) without the information and reports by government and the organizations dedicated to sharing knowledge on these subjects.

Social Innovation Generation

As Social Innovation Generation (SiG) winds up its work at the end of November 2017, the legacy is only beginning. Many aspects of the Canadian social landscape have been introduced during the SiG@MaRS tenure as a national catalyst for social change. In just ten years, SiG has provided the leadership to convert emergent concepts of social innovation into a system that has the infrastructure to support transformative change, including SVX, Data Catalyst, and the Centre for Impact Investing.

One of the most significant features of the work done by SiG@MaRS is a commitment to bringing international perspectives to social innovation in Canada. SiG events introduced ideas from thought leaders around the world. Knowledge exchange have been stimulated through events such as the Social Entrepreneurship Summit with Schwab Foundation, Net Change Week, Social Tech for Social Change, and the Social Finance Forum, which celebrated ten years in 2017.

B Lab

In a system where corporate legislation exists only at the state level, it is difficult to imagine how US benefit corporate legislation could have happened without B Lab, a US-based non-profit that sets the standards for Certified B Corporations™. B Lab is also committed to promoting innovative corporate structures and has provided the leadership necessary to start and sustain a US movement in legislative reform. Beginning in 2015, US state-by-state legislation began to roll out. In just three years, the task of passing consistent and coherent legislation across the US is at a tipping point: 66% of states have passed for-benefit legislation (Figure 15).

B Lab maintains benefitcorp.net, a resource base for businesses, investors, attorneys, and policymakers. The Model Benefit Corporate Legislation drafted by Bill Clark from Drinker, Biddle, & Reath LLP has established a systems approach to legislation.

While B Lab is an important informant to this paper, there is little in the way of published work specifically dedicated to advancing benefit corporations in Canada. B Lab Canada's online presence is a section of the B Corp website, which has the primary function of marketing B Corp certification.

Lawyers

The success of the Model Legislation in the US underlines the essential role of attorney allies in furthering policy innovations. The contributions of UK, US and Canadian lawyers have also served to advance the understanding of the for-benefit corporate form. Guidance written by lawyers and sponsored by law firms comprise a significant source of reference material. Canadian lawyers, Susan Manwaring, Miller Thomson LLP, and Dennis Tobin, Blaney McMurtry LLP deserve particular mention for their contributions to this topic.

3 Research Methodology

Phase 1: Literature review and statistical information

The first stage of the research ran from January to February 2017.

Extensive reading on the topic included over 500 web pages, journal articles and books. A project website was set up during this period in preparation for field research. A modified design cycle based on the IDEO model (IDEO, 2016) was chosen as an overall approach to the research stages (Figure 9).

The literature review includes current legislation, government guidance, articles related to corporate law, and statistical data. The first nine data points gathered illuminated a disparity between countries that could not be explained by population differences. The data also pointed to surprisingly low numbers of for-benefit corporations (Appendix A).

Phase 2A: Legislative review and corporate research

In March 2017, the corporate features study was designed, and a database was built to house the information.

The 20 corporate features to be studied were identified.

The terms were defined, and data collection covered the range features of the incorporation system in the UK, US and Canada.

Data collection took place during March 2017. The database is available by contacting the author.

Phase 2B: Expert interviews and questionnaires

Questionnaire design took place during April 2017, with requests going out beginning in May.

A database of people working in social entrepreneurship and social entrepreneurs with involvement in more than one social enterprise was developed from the researchers own database. Subject-matter experts were drawn from six categories representing stakeholders who are actively advancing for-benefit models (Stakeholder Map and Representative Sample, p.g. 78). Care was taken to ensure consultation with Indigenous Peoples, to represent people from different ethnic backgrounds, and to maintain a gender balance.

On May 11, an invitation to participate in an interview or complete the online questionnaire was sent to 82 subject matter experts. The email had a 70% open rate and 20 people responded directly by either booking an interview or completing the questionnaire. On May 16, the invitation was re-sent to the 62 people that had not responded. The email had a 56% open rate and ten more respondents came forward. On October 25 contact was made with nine people who had started the questionnaire but not completed. Of those people, one more respondent came forward. In total 31 experts provided their perspectives on the for-benefit model.

In-person interviews were conducted with 14 subject-matter experts, and 17 people completed the online questionnaire.

Four open-ended questions were asked in both the interviews and the questionnaire. The results were analysed for patterns, themes were identified, and the results were codified. The distribution of comments across themes were analysed and are presented in Chapter 5.

Phase 2C: Survey of social entrepreneurs

The Survey of Social Entrepreneurs was also set up in May 2017.

The survey consisted of eight questions about the type of venture, level of satisfaction, revenue sources, and barriers. The survey request was made via facebook, linkedin, and twitter. The campaign ran from March to May 2017, with three blog posts providing context and building interest in the topic.

There were 46 respondents, 42 of whom identified as social entrepreneurs and went on to complete the survey; of these 19 surveys provided some information but were not 100% completed. The highest number of respondents represented for-profit organizations, followed by charities. Over half of respondents were satisfied with the corporate form they were operating in; however, more than half felt that the structure of their venture created barriers to achieving their goal or mandate.

As well as the survey's eight questions there was an option to provide feedback. Questions were both multiple choice and open-ended. The survey results contributed to the analysis represented by Chapter 5.

Phase 3: Analyzing information

June to September 2017 was devoted to documenting results and analyzing information.

The interview and questionnaire results were set up in a database and codified for themes. The Three Country Study was also codified for similarities and differences, and specific features of the Canadian corporate system emerged.

Phase 4: Problem identification

In this phase, the focus was on synthesizing all of the research material and writing up final results.

Phase 5: Final considerations

In November 2017, the publication design was integrated with the results to tell both a written and visual story. Elements were developed specifically for systems designers to consider or use to conduct broader consultations.

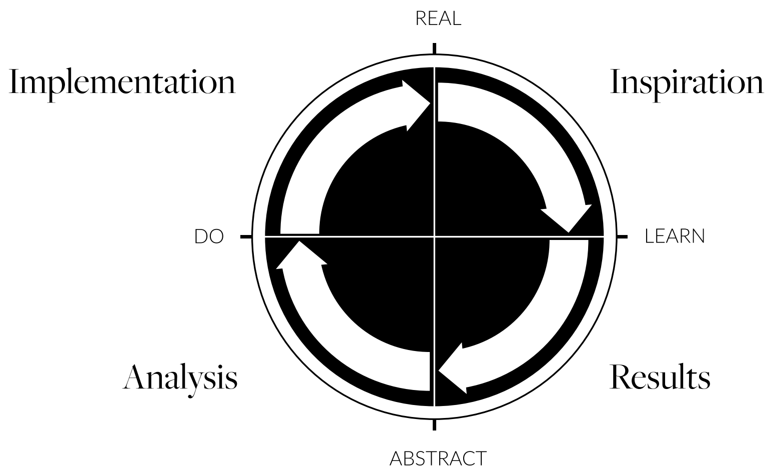


Figure 9: Design cycle used for this paper

Figure 10: Methods used

The research undertaken for this paper represents a four-phase design cycle: inspiration, results, analysis, and implementation.

METHODS USED

Design Thinking

Design thinking is the overarching research methodology used for this paper. The approach is grounded in Design Thinking, which looks at the "underlying structure and focus of inquiry directly associated with those rather private moments of 'seeking out,' on the part of designers." While Rowe's work was focused on buildings and urban artifacts, the concept held, and broadened over time (Rowe, 1986, p.g. 1).

Problem Finding, Framing, Solving

Richard Buchanan expanded on the methodology in his 1992 article, Wicked Problems in Design Thinking, which gives us the concept of problem definition and problem solution:

> Although there are many variations of the linear model, its proponents hold that the design process is divided into two distinct phases: problem definition and problem solution (Buchanan, 1992).

The investigation utilizes the method of design thinking: problem finding and problem framing, followed by problem-solving. The emphasis is on the identification of problems that challenge the design of a for-benefit model for social enterprise in Canada and propose potential solutions.

The Design Brief

This paper aims to contribute to a design brief that will inform the for-benefit model in Canada. Tim Brown's definition of a project brief describes the intent of the the research conducted for this project:

> Just as a hypothesis is not the same as an algorithm, the project brief is not a set of instructions or an attempt to answer a question before it has been posed. Rather, a well-constructed brief will allow for serendipity, unpredict-ability, and the capricious whims of fate, for that is the creative realm from which breakthrough ideas emerge. If you already know what you are after, there's not much point in looking (Brown, 2009, p.g. 23).

Systemic Design

Systemic design is a practice that brings together systems thinking and systems-oriented design to capture the complexity of systems in the design brief. Systems thinking allows for the development of an understanding of interdependent structures and the identification of leverage points that can further the intended outcomes.

Expert Interviews – In Person

Marjorie Brans
Managing Director, School for Social Entrepreneurs

Chris Brillinger
Executive Director, City of Toronto

Harvey Coleman
Coleman & Associates, Owner & Principal Consultant
Volunteer Advisor, MaRS

Narinder Dhami
Managing Director, LEAP: The Centre for Social Impact, Pecaut Centre, U of T

Pamela Divinsky
Executive Director, The Mosaic Institute
Founder, The Divinsky Group

Tim Dramin
Executive Director, Social Innovation Generation

Lynn Eakin
Policy Advisor, Ontario Nonprofit Network

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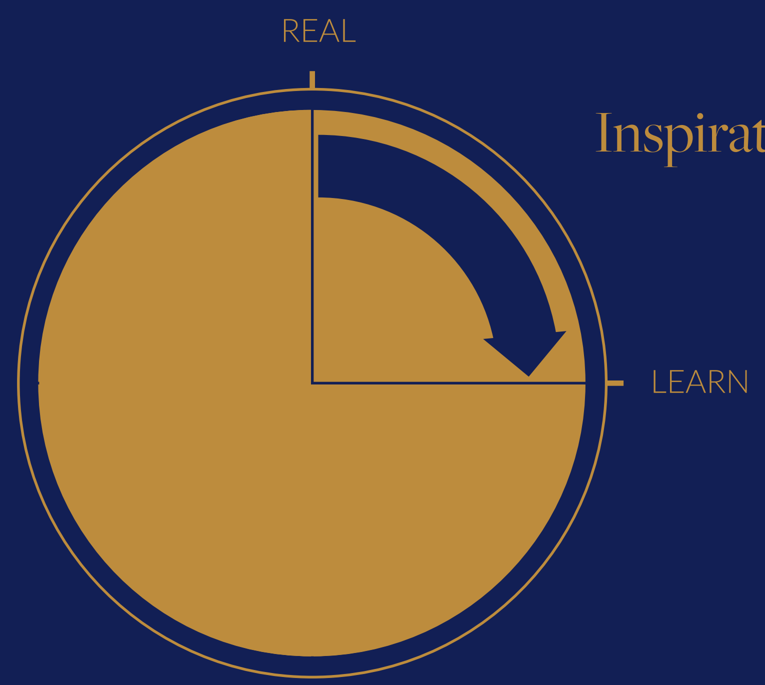


Figure 11: Inspiration phase of design cycle

Inspiration

PHASE 1

4. Three Country Study

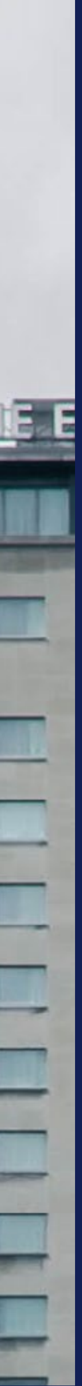
Subset One of the research questions asks, "What are the similarities and differences between corporate models in the United Kingdom, United States, and Canada?"

The first look at statistics across the three countries was a surprise. Data revealed that the combined number of for-benefit companies registered across the three countries is less than 0.2% of all corporations. Another significant variable is that US not-for-profits account for 20% of all corporations, over double the percentage of the UK and Canada (Figure 14).

It was clear that the research would have to go beyond statistics to bring knowledge from the UK and US experience into the design of a Canadian model.

A database was constructed to gather information about 20 corporate features, by four models, by three countries, making 240 data points in all.

The outcome is the Three Country Study, a neutral narrative that aims to be free of opinions or conclusions so that readers can immerse themselves in a walkthrough of the facts and from which it may be possible to draw informed "analogous inspiration."



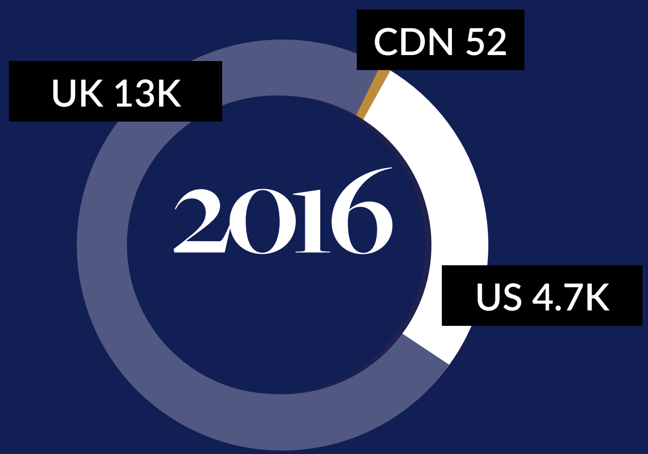
STATISTICS

A jumping off point for a comprehensive study

I would have chosen for-benefit for my current start-up if the option was there.

– Michael Lewkowitz,
Founder, Igniter

Figure 12: For-benefit scorecard



For-benefit corporations registered by country

(Appendix A)

Figure 13: For-benefit corporations registered by country

THE FOR-BENEFIT MODEL

SCORECARD

.2%

THREE-COUNTRY ADOPTION RATE
Legislation across the UK has been in place since 2005. In the US, state-by-state legislation rolled out in 2012. Canadian legislation to date was enacted in BC in 2013 and NS in 2016 (Appendix A).

52

For-benefit companies formed in Canada since BC introduced legislation in 2013. (BC Registry Services, 2017)

.4%

Percentage of UK corporations that are Community Interest Companies (Office of the Regulator of CICs, 2017).

For-profit and not-for-profit companies (Appendix A).

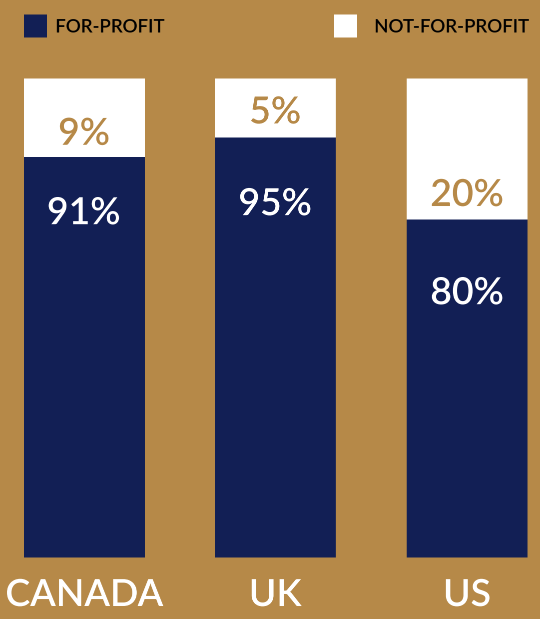


Figure 14: For-benefit statistics and the breakdown of for-profit and not-for-profit corporations by country

The similarities and differences between corporate models in the United Kingdom, the United States, and Canada

Corporate Features

Since the UK and the US have advanced enabling conditions for social enterprise, their activities inform discussions about policy and legislative reform in Canada. The three countries influence each other in the area of social innovation, but Canada has lagged behind on legislative reforms to enable social enterprise. At the present time, there are two questions that dominate the discussion about the for-benefit model in Canada:

1. Is there a need for a for-benefit corporation in Canada? (yes/no)
2. Which model would work best in Canada? (US versus UK)

An understanding of corporate forms is required to address these questions, and it must also extend to how Canada is different from the UK and the US – and how the US and the UK are different from each other.

Following statistical analysis on for-benefit corporations (Appendix A), the Study expanded to the many features of corporations that could inform the Canadian for-benefit model's design. The exploration follows a design research method referred to as "analogous inspiration," (IDEO, 2016) and "reasoning by analogy" in strategic decision-making (Gavetti & Rivkin, 2005).

One of the pitfalls of working with analogies is the potential to rely on a superficial understanding of the analogous situation. This project undertook in-depth research on the four models – for-profit, for-benefit, non-profit, and charitable – to establish a comprehensive baseline of similarities and differences between features of the incorporation system in the UK, US, and Canada.

4.1 Types

In all three countries, for-profit businesses are private or public companies: a private company that has shareholders with limited liability and shares that are not publicly offered, or a public limited company offers shares that can be publicly sold and is listed or unlisted on stock exchanges.

The term "charitable" represents an organization that is a qualified donee, conforming to the allowable charitable purposes as set out by the country's tax authority. Charities in Canada are incorporated not-for-profit organizations registered with the Canada Revenue Agency (CRA).

In the UK, a charity, registered with the UK Charity Commission or Gift Aid, can take the form of an association or foundation, a Charitable Incorporated Organization, or a Charitable Company (limited by guarantee). Unlike Canadian charities, donee status, through Gift Aid, is also extended to unincorporated trusts and charitable unincorporated associations (which are membership organizations).

In the US, charitable and other tax-exempt organizations are typically incorporated as non-stock corporations. They take many forms, including public charities, private foundations, and other types of non-profit organizations such as chambers of commerce, fraternal organizations and civic leagues. The term "nonprofit" is used to apply to the broad range of organizations that qualify for tax-exemption and donee status subject to provisions 501(c) of the Internal Revenue Code.

Non-profits in Canada are non-share, not-for-profit corporations that are not charities or not-for-profit co-operatives. They are governed by the *Canada Not-for-profit Corporations Act* (CNCA) or the related provincial or territorial act and qualify for tax-exempt status under the *Income Tax Act* (ITA).

No tax-exempt status is conferred on UK non-profits that are not charities, and most are governed by the *Companies Act*. A not-for-profit might also be a Community Benefit Society or Co-operative Society, in which case the *Co-operative and Community Benefit Societies Act* prevails.

For-benefit companies are a single type in the UK and US: in the UK, known as Community Interest Companies (CIC), and in the US, known as Benefit Corporations. Canadian for-benefit companies are called Community Contribution Companies (C3) in British Columbia and Community Interest Companies (NS-CIC) in Nova Scotia, the only two Canadian jurisdictions that have for-benefit legislation.

For-benefit corporations subject to legislative control should not be confused with B Corp certification by B Lab, a US non-profit that champions "a global movement of people using business as a force for good.™" B Corp certification is open to for-profit companies and co-operatives, and for-benefit businesses.

4.2 Legislation

Canadian companies are incorporated either federally provincially or territorially. Federal, provincial, or territorial incorporation depends on several considerations, such as the cost to incorporate, intended jurisdiction for operations, and Canada-wide company name protection. For-profit ventures with or without share capital are governed by the *Canadian Business Corporations Act* (CBCA); or the related provincial or territorial act. Federal incorporation ensures a business can operate in the same name in all provinces and territories, although name registration is needed in each jurisdiction.

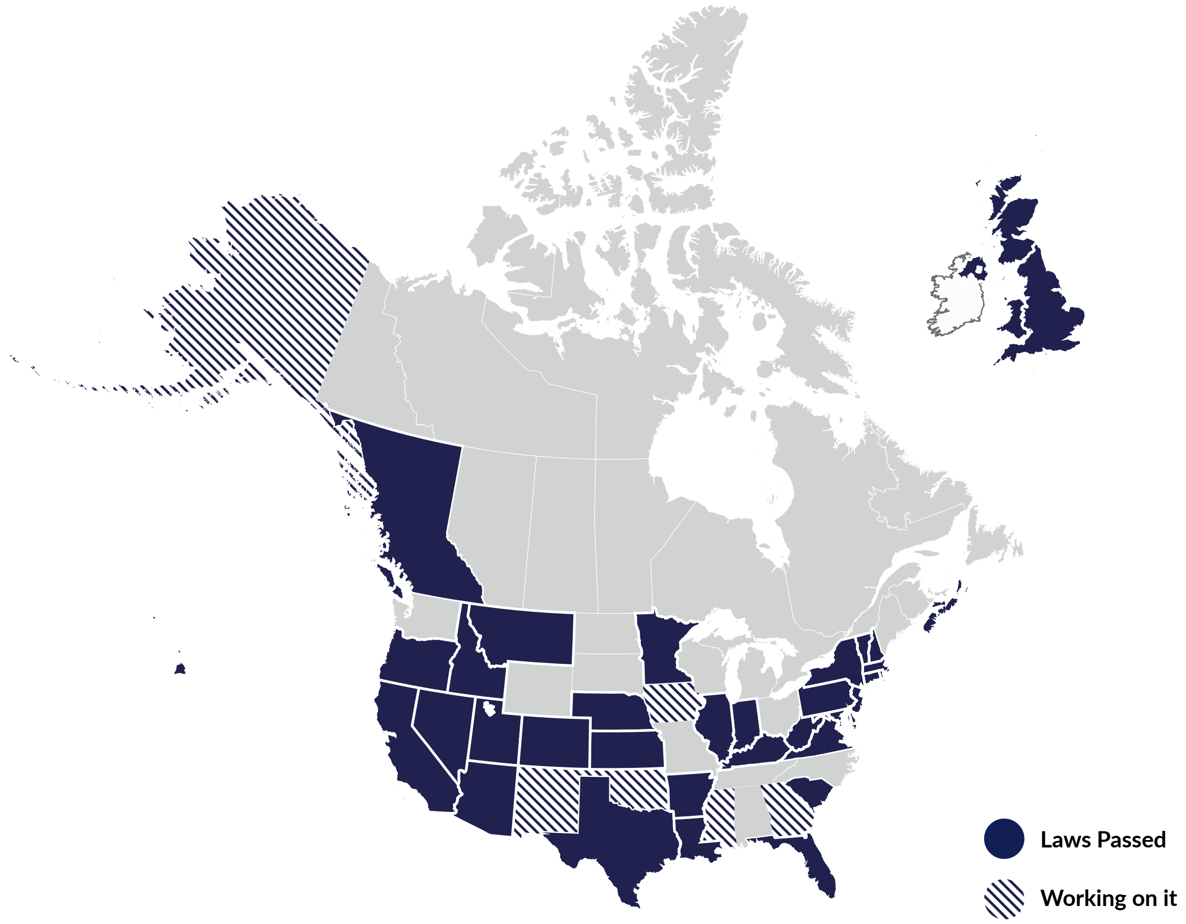


Figure 15: For-benefit legislation in the UK, US, and Canada

Table 1: Corporate registrars and regulators

REGISTRARS AND REGULATORS				
	FEDERAL	REGIONAL	FOR-BENEFIT	CHARITY
CANADA	Corporations Canada Innovation, Science and Economic Development	OR Provincial or Territorial Registry	British Columbia: NONE Nova Scotia: Registrar of Community Interest Companies	Canada Revenue Agency Charities Directorate
UNITED KINGDOM	Companies House Department for Business, Energy and Industrial Strategy	ALSO Registrar of Companies for: England and Wales, or Northern Ireland, or Scotland	Officer of the Regulator of Community Interest Companies	Charity Commission
UNITED STATES	NONE	ONLY State Government Division of Corporations, or Secretary of State	NONE	Internal Revenue Service

Federally incorporated non-profits and charities are governed by the CNCA, or if incorporated provincially or territorially, by the related not-for-profit act. The CRA assesses a non-profit's eligibility for registration as a charity under the ITA, and in Quebec, charities register with the Ministère du Revenu du Québec.

The US does not have standalone legislation governing not-for-profit legislation. Each state has legislation governing corporations (i.e., Business Corporation Acts) and sets the state corporate tax rate. Federal tax-exempt status is dictated by the US Internal Revenue Code, Section 501(c).

A single law regime, the *Companies Act* governs corporations across the UK. The *Charities (Protection and Social Investment) Act* governs UK charities. The *Income Tax Act* (UK-ITA), regulates the tax implications for charities.

For-benefit incorporation is available to a varying degree in all three countries (Figure 15). UK CICs are governed by the *Companies Act*, amended to introduce CIC incorporation in 2005. In the UK, the Office of the Regulator of Community Interest Companies has jurisdiction over CICs.

For-Benefit Corporate legislation has been introduced in the US on a state-by-state basis since 2012. B Lab, the US non-profit organization that sets the standards for Certified B Corporations™, also promotes innovative corporate structures such as for-benefit companies. B Lab manages an online resource for businesses, investors, attorneys, and policymakers and has developed Model Benefit Corporation Legislation as the basis of any new legislation. Two-thirds of US states (66%) have passed legislation to introduce For-Benefit Corporations, and 12% are working on it.

In Canada, two provinces have introduced for-benefit legislation. British Columbia added C3s in 2013 by amending the *Business Corporations Act*. Nova Scotia passed the *Community Interest Companies Act* in 2016.

4.3 Registration

In all three countries, the incorporation process is simple: governing documents are submitted; a name search is conducted, and a registration fee is paid. Predictably, the second step is registering with governmental tax authorities. Although the process is straightforward, it is generally held that seeking legal advice is prudent.

Table 1 provides an overview of the registrars for corporations and the additional registrars or regulators for charities and for-benefit corporations.

Canada's federal corporate regulator is Corporations Canada, a government agency of Innovation, Science and Economic Development Canada. Corporations also register in the province or territory where they will conduct business. The provincial or territorial registry office is connected to a ministry dedicated to trade, the economy or innovation, or a service bureau.

Companies House is the single registrar of corporations in the UK. It is a government agency within the Department for Business, Energy and Industrial Strategy.

In the US, corporate registration is filed with the appropriate State agency, which is generally a department or an agency dedicated to government services.

The process for registering a Canadian for-benefit company is similar to setting up a for-profit company. In British Columbia, an incorporation application for a Community Contribution company is made to BC Registries, a service of the Ministry of Technology, Innovation & Citizens' Services. In Nova Scotia, the standard application for incorporation, along with specific Community Interest Company designation documents, are submitted to Service Nova Scotia's Registrar of Joint Stock Companies, which makes the CIC determination based on a set of criteria.

For-benefit companies in the UK register with Companies House and the Office of the Regulator of Community Interest Companies. In the US, for-benefit companies file articles of incorporation with the appropriate state agency, and declare benefit corporation status. US "benefit companies" must declare corporate purpose to create "general public benefit" and add any specific benefits as applicable.

When it comes to not-for-profit registration, concepts and lexicon vary between each country:

- In the US, "nonprofit" refers to charities as approved by the IRS.
- In the UK, the term non-profit applies to a broad "social enterprise" concept that encompasses different legal structures.
- In Canada, non-profits are a distinct legal entity, registered with the Canada Revenue Agency and incorporated under legislation administered by Corporations Canada or the appropriate provincial or territorial agency. They are governed by a not-for-profit or society act, or the business act at the federal, provincial or territorial level.

In Canada, charities must be approved for registration as a charity by the CRA. In the US, charities are registered with the IRS, generally as 501(c)(3) entities. In the UK, there are two types of charities. A charitable incorporated organization registers with the Charity Commission, and a charitable company is registered with both the Charity Commission and Companies House.

In all three countries, charities are qualified donees, registered at the national level with the tax bureau. Charities are tax-exempt agencies that can also offer taxable deductions for gifts they receive from individuals and corporations.

4.4 Name and Protection

There are some differences in the phrase to be used at the end as a legal element of a corporate name.

- UK terms can be in English or Welsh: "limited" or "ltd." or "cyfyngedig" or "cyf"; or "public limited company" or "p.l.c.", or "cwmni cyfyngedig cyhoeddus" or "c.c.c."
- Canadian terms can be in English or French: "Limited", "Limitée", "Incorporated", "Incorporée", "Corporation" or "Société par actions de régime fédéral".
- US terms are in English only: "corporation," "incorporated," "company," or "limited".

For-benefit companies include a specific last phrase in each form of the company's name.

- US for-profit naming conventions apply (although Kickstarter added "PBC").
- UK term in English or Welsh "community interest company" or "c.i.c.", or "cwmni buddiant cymunedol" or "c.b.c."
- British Columbia name to include "B.C. Community Contribution Company Ltd." C.C.C. or the full words, "Community Contribution Company" or C3 in addition to the regular corporate name designators ("Ltd.", "Inc.").
- Nova Scotia phrase in English or French "Community Interest Company" or "société d'intérêt communautaire" or the abbreviation "C.I.C.", "CIC", "S.I.C." or "SIC".

What are non-profits called in Canada?

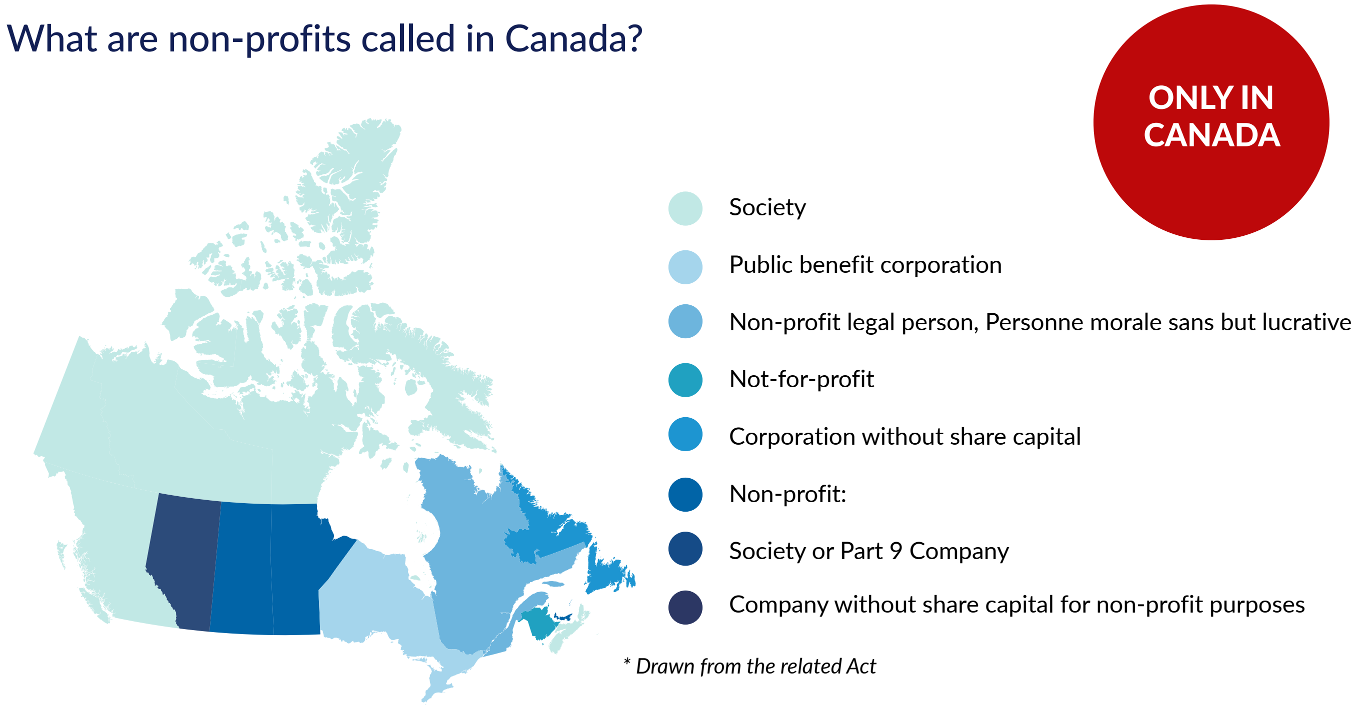


Figure 16: What non-profits are called in Canada

An additional consideration concerning registration is name protection. In the US, the company name is not protected outside the state's jurisdiction. Corporations in the US register their trade name with the state county clerk's office or state government. An additional layer of protection is provided by additionally registering a trademark with the United States Patent and Trademark Office.

Similarly, in the UK, registration does not stop a third party from registering a company name as its trademark or in branding. Registering a company name does not confer the right to trade using that name. Additional protection is afforded by registering a trademark with the Intellectual Property Office.

Canadian provincial or territorial registration protects the company's right to operate under the registered name in the jurisdiction in which it is incorporated. Federal incorporation protects the company's right to operate under the name throughout Canada. Corporations Canada additionally advises that it may be important to additionally register a trademark to protect a company's name with the Canadian Intellectual Property Office.

4.5 Governing Documents

In Canada, governing documents for all corporations are filed at the time of incorporation either federally, provincially or territorially. They are referred to as the letters patent, articles of incorporation or constitution. Following incorporation, by-laws are prepared and filed by the directors or shareholders (as set out in the articles of incorporation). The by-laws outline governance provisions such as membership, directors, distribution of shares, company meetings and reporting, and may be amended or supplemented and re-filed with the regulator. Incorporated not-for-profits that seek to be approved for registration as a charity apply to the CRA.

In the UK, the company's constitution is filed with Companies House. The constitution is comprised of the articles of association, which follow the government's model articles for a private company limited by shares or by guarantee. Any special resolutions and agreements may be added, as would be the case for a non-profit social enterprise.

For-benefit corporation articles must comply with the community interest company provisions in the *Companies Act*, concerning form, asset lock and governance.

Articles of Incorporation for UK charities are registered with both the Charity Commission and Companies House. Charitable incorporated organizations, foundations or associations file their constitution with the Charity Commission, which consists of a memorandum and articles outlining charity's purposes and rules.

All US corporations – charities, for-profit and for-benefit companies – file a charter or articles of incorporation with the regulator for the state in which they are incorporated.

4.6 Size and Function of Board of Directors

For-profit directors are responsible for managing the business and affairs of a corporation, either directly or in a supervisory capacity. The minimum number of directors is one, and a director can hold shares and receive dividends. There are no restrictions on remuneration. The overriding responsibility is securing the financial interests of shareholders.

Similarly, for-benefit directors must manage the affairs of a corporation in a way that protects the financial interests of shareholders. For-benefit directors can hold shares and receive dividends, and remuneration is unrestricted. For-benefit company directors have the same management responsibilities as for-profit directors; however, there is also an obligation to consider environmental and social factors, and oversee annual benefit reporting.

In the US and UK, the minimum number of for-benefit directors is one, although a UK-CIC limited by guarantee (rather than limited by shares) would have at least two directors (aka trustees) and some banks and funders require at least three trustees. In Canada, legislation sets the minimum number of directors for BC-C3s and NS-CICs at three.

Except in the case of a non-soliciting organization (i.e., the recipient of less than $10K in public funds), Canadian not-for-profit corporations must have from three to five directors, depending on the specific legislation. Directors are responsible for supervising the management of the activities and affairs of a corporation. No dividends are paid to directors; however, they may receive reasonable remuneration unless their by-laws dictate otherwise.

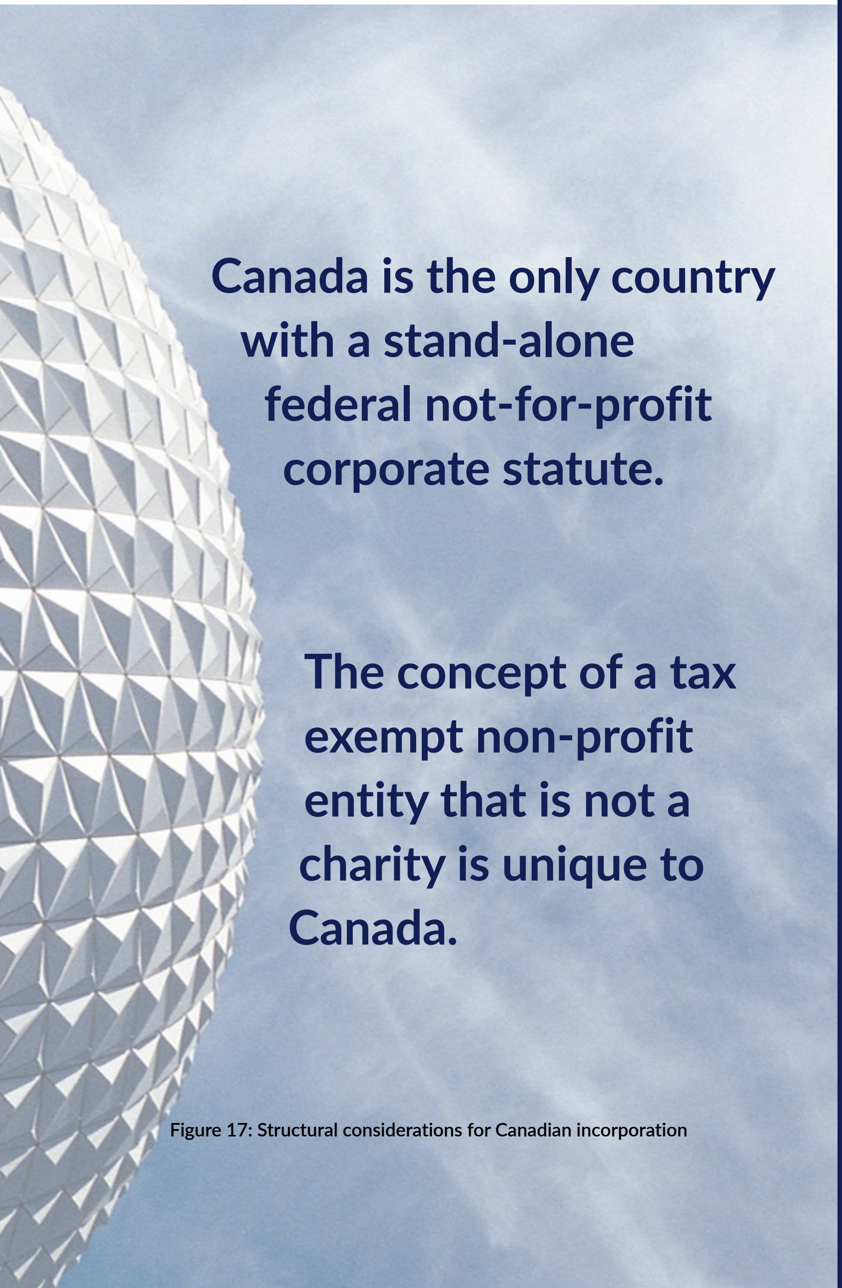
In the US, the term "non-profit" refers primarily to organizations with tax-exempt status and eligibility to receive tax-deductible charitable contributions. Most state laws set the minimum number of directors at three; however, some states require as few as one. Having fewer than three directors can cause the IRS to reject an application for tax-exemption under 501(c)(3), so best practice sets the minimum number at three.

The UK concept of non-profit covers a broad range of legal structures, therefore the size and function of directors are guided by its status as a for-profit, charity, or cooperative.

UK charities must have a minimum of three directors.

Structural Considerations

The two existing Canadian for-benefit companies, BC-C3s and NS-CICs, are more similar to UK-CICs than US Benefit Corporations.



Canada is the only country with a stand-alone federal not-for-profit corporate statute.

The concept of a tax exempt non-profit entity that is not a charity is unique to Canada.

Figure 17: Structural considerations for Canadian incorporation

ONLY IN CANADA

Federal government department that oversees incorporation is Innovation, Science and Economic Development.

It is possible to incorporate federally, provincially or territorially.

Federal incorporation protects the company name for use across Canada.

Provincial or territorial incorporation protects the use of the company name in that province or territory

Charitable boards are responsible for the control and management of the administration of a charity.

In all three countries, directors are considered volunteers and are not compensated for service on the board of directors; however, they can be reasonably compensated for direct expenses. Income Tax legislation varies on the matter of compensating board members for services provided, whether as a director or other capacity. If remuneration is allowed, it often takes the form of a *per diem*.

4.7 Benefits to Shareholders, Members, and Directors

All for-profit companies can issue shares and shareholders can receive dividends and any assets upon dissolution. In the US, for-benefit corporations follow the same regulatory guidelines as for-profit companies, which means there are no asset locks or dividend restrictions.

Like US Benefit Corporations, Canadian and UK for-benefit companies can issue shares and shareholders can receive dividends; however, they are subject to the dividend cap established by regulations. For example, the maximum aggregate dividend cap for BC and NS for-benefit companies directs 60% of the profits back into the social mission of the business to be directly used for the benefit of the community it was set up to serve. In the UK, 65% of profits must be reinvested. In both the UK and Canada, there are also restrictions on the distribution of assets to shareholders upon dissolution.

A Canadian charity or non-profit cannot distribute its income in a way that would be of personal benefit to its members. Similarly, in the UK and US charitable organizations cannot distribute surpluses to members or stakeholders.

A UK non-profit organization can be set up as a company without share capital or may issue shares. Therefore, shareholders are able to receive dividends and any assets on dissolution.

4.8 Purposes

The concept of "purpose" is at the core of corporate governance. It is the foundation of strategic iterations of mandate and mission and is the point of entry for stake-holders. Legislation informs allowable purposes, whether registering a for-profit, not-for-profit, or for-benefit company.

For-profit purposes are generally unrestricted. In Canada, these are "All such things that are incidental or conducive to the attainment of the objects and the exercise of the powers of the company." The UK sets purposes out as "unrestricted" and the US as "engaging in any lawful business."

Not-for-profit purposes are the most specific and charit-able status is determined by national tax authorities. The allowable purposes for charitable status in Canada are more restrictive than those in the UK and the US. Table 2 provides a comparison of charitable purposes for each country and also includes the description of Canadian non-profit purposes.

In all three countries "public benefit" is the overriding determinant of obtaining and maintaining charitable status. In the US, this is governed by federal tax laws that prohibit charities from conferring a private benefit. Unique to the UK are Charity Commissions, which register and regulate charities and provide the guidelines for determining public benefit.

The Canada Revenue Agency recognises one set of purposes as charitable and another as specifically non-profit. Canadian non-profits are a class of not-for-profit that can attain tax-exempt status but cannot confer tax incentives to donors.

The use of the term "non-profit" differs from country to country. In the UK, "nonprofit" refers to companies that set out specific "benefit" objects in their governing document, including for-benefit Community Interest Companies. UK non-profits are not registered with the UK Charity Commissions or Gift Aid and have no tax advantage.

In the US, the terms charity and non-profit are used interchangeably. A non-profit determines their purpose at the point of incorporation as a first-step to an application for tax-exempt (charitable) status with the IRS, and where applicable, the State in which they are incorporated.

The dual-purpose structure of a for-benefit corporation enshrines in legislation a corporation's duty to both shareholders and stakeholders. A key feature of US for-benefit corporations is an expanded purpose beyond maximising share value and the explicit inclusion of general and specific "public benefit." UK and Canadian for-benefit corporations can be established for any purpose which benefits the community (Table 3).

The differences in the use of the term "public" create confusion when comparing the US for-benefit model with the Canadian not-for-profit model, where the term "public benefit" refers exclusively to all categories of charity. The Canadian Revenue Agency requires that a charity meet a two-part test: that a tangible benefit be conferred and that the benefit has a public character, that is, be directed to the public or a sufficient section of the public.

In England and Wales, all of a charity's purposes must be for public benefit. Similar to Canada, there are two aspects to the requirement: that the purpose is beneficial, and

Table 2: Not-for-profit purposes

NOT-FOR-PROFIT PURPOSES

Canada

Charity:
Relief of poverty, advancement of education, advancement of religion, or certain other purposes beneficial to the community in a way the law regards as charitable (CRA, 2014).
The CRA provides Model purposes, which expands on the three elements (CRA, 2013).

Non-profit:
Can operate for social welfare, civic improvement, pleasure, sport, recreation, or any other purpose except profit (CRA, 2017).

United Kingdom

Prevention or relief of poverty; advancement of [education, religion, health or the saving of lives, citizenship or community development, the arts, culture, heritage or science, amateur sport; human rights, conflict resolution or reconciliation or the promotion of religious or racial harmony or equality and diversity, environmental protection or improvement]; the relief of those in need, by reason of youth, age, ill-health, disability, financial hardship or other disadvantage; advancement of animal welfare; promotion of the efficiency of the armed forces of the Crown, or of the efficiency of the police, fire and rescue services or ambulance services; any other charitable purposes (UK-*Charities Act*, 2011, C1, 3).

United States

Charitable, religious, educational, scientific, literary, testing for public safety, fostering national or international amateur sports competition, and the prevention of cruelty to children or animals – the term charitable is used in its generally accepted legal sense and includes relief of the poor, the distressed, or the underprivileged; advancement of religion; advancement of education or science; erection or maintenance of public buildings, monuments, or works; lessening the burdens of government; lessening neighborhood tensions; eliminating prejudice and discrimination; defending human and civil rights secured by law; and combating community deterioration and juvenile delinquency (US-IRS, n.d.).

benefits the public in general.

Community purposes referred to in the UK's Community Interest Company Regulations 2005 are broader than charity purposes and do not have to meet the public benefit test. Canadian for-benefit legislation also includes the concept of a "community purpose." The CRA "Guidelines for registering a charity: Meeting the public benefit test", is aligned with the same concept: "Organizations are often found to be of "benefit" to the community, but not charitable, for a number of reasons."

The Ontario Not-for-profit Corporations Act (ONCA) uses the term "public benefit" to establish two types of not-for-profit corporations: the public benefit corporation and the non-public benefit corporation. At its core, the definition of a public benefit corporation under the ONCA depends on the source of a not-for-profit's annual funding:

"public benefit corporation" means,
(a) a charitable corporation, or
(b) a non-charitable corporation that receives more than $10,000 in a financial year,
(i) in the form of donations or gifts from persons who are not members, directors, officers or employees of the corporation, or
(ii) in the form of grants or similar financial assistance from the federal government or a provincial or municipal government or an agency of any such government; ("organization d'intérêt public") (ONCA, 2017)

A comparison of not-for-profit purposes across the three countries illustrates the limited nature of charitable purposes in Canada, and the distinct set of purposes allowable for non-profit organizations (Table 2)

4.9 Activities

Regardless of size, complexity or industry, for-profit corporations in Canada, the UK and the US share a common and straightforward understanding of business activity: to derive a corporate profit that can be distributed to shareholders through the sale of products and services.

Table 3w: For-benefit purposes

FOR-BENEFIT PURPOSES

Canada

... "community purpose" means a purpose beneficial to (a) society at large, or (b) a segment of society that is broader than the group of persons who are related to the community contribution company, and includes, without limitation, a purpose of providing health, social, environmental, cultural, educational or other services, but does not include any prescribed purpose. (BC, 2002, 2.2)

United Kingdom

... "community interest test" and must not be an "excluded company." A company satisfies the community interest test if a reasonable person might consider that its activities are being carried on for the benefit of the community, and "community" for these purposes includes a section of the community (UK Companies House, n.d.).

United States

... "General public benefit." A material positive impact on society and the environment, taken as a whole, from the business and operations of a benefit corporation assessed taking into account the impacts of the benefit corporation as reported against a third-party standard (B Lab Benefit Corporation Model Legislation. (n.d.).

Similarly, the activities of for-benefit corporations are dedicated to the sale of products and services, with additional activity connected to a purpose that benefits a group of stakeholders that is broader than the individuals related to the for-benefit company, i.e., the shareholders.

Because they have legislated tax advantages, charities face restrictions on their activities. In Canada, Section 149 of the Income Tax Act does not allow charities to carry on "a business that is not a related business of that charity." (ITA, 1985, 149.i) Correspondingly, a charity's business activities must be considered with great care and the CRA's authority to determine these as compliant with the ITA is *intra vires* (within CRA's powers).

The situation for enterprising non-profits is even more restrictive. The emergence of social enterprise has brought attention to bear upon the ITA provision that a non-profit may operate for "any other purpose except profit".

Concerns about limitations to a non-profit's potential to generate revenue for its programs are the result of the CRA's 2009 interpretation of the provision as meaning that no individual activity of a non-profit can intentionally earn a profit (ITA, 1985). Canadian non-profit corporations typically develop profitable activities within their overall business plan. These activities align with social enterprise principles: profits support programs that operate at a loss or are used as capital to upgrade infrastructure. As of 2009, this concept was determined to be unacceptable under the ITA.

Charities in the UK and US must also dedicate their assets to charitable purposes but they are simply taxed on the profits of activities that fall outside the charitable provisions set out by tax authorities. Charitable status in the UK and US can be revoked for many reasons, such as failure to file tax returns, not following the governance provisions of the act, and irresponsible fundraising practices; however, it is only Canadian tax law that takes punitive steps such as revoking tax status, setting penalties, and potentially dissolving a charity should activities fall outside of the provision that determines the tax advantage.

Operations

Social Enterprise Conundrum. Canada does not have a “tax valve” that allows non-profits and charities to pay taxes on business income.

Table 4: Comparison of Canadian for-benefit and not-for-profit operations

CANADIAN FOR-BENEFIT AND NOT-FOR-PROFIT OPERATIONAL CONSIDERATIONS			
	BENEFICIARIES	TYPES	ANNUAL REPORTING
For-benefit BC	Community purpose AND beneficial to society	BC-C3	Post on company website
For-benefit NS		NS-CIC	File with registrar
Non-profit	Public benefit only if considered soliciting	Non-profit aka society, corporation without share capital	Non-soliciting, no reporting requirement Soliciting, same as charity
Charity	Public benefit is a key determinant of charitable status	Charity	File audited report with Commision

CHARITIES CAN BE FORCED INTO DISSOLUTION IF OPERATING AN UNRELATED BUSINESS THAT IS NOT RUN BY VOLUNTEERS.

4.10 Beneficiaries

In the simplest terms, shareholders are the beneficiaries of for-profit companies. The evolving landscape of the corporate world has encompassed benevolence, most recently as corporate social responsibility (CSR), but the bottom line is that shareholders are the legal owners of for-profit corporations. They can be individuals or other corporations, and as beneficiaries, they have voting rights, the right to receive dividends, and the right to receive any assets from the corporation upon dissolution. Company directors are individuals elected by the shareholder(s) to supervise the management of the corporation and to carry out the fiduciary duty to shareholders.

During the mid-twentieth century, the corporation was defined by stakeholder capitalism and directors saw themselves as responsible to all constituents, not just investors. The rise of shareholder preeminence started in the 1970s, leading to the current concept of shareholder supremacy (Heracleous & Lan, 2010).

Although many businesses consider social returns, they are mostly viewed from a value creation standpoint – and the basis of for-profit corporate value creation is a financial metric. This metric, commonly as expressed by total returns to shareholders, remains the primary objective of business. The BC Ministry of Finance offers a good summary of the problem:

> … they [for-profit companies] can pay dividends, but may not be able to assure social investors that investments will be used for social purposes. Alternatively, a for-profit corporation may have difficulty maintaining its social mission if investors’ goals change.” (British Columbia, n.d.)

Canadian not-for-profit corporations are non-share capital corporations formed under the relevant federal, provincial or territorial act. The scope of beneficiaries can be broad and are determined by the corporate purpose as set out in the articles of incorporation. Soliciting non-profits and charities must have a public benefit, while non-soliciting non-profits such as clubs and associations can operate for the benefit of members. By-laws set out the conditions, classes and rights of members, also considered to be stakeholders, and therefore, beneficiaries in a non-financial sense. Provision 149(l) of the ITA dictates purposes and confers tax-exempt status on non-profit organizations (Table 4).

4.11 Corporate Reporting

In all three countries, for-profit and for-benefit companies with shares are governed by the section of the act under which they are constituted and their articles of incorporation. They must file a public disclosure of corporate information such as the registered office address and the names and addresses of directors. Information must be kept up to date, with notice of changes filed within a specified time of the changes being made.

US for-profits file is at the state level, with the Secretary of State. In the UK, the information is filed with Companies House. Canadian federal corporations file public disclosure information with Corporations Canada or with the province or territory in which they are constituted and also file in the provinces and territories in which they conduct business.

Public companies with shares publicly sold and listed or unlisted on stock exchanges must follow financial securities regulations. They must file publicly-available accounts, interim management statements and other forms of reporting and compliance dictated by securities law. Private companies, however, are not required to disclose corporate information publicly.

In the case of the UK and the US, regulating public companies is a national matter. The Financial Conduct Authority is an independent UK agency (New Statesman, 2013). In the US, the primary securities regulator is the Securities and Exchange Commission, an independent, federal government agency. Canada differs in that securities are regulated at the provincial or territorial, rather than federal level.

Canadian, US and UK for-benefit companies can be public or private companies. Publicly traded for-benefit companies are subject to the same securities laws as for-profit companies. UK for-benefit companies begin the process of conversion to a public company through a special resolution of the Board, and a name change to end in “community interest plc.” US for-benefit companies file an SEC Form S-1, the initial registration form for new securities. The BC government states, “Like any other company, C3s that offer shares to the public would be required to comply with registration and disclosure requirements under the Securities Act unless they fall under one of the various exemptions.” (British Columbia, n.d.)

State legislation for US for-benefit companies typically includes the obligation to have a benefit director in the management team and requires that an annual benefit report is presented to the Board of Directors. US best practice is that the annual benefit report is assessed against a third party standard, and in the interest of fulfilling the mandate for a higher level of accountability and transparency, the report is made publicly available.

UK for-benefit companies place an annual CIC report on the public register with the CIC Regulator. The CIC report must contain financial information; however, the CIC Regular encourages activities reporting and promotes them as a way to showcase activities that have benefited the community over the year. Each year, the CIC Regulator produces a publicly available CIC report and presents it to Parliament.

In Canada, BC-C3s are obliged to produce an annual community contribution report, approved and signed by at least one director and posted on the company's website. In addition to disclosure of financial information, the report must include "a fair and accurate description of the manner in which the company's activities during that financial year benefited society." (British Columbia, 2002) Similarly, NS-CICs, produce a community interest report and financial statements, presented to and signed by shareholders and filed with the Registrar of Joint Stock Companies (appointed the Registrar of CICs).

UK charities must file annual reports with the Charities Commission and charities that claim Gift Aid must keep records of declarations that donors have completed. Reports must disclose financials and describe programs, which must be compliant with the purposes set out in the Act under which they are constituted.

Canadian registered charities and non-profits must hold a mandatory annual meeting and file financial statements and a public accountant's report with Corporations Canada if governed by the CNCA or as stipulated in the provincial or territorial legislation. Audited financial statements are required for all "soliciting" not-for-profit corporations, which are those that receive public donations or government grants more than $10,000 in a single year (Canada, 2012).

In most states, US charities are required to file an annual report with the state agency responsible for maintaining charity records. Most states also require charitable fundraising registration if the non-profit engages in fundraising activities in the state and professional paid fundraisers must register with the state (Lee, n.d.). It is considered best practice to register with GuideStar, a 501(c)(3) public charity that collects, organizes, and presents information that non-profits supply with data from several other sources.

4.12 Operational Revenue Sources

Simply put, for-profit corporations generate income from the sale of goods and services; however, income sources contributing the revenue base of sophisticated companies are complex and extensive. Corporations in this category are at liberty to generate income by any means that are legal and compliant with regulations that govern trade and commerce.

Trade and commerce regulations are one area where there is little variance between countries. These also govern for-benefit income generation. Despite the differences in other aspects of for-benefit corporations between countries, in all cases, they are set up to operate as commercial entities that generate income from the sale of goods and services.

Registered charities are subject to strict oversight and regulation due to the crossover with tax laws. Donations are a unique income feature of charities, which confers a tax benefit on the donor. Charities are also qualified donees for philanthropic foundations. Other sources include sponsorship income, which is recognized as an expense rather than donation by the sponsor. Charities also receive government grants and qualify to provide services under certain types of service agreements that favour not-for-profit organizations.

Charities can also derive income from the sale of goods and services. In Canada, a charity's profitable business must relate to the charity's purpose and subordinate to that purpose, or be run substantially by volunteers. Alternatively, charities can set up a separate business and be established as the sole or primary shareholder of a related business that is subject to corporate tax on income.

In the US, the emphasis differs: charities are exempt from paying income tax on business gains if used for charitable purposes. Although an organization is recognized as tax exempt, it still may be liable for tax on unrelated business income that is not substantially related to the charitable, educational, or another purpose that is the basis for the exemption. In this instance, a tax return is filed, and taxes are paid on the unrelated business income.

Similarly, in the UK, profits utilized in the organization's purposes are not subject to tax. Therefore, charities don't pay tax on most income and gains if used for charitable purposes. If income doesn't qualify for tax relief, the charity files a tax return.

Although provision is made for US and UK charities to generate profits, the value statement is different. In the US, taxes are payable on income *not related to the purpose* that is the basis for the exemption; in the UK, charities pay tax on any money *not used for charitable purposes.*

The Canadian context for charities is fundamentally different: there is no provision for paying taxes on a profitable program that does not meet one of the two criteria for "related business" (i.e., aligning with purpose and being subordinate, or staffed by volunteers). Running afoul of the rules has serious consequences for charitable operations:

> If an organization applying for registration is operating an unrelated business, its application will be denied. If a charity already registered is operating an unrelated business, it is in breach of the law and could have its registration revoked (CRA, 2003, D45).

The uniqueness of the Canadian approach lies in the concept of not-for-profit incorporation, which creates an incorporated non-profit entity, arguably the most restricted form of all when it comes to operational revenue sources. Canadian non-profits generate operating revenue primarily through service and transfer payment agreements with government, corporate sponsorships, non-tax-deductible donations – and fee-for-service on a cost-recovery basis only.

While UK and US non-profits have the option of declaring profits from the sale of goods and services that fall outside of the guidelines, Canadian non-profits lose tax-exempt status if they conduct any activity that generates a profit. Non-profits that operate as a social enterprise (with profit-generating business units) forego tax-exemptions, essentially operating as a corporation without share capital.

4.13 Financing Growth

Growth financing is the application of cash that is not used to run daily operations into the future needs of the corporation. One source of growth financing shared by all forms is the application of profit. In the unique case of Canadian non-profit organizations, it is stated as excess revenue.

Equity financing, the sale of ownership interest to raise funds, is a standard growth instrument for for-profit companies. The scale and scope of equity financing vary widely, from micro investments made by friends and family to public offerings. A successful start-up will usually go through several investment rounds with variation in the equity offerings.

In all three countries, for-benefit companies are corporations with share capital. The ability to issue shares is arguably the most critical feature offered as it provides a way to finance the growth of social ventures in a market economy. Compromising ownership in the for-profit corporation can undermine the founder's social intent. For-benefit articles of incorporation set out the social mission and legislation regulates duty to both shareholders and stakeholders.

The social impact bond was introduced in the UK in 2011 and has been adopted in several countries including the US. The model is emerging in Canada. The Deloitte/MaRS whitepaper Social Impact Bonds in Canada: Investor Insights describes the social impact bond as:

> … on a pay-for-performance contract in which the government agrees to pay for improved social outcomes. A partnership between investors, service delivery organizations, government and, potentially, an intermediary is established to tackle a specific social issue. If the solution achieves the agreed-upon social outcomes, the government pays the investors against a pre-agreed scale (Ciufo & Jagelewski, 2014, p.g. 12).

Charities rely on donations, including endowments, stocks and bonds, property, and cash to expand services. Management of a sophisticated fundraising strategy and the related operational costs are primarily the domain of large, well-established charities. It is often the case that small and medium-sized charities lack the infrastructure to leverage philanthropy in a way that supports a growth plan.

Registered charities and non-profits with the means to organize and manage investments can issue annuities and bonds; however, this is a complicated area of finance, which limits its usefulness to most charities and non-profits.

Debt financing is an option for charities and non-profits, primarily used to finance capital investments such as the purchase of equipment or a building needed to deliver programs. Debt financing comes primarily in the form of commercial loans, although this requires that the corporation has assets that can be borrowed against. Private loans, through social impact investors, are another option. There are some limitations and restrictions in all three countries on debt financing for charities, primarily directed toward private charitable foundations.

Government granting initiatives to finance capital expenses for non-profits and charities are available to a limited degree. Sponsorships, which confer benefits on the sponsor, are a way to finance growth. Naming opportunities – for example, a wing of a building, or room, or a program with public visibility, or an event that attracts an audience – are sponsorship vehicles leveraged by not-for-profits.

4.14. Corporate Income Tax

Corporate taxes are levied on all for-profit companies and filed with the designated tax authority. Corporate taxes are proportional to a corporation's receipts minus allowable deductions and vary from country to country.

The US average corporate tax rate from 1981 to 2020 (forecasted) is the highest corporate tax rate of all three countries. UK corporations, while having the most variance over time, pay the least tax, forecasted to remain lowest to 2020 (Figure 19).

In Canada, the general corporate rate of 38% is subject to a federal decrease of 10%; with allowable deductions and reductions, the net tax rate ranges from 11% for Canadian Controlled Private Corporations claiming the small business deduction, to 15% for other types of corporations (KPMG, 2017).

Money & Taxes

ONLY IN CANADA

- Canada has a general corporate tax rate, with specific deductions for small business and other considerations.
- Provincial and territorial taxes are administered by the CRA, with the exception of Quebec and Alberta.
- Securities are regulated at the provincial or territorial level.

Not-for-profit means no profit, ever.

Only Canadian tax law takes the punitive step of financial penalties, revoking status, and in the case of charities, dissolution.

Corporate Tax Rates

2016	26.5%
High (1981)	51%
Low (2012)	26%
Average	39%
2020	26.5%

Income from corporate tax is 9.8% of overall tax revenue, higher than the UK and US.

Averaged Canadian corporate tax is similar to the US.

Figure 18: Money and taxes in Canada

US corporate taxes follow a progressive rate schedule, ranging from 15% for small business to 38.9% for companies with income above $15M.

The UK general corporate rate of 20% applies to all companies in all sectors; however, some treatments and tax reliefs do exist, with no separate filings required for Scotland, Wales and Northern Ireland. Northern Ireland expects a reduced rate of corporate tax in 2018.

Canadian not-for-profits eligible to register as a charity under the ITA are tax-exempt. Most Canadian non-profits also qualify for tax exemptions, subject to the provisions of the ITA.

US non-profits register with the state and are eligible for federal tax-exempt status if they qualify under the 29 sections of Internal Revenue Code 501(c)29. A charity is a 501(c)(3) organization.

Similarly, UK charities do not pay tax on income and gains if used for charitable purposes.

In the UK, the non-profit concept includes community benefit societies and cooperative societies; limited companies (including CICs); limited liability partnerships, and development trusts and social firms. They file and pay taxes the same way that for-profits do; that is, annually with Companies House and HM Revenue and Customs (HMRC).

Although UK CICs are not tax exempt, some CICs benefit from the Community Investment Tax Relief, which gives tax benefits to investors who back businesses in less advantaged areas through community development finance institutions.

US Benefit Corporations, BC-C3s, and NS-CICs pay taxes like other for-profit corporations.

Corporate taxes are just one part of overall taxation. Government revenue is drawn from four other sources (Figures 20, 21, 22).

4.15 Tax Filing

In the US, corporations file at the federal, most state, and some local levels approximately four months after the fiscal year-end.

Canadian corporations submit taxes at the federal and provincial or territorial levels and file corporate tax returns (T2) with CRA within six months of the company's anniversary date or fiscal period. Provinces and territories legislate their corporate income tax provisions; however, provincial and territorial taxes are administered by the CRA, except for Quebec and Alberta.

Corporate Tax Rates: Recent, High, Low, 2020

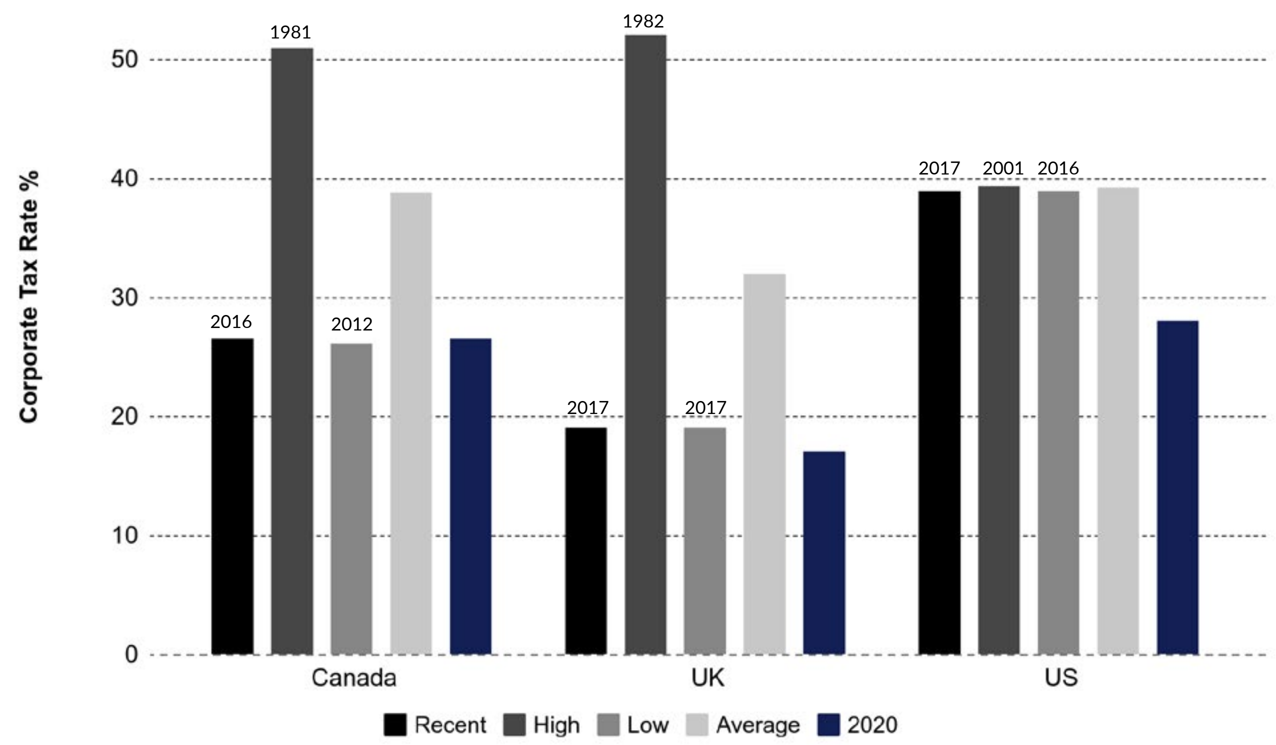


Figure 19: Corporate tax rates compared across three countries, data extracted on 06 Jul 2017 01:57 UTC (GMT) from OECD.Stat (OECD, 2017)

UK for-profits file accounts with Companies House and HMRC within one year of the accounting period and pay corporate taxes nine months after the accounting period. Although large UK companies have some additional reporting requirements, HMRC's Large Business Strategy is based on a customer service approach and supported by the Large Business Directorate.

Consistent with all corporations in the UK, for-benefit CICs file annually with Companies House and file a confirmation statement with the Office of the Regulator of CICs. US and Canadian for-benefit companies are also responsible for complying with for-profit tax rules. Since CRA administers provincial and territorial taxes (except for Quebec and Alberta), BC-C3s and NS-CICs file a corporate income tax return (form T2).

Canadian charities are required to file an annual information return (T3010) within six months of their fiscal period-end.

Most US 501(c) organizations file an annual information return with the IRS (Form 990). Revenue generating non-profits file an additional return (Form 990-T).

Charities file an information return with the Charity Commission. The return covers both finances and activities.

Charitable companies (companies limited by guarantee) are obliged to file two forms per year, charitable incorporated organizations file once per year and have the option of simplified reporting. For both types of charity, the profits utilized in the organization's purposes are not subject to tax.

In the UK, the concept of a non-profit is inclusive of community benefit societies and cooperative societies; limited companies (including CICs); limited liability partnerships, and development trusts and social firms. They pay taxes and file in the same way that for-profits do; that is, annually with Companies House and HMRC.

4.16 Sales and Property Tax

In all three countries, for-profit and for-benefit corporations are obliged to charge and pay sales tax and to pay property taxes.

In the US, sales tax is charged at the state level only. Charities receive a sales tax exemption based on the state in which they are incorporated and are exempt from paying property tax.

In general, UK charities receive no special value added tax (VAT) treatment on their business activities and VAT registration is required if their taxable turnover exceeds the statutory limit. Charities pay business tax rates on non-domestic buildings, but the rate is discounted if the property is used for charitable purposes.

Canadian charities pay GST/HST on purchases but can claim a partial rebate of GST/HST paid on eligible purchases. Charities and some non-profits do not have to charge GST/HST on supplies of goods and services. Both charities and non-profits may also qualify for a property tax rebate in some municipalities.

4.17 Tax Receipting

Charities can provide donors with tax exemptions based on the amount of the donation. Complex rules apply to any variation on straight cash donations.

In Canada, charities can choose whether they will issue official tax receipts; however, they must advise donors if a receipt will not be issued. It is common for charities to set a lower level for issuing charitable tax receipts. When issued, tax receipts must comply with CRA deadlines and requirements. If the donation receipt has incorrect or incomplete information, the charity is subject to financial penalties. If the information is false, there are financial penalties, and charitable status can be suspended or revoked.

Conversely, US charities are not required to record or report information to the IRS on behalf of a donor. The responsibility rests with the donor to obtain written acknowledgement from the charity. Donors must maintain written records in the form of a bank statement or written communication from the donee. In the case of higher donation amounts, the donor must have written communications from the donee. Charities typically send acknowledgements to donors by January 31 of the year following the donation; however, the donor is responsible for requesting and obtaining the written acknowledgement from the donee.

To get tax relief from donations to charities, UK donors must keep records to substantiate the amount of their contribution. The charity is not involved in receipting. Moreover, charities that register with Gift Aid receive a 25% top up on eligible donations validated with a Gift Aid declaration from the donor.

4.18 Disbursement Quota

Charities have a disbursement quota, which is the amount dictated by the tax authority, that must be spent each year on its programs – or in Canada and the US, distributed to a qualified donee. UK charities can only apply assets to carrying out their charitable purpose.

For-profits in all three countries, and also non-profits in Canada, do not have a spending requirement. In Canada and the UK, for-benefit companies do not have a spending

Sources of Tax Revenue as Percentage of Total Taxation

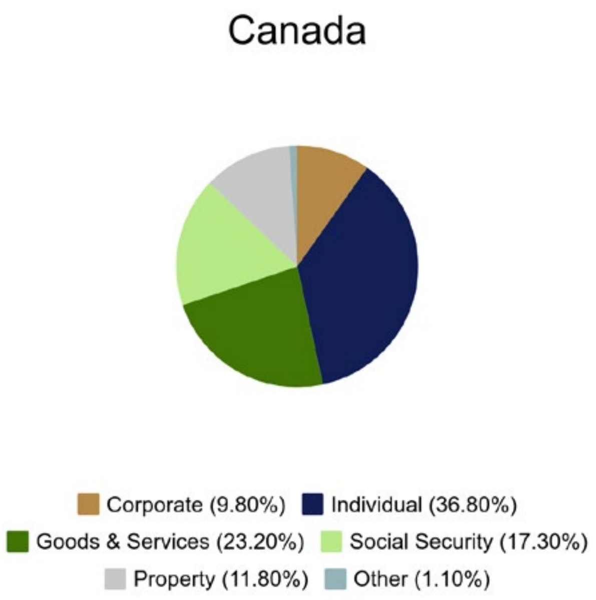


Figure 20: Canadian tax revenues sources and percentages

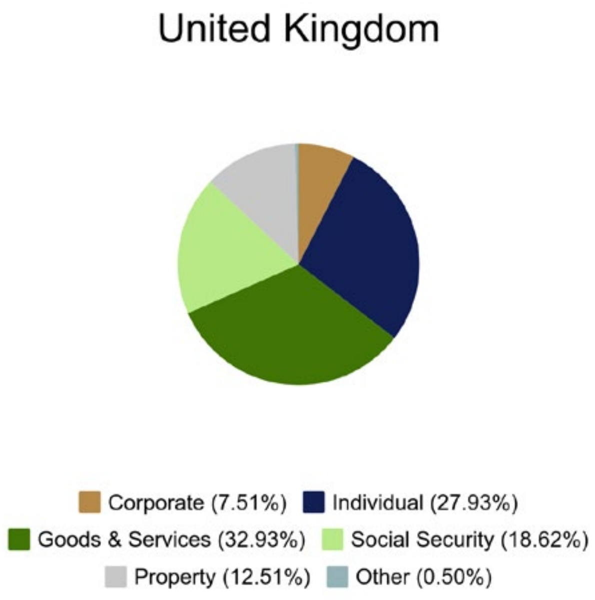


Figure 21: UK tax revenues sources and percentages

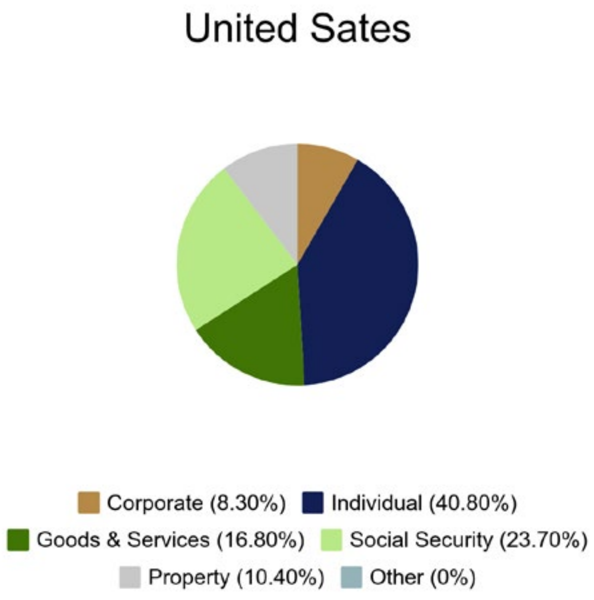


Figure 22: US tax revenues sources and percentages

requirement. In the US, for-benefit companies set out their spending requirement in their articles of incorporation, which can be changed by a two-thirds majority vote.

4.19 Conversion

In Canada, a non-profit can convert to a charity if approved by CRA. Once it has become a charity, its purposes must remain charitable; it cannot change back to being a non-profit.

In all three countries, for-profit corporations can convert to for-benefit companies. UK-CICs, BC-C3s, and NS-CICs are asset-locked, which means they cannot become for-profit entities. In the UK a CIC can become a charity, subject to the consent of the regulator.

The US Benefit Corporation is not asset-locked and can amend its articles of incorporation to remove the Benefit Corporation provision. The amendments must be adopted by the minimum status vote.

4.20 Dissolution

For-profit companies and US Benefit Corporations can sell or dispose of their assets in any way they see fit, so long as it is accordance with the Act under which they are governed.

Winding up is the process of paying off creditors and dividing assets amongst shareholders or members. In Canada, the final step is called "Surrender of Charter", in the UK it is "Striking off the Register", and in the US, it is governed by the State Corporate Dissolution Law.

The notion of an asset lock applies to charities in all three countries. The assets of a charity must be permanently dedicated to an exempt purpose; therefore, all remaining assets must be distributed to other qualified donees.

UK and Canadian for-benefit companies are also subject to an asset lock. In the UK, the Office of the Regulator of CICs oversees the asset lock; on dissolution, surplus assets must be transferred to another asset-locked body. The asset lock also applies to BC-C3s. On dissolution, 60% of the assets must be transferred to qualified entities.

In Canada, a non-soliciting non-profit corporation distributes its remaining assets to members, subject to the provisions of the Act under which it is governed. For example, if federally incorporated, it would be the CNCA.

SUMMARY OF REGULATORY FACTORS

Table 5 (Section 6.1) provides a comparison of ten regulatory factors across the spectrum of corporate forms, including the US Benefit Corporation, BC-C3, NS-CIC, and UK-CIC.

SUMMARY OF CANADIAN CORPORATE FEATURES

1. The federal government department that oversees incorporation is Innovation, Science and Economic Development.
2. It is possible to incorporate federally, provincially or territorially.
3. Incorporation protects the company name for use in Canada if federally incorporated, or in the province or territory of incorporation.
4. Canada has separate not-for-profit acts federally and in some provinces and territories.
5. The concept of a tax exempt non-profit entity that is ***not*** a charity is unique to Canada.
6. Public benefit is the determinant of charitable registration with CRA.
7. Charities must file an audited annual financial report.
8. Canada does not have a tax valve that allows non-profits and charities to pay taxes on business income.
9. Charities can be forced into dissolution if running a business considered to be unrelated or is not run by volunteers.
10. Public benefit company can be a charity or a non-profit that receives public funds.
11. Non-profit corporations go by eight different names, depending on the legislation.
12. There are two for-benefit types, both have different names: BC C3, NS CIC.
13. Existing Canadian for-benefit companies, BC-C3s and NS-CICs, are more similar to UK-CICs than they are to US Benefit Corporations
14. Canadian for-benefit companies have a community purpose and have to be beneficial to society.
15. For-benefit companies in BC file annual report on company website; in NS, with Registrar.
16. Canada has a general corporate tax rate, with specific deductions for small business and other considerations.
17. Provincial and territorial taxes are administered by the CRA, with the exception of Quebec and Alberta.
18. Corporate taxes are close to those in the US, and are forecast to be the same in 2020.
19. Corporate tax is 9.8% of overall tax revenue, higher than the UK and US.
20. Securities are regulated at the provincial or territorial level.
21. Non-soliciting non-profits distribute assets to members on dissolution.

ONLY IN CANADA

Figure 23: Summary of Canadian Corporate Features

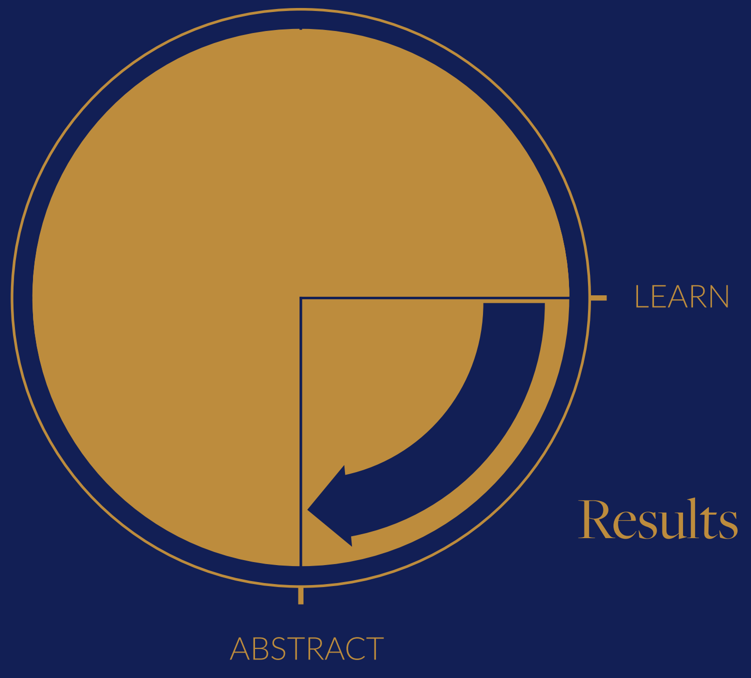


Figure 23: Results phase of design cycle

Results

PHASE 2

5. Canadian Context

The second part of the research question is “Why is a hybrid corporate structure needed to serve social innovation?” It builds on the achievements to date in the UK, US, and Canada and considers what problems the the new model is seeking to solve.

The Canadian Context brings together the literature review, the data collection on the for-benefit model, and the views of people who contributed through in-person interviews, online questionnaires, and the survey of social entrepreneurs.

Respondents, while mindful of the risks posed by getting the model wrong, were overwhelmingly positive about the for-benefit form and their comments illuminate how a for-benefit corporate model could meet Canada’s social enterprise aspirations.

From respondents’ comments, six themes emerged. The results of the research conducted for this project are set out in order from the most number of comments to the least (Figure 24).

PEOPLE are concerned about the FUTURE

The **business** of **social** responsibility needs a tune-up

Private investment could be part of the solution

Social value must be measured

SOCIAL ENTREPRENEURS DON'T HAVE THE STRUCTURE THEY NEED

not-for-profits need new OPTIONS

Figure 24: Themes emerging from results

5.1

PEOPLE are concerned about the FUTURE

Research for this paper included in-person interviews and online questionnaires, and a survey of social entrepreneurs. Many comments (28%) reflected respondents' concerns about meeting social needs in the future. Recognition of environmental degradation, the widening gap between rich and poor, and worldwide demographic shifts added gravity and urgency. Respondents often used the term "intractable problems."

Intractable problems and the concern for society's well-being, documented in social innovation writing and conventional media, is viewed as greater than anything government, philanthropy, and not-for-profit ingenuity can address in their present form. Respondents identify the for-benefit model as one part of a multi-faceted, somewhat experimental approach to solving social problems in the future.

Initiatives to introduce a new corporate model raise concerns about unintended consequences, failure to achieve objectives, and ultimately failure to deliver on social outcomes. Comments reflect a tendency toward a lean design approach: building, testing, and iterating as rapidly as possible to evolve an economic model that goes beyond the social constructs of benevolence, charity, and goodwill – and where taxation is not the answer.

> *It is impossible to tax people at a level that will pay for all that needs to be paid for. Existing policies need to be topped up to achieve objectives and push productivity. – Harvey Coleman, Investment Consultant*

There is significant support for a corporate governance model that could mobilize capitalism to further innovation in the pursuit of social outcomes; however, the model must align with what Canadians value. A defining example is the publicly funded health system. Health services, consistently in the cross-hairs of privatization, are shielded by principles of the Canada Health Act and Canadian Health Care Policy:

> The basic values of fairness and equity that are demonstrated by the willingness of Canadians to share resources and responsibility are displayed in Canada's health care system and have been reflected in the modifications and major reforms made to the system since its inception (Canada, Health Canada, 2012).

The government of Saskatchewan introduced province-wide, universal hospital care in 1947, and there have been many iterations since the original bold social innovation. The current boundaries are, however, inelastic, and a disruptive force is urgently needed to maintain a universal standard of care for all Canadians. The choices are public or private, and it is left to government to balance this binary system in a way that aligns with public opinion. Inevitably, there is fallout: people who cannot afford private care fall through the cracks of the public system. A third option – one that would re-frame the ways that social problems are solved, could emerge from a system that includes the for-benefit corporation.

Canada's health system did not come out of the box in its present form: it has grown and adjusted over time. The for-benefit corporate model could be the vehicle that would allow for private means applied to social needs in new ways. Like the health system, the for-benefit model will need to start with a catalytic event, and it will need to have the agility to pivot. Experts such as Alexander Osterwalder and Eric von Hippel have advanced the way we look at innovation practices, and the lean start-up is the development norm in contemporary business.

> ... agile development builds products in short, repeated cycles. A start-up produces a "minimum viable product"—containing only critical features — gathers feedback on it from customers, and then starts over with a revised minimum viable product. (Blank, 2013)

A corporation able to grow can scale impact, a fact that contributes to the case for bringing entrepreneurial principles and equity investment to bear on social innovation. For-profit tools such as Osterwalder's groundbreaking Business Model Canvas (Osterwalder, 2013) have been further developed by Antony Upward to address the social and ecological challenges ahead. Upward's Strongly Sustainable Business Model Canvas, derived from his 2013 thesis (Upward, 2013), has been further developed to become the Flourishing Business Canvas. The Flourishing Business Canvas is the ongoing work of sLab's Strongly Sustainable Business Model Group.

> The position of "strongly sustainable" and identifying the "possibility for flourishing" as a legitimate business goal signifies a holistic and perhaps radical turn for business (and society)." (Upward and Jones, 2015, pg. 117)

As evidenced by the survey, social entrepreneurs work across all forms. They are capable of blending business practices and social purpose with innovation principles as readily in a charity as in a publicly-held company. One respondent stated "the fewer barriers, the better," reflecting the fact that many of the experts who contributed to this work are known to cross corporate forms in their professional lives. The ideology of for-profit or not-for-profit is not in the social entrepreneur's play book: entrepreneurs seek flexibility in the corporate model they choose and will choose the model that best suits the goals and characteristics of the venture they are pursuing.

Entrepreneurs assess the corporate form they will take based on what will scale their work. Investment can be any mix of shareholders, philanthropy, public stakeholders represented by government, or members of a given community. Innovation breakthroughs are agnostic about corporate form, and although concepts of "co-opetition" collaboration and co-creation are increasingly common, the market is still fuelled mostly by a competitive mindset.

> *The challenge is [for-benefit companies] to be able to compete against its pure for-profit competitors. Hence it drives innovation – Rick Blickstead, President and CEO, Diabetes Canada, Adjunct Professor, UofT*

A successful advance toward for-benefit legislation is impossible without government engagement, and in Canada, this means coordinating efforts between ministries and departments at all three levels of government.

Standalone legislation projects, while expedient and responsive to advocates for social enterprise, have failed to connect with social entrepreneurs. Of the social entrepreneurs surveyed, 98% were unfamiliar or had not heard of either the BC-C3 or NS-CIC (Figure 31).

From a systems perspective the situation is alarming: Canada currently has one model with two names, on coasts that are over 6,000 kilometers apart. A national approach is needed to support social innovation. Federal government leadership, and coordination with any provincial and territorial for-benefit legislation is fundamental to success.

Respondents identified three systems considerations:

1. A broader group of stakeholders will need to be consulted and informed about the for-benefit model.
2. Resources are required to support social entrepreneurs and the professionals who work with them.
3. The types and sources of public money that might be accessed by new corporate models need consideration; for example, eligibility for loans and grants, and changes to government procurement policies.

Canada can look to the US Benefit Corporation roll-out for encouragement. The efforts of B Lab and lawyer Bill Clark (Drinker, Biddle, & Reath LLP) have led to over 50% of states enacting Benefit Corporation legislation since 2013. While provinces and territories in Canada offer incorporation, it also exists at the federal level in Canada, as it does in the UK, making a national effort possible should the federal government take the lead on for-benefit legislation.

One only need look to the Government of Canada's Innovation Agenda to see the opportunity. The Innovation Agenda represents the leadership of three ministers: The Honourable Navdeep Bains, Minister of Innovation, Science and Economic Development; The Honourable Kirsty Duncan, Minister of Science, and The Honourable Bardish Chagger, Minister of Small Business and Tourism. It is an impressive and compelling outcome of a commitment to consulting with people across Canada. It also reflects cross-jurisdictional coordination, evidenced by spring 2017 press releases that aligned the Innovation Agenda with provincial and territorial priorities (Canada, ISED, 2016). The message from Ministers calls for ways to bring together economic and social outcomes:

> But now, Canada stands at a defining moment. We need a comprehensive approach to create jobs and invest in the services that make our lives better—at the very moment that other countries are doing more and moving faster to spur innovation. Innovation for a Better Canada (Ibid).

Canada is in a position to distinguish itself with an innovative "made in Canada" approach to for-benefit legislation. The for-benefit model addresses the financial, social and environmental issues that rank as most important to Canadians (CBC News, 2015).

When asked, "What issue is most important to you in this election?" respondents to the 2015 Vote Compass national election poll said: economy (36%), environment (11.3%), and health (10.5%).

Canada's innovation infrastructure represented by the CBCA with amendments to include for-benefit corporations, the CNCA, and amendments to the ITA that include a taxation valve for non-profits and charities would be unique in the world. These advances would bring social enterprise into the economic framework, release innovation in service of meeting social needs and solving social problems – and push Canada to the forefront of the international social innovation narrative.

Canada's Innovation Agenda

Government of Canada's Innovation Agenda, 2017

PROVINCES AND TERRITORIES

Alberta: Alberta Competitiveness Act
British Columbia: #BCTECH Strategy and BC Jobs Strategy
Nova Scotia: Advancing Social Enterprise in Nova Scotia and Department of Business 2017-2018 Business Plan
Northwest Territories: Public Private Partnerships (P3) Management Framework and Public-Private Partnership Policy (15.02)
Nunavut Research Agenda and Nunavut Food Security Strategy Action Plan 2014-16
Manitoba Innovation Strategy 2014 and November 21, 2016, Speech from the Throne
Newfoundland and Labrador: The Way Forward, What We Heard and Invested in Innovation
Ontario: Seizing Global Opportunities: Ontario's Innovation Agenda
Prince Edward Island: Innovation PEI
New Brunswick: Five Pillars of Economic Development and Strategies for Innovation
Québec Innovations And Commercial Successes
Saskatchewan Plan for Growth 2020 and Innovation Saskatchewan Annual Report for 2016-2017
Yukon Innovation 2016 Roundtable

Figure 25:
Canada's innovation agenda

Private investment could be part of the solution

5.2

The for-benefit model introduces a new investment landscape that can leverage markets for the greater good. It is viewed as a possible catalyst for impact investors, especially since capital market participants are likely to be more familiar with the structure than they are with the not-for-profit form. Moreover, the for-benefit model allows a financial return on investment where non-profits don't, an essential criterion for investors, and has the potential to develop as a recognizable brand recognized by investors.

Offering an ownership interest to raise funds for business purposes is the way that companies scale at any stage, and for-benefit companies have access to equity financing, which means that social entrepreneurs can raise capital through the sale of shares. Equity's role in financing growth is important because it provides the latitude that entrepreneurs need to build their ideas. Although the for-benefit model itself is not a panacea to growing companies – it is unlikely to change the fact that entrepreneurs need to renew their finance strategy every time they experience success – it might well be a way to get dollars into ventures that contribute to the public good. The increased public awareness that would come from a Canada-wide campaign to advance legislation in support of social innovation would also align with the social finance movement and would be likely to mobilize a higher proportion of impact investment assets under management.

With the right system in place, the for-benefit model could result in new money directed toward meeting social needs. Ethical investors such as churches, pension funds, and impact investors such as credit unions and co-ops could confidently invest in for-benefit companies.

Socially-conscious individuals could choose to direct Registered Retirement Savings Plan and other investment funds toward businesses with double or triple bottom-lines returns.

Investment in social enterprises could increase if companies can more tangibly demonstrate the value they provide to their communities; however, it is unlikely to address the issue of investment in the start-up to $500K range, or social factors that influence investment decisions such as high-income networks, affluence, and homogeneity.

New methods are evolving: social investment vehicles such as the Centre for Social Innovation's (CSI) community bond encourage unlikely investors to participate in capital projects. CSI appealed to an untapped segment with community bonds. The low investment ceiling, hipster pitch, and CSI's unique and trusted social brand successfully raised the capital needed to purchase buildings in downtown Toronto. Other new investment vehicles such as social impact bonds, established in the UK, are gaining attention in Canada.

Other new investment vehicles such as social impact bonds, established in the UK, are gaining attention in Canada. An example is the Community Hypertension Prevention Initiative (CHPI).

> The CHPI is a joint effort between MaRS, the Heart and Stroke Foundation and the Public Health Agency of Canada. Eleven investors — a mix of charitable foundations, corporations and wealthy individuals — are providing the risk capital to pay for the four-year program. If the initiative succeeds in controlling participants' blood pressure, the government will pay back the investors with a premium equivalent to an annual rate of return of about 8 percent. If it doesn't hit its targets, the investors lose most of their stake. (Jagelewski, 2016)

Some respondents expressed concerns about the a risk of "creaming," that is, prioritizing programs that are sure-bets for investment because populations that are not easy to serve and issues that are hard to address can mean that outcomes are uncertain – and the potential to yield profits may be limited. The for-benefit model needs to be designed to open up the possibility for new types of collaboration so that partners can address the most difficult and complex problems. New partnerships would tackle social and environmental issues in new ways. For-benefit companies and not-for-profit organizations – and for-benefit and for-profit companies – are a promising extension of the public-private partnership model.

The issue of public money is a theme running throughout discussion of the for-benefit model. The fear is that for-benefit companies will reduce the funding available for not-for-profits; conversely, most respondents view the model as an opportunity to place taxpayer dollars into a system that generates social returns. One way to improve the re-investment of public funds is to identify the for-benefit company in the government supply chain and position it favourably in procurement policies and practices.

In the UK, public sector bodies, such as the National Health Service, have transitioned many programs into independent service providers (British Council, 2015), and the for-benefit model has shown to provide a values-based governance model for public sector bodies. As an example, consider the Final Report of the Mayor's Task Force on Toronto Community Housing (TCHC), which recommends transitioning TCHC from a single shareholder (the City) for-profit corporation to a new community-based non-profit housing corporation (Toronto, 2016). If a robust for-benefit model were available, it would ensure that private investment and public interests work together, and be an alternative governance option for public assets such as TCHC's real estate portfolio.

Unique to Canada is the federal government's commitment to a renewed, nation-to-nation relationship with Indigenous Peoples. Public-private partnerships between the government and Indigenous communities require that Indigenous communities have a controlling interest in the business. An example of the scope, complexity and importance of Indigenous-led projects is the Lower Mattagami Project:

> Construction of the $2.6 billion Lower Mattagami Project is complete and site restoration is underway. OPG's partner in the project is the Moose Cree First Nation. The First Nation has a 25 percent equity share in the new generating units (Ontario Power Generation, n.d.).

Many Indigenous-government partnerships, such as the Lower Mattagami Project, are large-scale, capital-intensive projects with environmental impacts. The for-benefit company is a governance model positioned to support multi-jurisdictional and cross-sectoral collaborations embracing the knowledge of Indigenous Peoples:

> *Doing business in Indigenous communities needs to benefit Indigenous communities. We need to change the business model to ensure sustainable development.*
> *– Bob Goulet, President & Senior Principal, Nbisling Consulting Inc.*

$3.2 b

ESTIMATED 2017 CANADIAN IMPACT INVESTMENT ASSETS UNDER MANAGEMENT (AUM) (MARS, 2014)

$547m

THE AVERAGE IMPACT INVESTING AUM OF GIIN 2017 RESPONDENTS (MUDALIAR, SCHIFF, BASS, & DITHRICH, 2017)

SOCIAL ENTREPRENEURS DON'T HAVE THE STRUCTURE THEY NEED

5.3

Establishing policy is a way to reduce barriers to entry and broaden the points of entry, making for-benefit legislation – that is, the opportunity to generate profits and social returns – an accessible model for all entrepreneurs.

> *The fewer barriers, the better. I would have chosen a for-benefit corporation for my current start-up if the option was available. I have even considered headquartering in the US just to be able to get established as a Benefit Corporation. – Michael Lewkowitz, Founder, Igniter*

Entrepreneurs know that the right product or service, the right market, and the right alignment with a cause will create a compelling call to action and that the value proposition of a for-benefit company aligns with socially and environmentally conscious consumers. Public awareness of the for-benefit model needs to outline the value proposition and be pervasive and persuasive. The result, however, could transform consumer behaviour.

> *Social innovation is centered on spreading culture, I can think of nothing more powerful than social belonging, and brand consumption driving cultural change. – Chris Chopik, CEO, EvolutionGreen*

In addition to aligning with the values of consumers, the for-benefit model could unleash new business ideas and attract a new wave of entrepreneurs who are absent today. Given the future of work in the 21st century, the for-benefit corporate model could provide new labour market options in the form of entrepreneurship, intrapreneurship, and the prospect of working for companies with a social purpose. Many entrepreneurs are dissatisfied with their venture type and feel it creates a barrier to success (Figure 26). This group views the need for a new model as a social imperative:

> *If we don't Ontario will fall behind. Dark Ages. Looking at things from a continuum perspective, entrepreneurs need to be able to pick and choose legal structure. – Petra Kassun-Mutch, Founder & President, Eve-Volution Inc.*

For-benefit companies appeal to a new generation of workers who want to work for ventures that contribute to positive social change, and millennial generation entrepreneurs who seek to meet social needs in addition to earning money. A new wave of the mid to late-career professional is also getting involved in social entrepreneurship, enabled by income security and motivated by a desire to make lifestyle changes or establish a legacy business. In 2016, Data Catalyst conducted a study of entrepreneurs :

> Entrepreneurs in the sample are mature. 51% of surveyed individuals were 40+, while just 21% were under 30.* This means that not all entrepreneurs are young millennials. Many have obtained multiple academic degrees and have had a significant amount of work experience before creating their own businesses (MaRS Data Catalyst. 2016).

The steps to incorporating as a for-profit business are relatively straightforward and the costs are minimal. There are few restrictions on trade, and investors can be pursued to provide the capital needed for growth.

The not-for-profit model; however, is a more significant challenge for entrepreneurs lacking personal means, especially if primary revenue is expected to be government grants and contributions. Government funding is highly competitive, applications are difficult and time-consuming to complete, and capital is often needed to cover expenditures.

> *Entrepreneurs have a fear of picking the wrong thing: if NPO then grants, but they are hamstrung; if for-profit, they can't apply. When young people are going NPO they are faced with grant apps right from the beginning. Small amounts of funding are "kind but useless" – Nogah Kornberg, Associate Director, I-Think, Rotman School of Management, University of Toronto, OISE*

Government legislation, policies and procedures can lower barriers and costs. Legislation would make for-benefit incorporation a viable option for entrepreneurs, including low and mid-income Canadians.

> *We have found the key benefits to be: easy to register; gives confidence to customers and stakeholders; allows the founders and entrepreneurs to do what they would like in terms of mission. – Nick Temple, Deputy CEO, Social Enterprise UK*

The form and function of a for-benefit company work together to engender social entrepreneurship, but can also be a way to reduce barriers to employment and improve employment outcomes. One common type of social enterprise employs people who face marginalization or at-risk for harm. An example is Turnaround Couriers; a for-profit social enterprise started in 2002:

> *This business generates social benefits for at-risk youth in the form of paid work and revenue for the business, which allows it to operate. It's a simple model that has allowed numerous at-risk youth to gain experience and responsibility, and move onto better jobs afterward. – Stephen Davies, Managing Director, Transformation by Design*

A social purpose business like Turnaround Couriers requires attention to governance, a concern that carries through to the for-benefit model. In the for-benefit model, directors and shareholders need to pay attention to social outcomes as well as financial returns. This new aspect of governance is a consideration that will require companies to pay attention to director and board member selection criteria and governance training.

> *How does the Board of such an organization make decisions? What happens when financial success and social success are at odds? You need a Board that has varied and multiple skills and experience – in finance, in the social venture issue that's being addressed – and working together to bridge those skill sets. – Violetta Ilkiw, CEO & Consultant, Nature of Change*

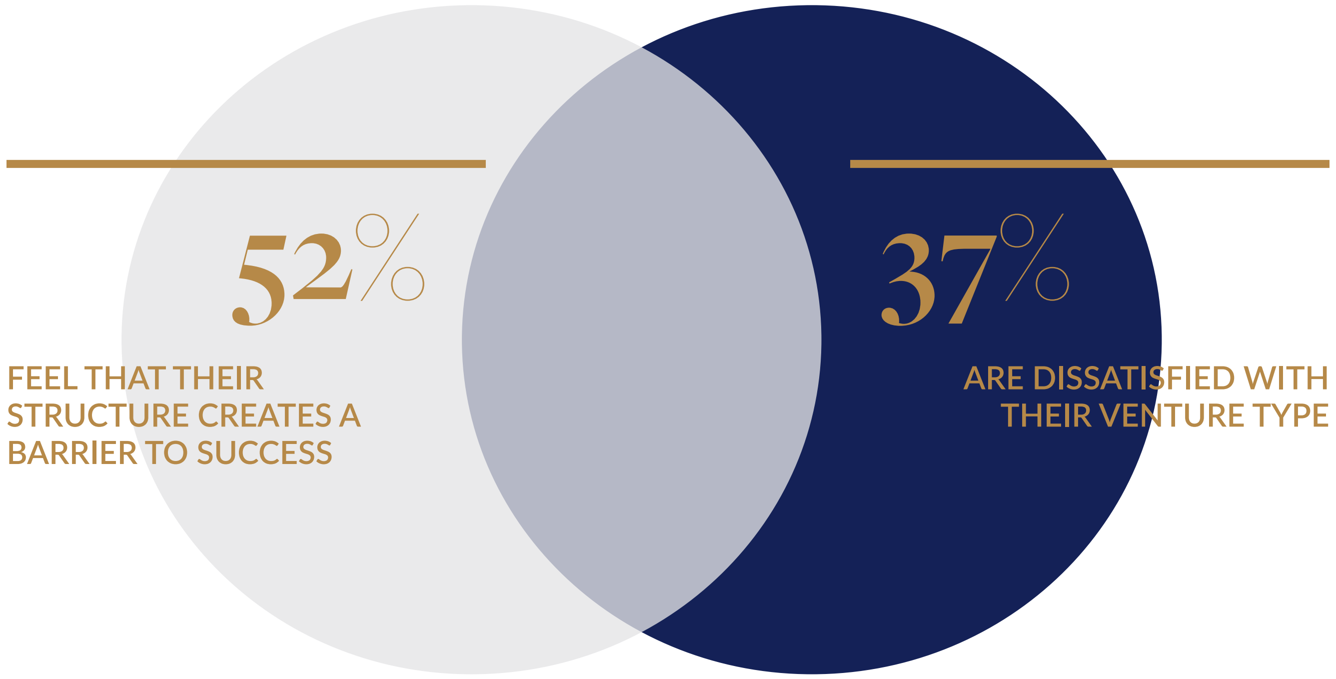


Figure 26: Survey of Social Entrepreneurs, satisfaction with venture type and structure as barrier to success

The **business** of **social** responsibility needs a tune-up

5.4

The moral obligations of for-profit companies, expressed as corporate social responsibility (CSR), has become a heavily studied practice since its introduction 60 years ago (Levitt, HBR 1958). Shifting the for-profit company mindset, however, has been a process of relentless incrementalism.

When Peter Drucker wrote the Harvard Business Review article, What Businesses Can Learn From Nonprofits in 1989, he broke new ground: "the concept was so counter-intuitive that many readers thought the magazine had made a huge typo; surely, it had gotten things backwards." (Drucker Institute, n.d.)

In their 2006 article Strategy and Society, Michael Porter and Mark Kramer advanced CSR to a strategic and organizational imperative:

> Perceiving social responsibility as building shared value rather than as damage control or as a PR campaign will require dramatically different thinking in business. We are convinced, however, that CSR will become increasingly important to competitive success. (Porter & Kramer 2006).

Ten years later, the evolution of the for-benefit company offers a means by which to embed moral purpose in the corporate form. Social entrepreneurs view this as a critical sustainability factor, and increasingly it is recognized as influencing investors. In their study, "Perceptions of Corporate Social Responsibility on the Capital Market," Hyunjung Choi and Doocheol Moon analyze earnings quality as perceived by capital market participants:

> When all else is equal, if capital market participants perceive the signal of engagement in CSR activity as improving earnings quality, then they view reported financial statements as more reliable (Choi & Moon, 2016).

Capital market participants who perceive CSR as a signal of improved earnings quality are likely to be interested in for-benefit companies because they address the flaws of CSR. While CSR facilitates a broader view of business and illuminates risks and opportunities not visible on the balance sheet, it can remain at the periphery of company decision-making. It risks being reduced or eliminated when companies need to maximize profits.

For-benefit companies mitigate this risk by embedding social and environmental priorities in governance and operating in an environment of mission alignment and mission-driven purpose. The expectations and accountability of shareholders to the mission are *bona fide* and set out explicitly in corporate documents, reducing the risk of shareholder-stakeholder misalignment and mission drift.

Social responsibility requires collective impact, which can be at odds with a market-share mindset. Intellectual property, trade secrets, and profits are not concepts that easily co-exist with collective efforts to address social or environmental challenges. Driving collective effort, however, can be grounded in the need to maintain the vitality of supply chains and leverage the benefits of scope and scale –fundamental to business and innovation.

It is likely that a mission-driven regulated system committed to social responsibility would increase corporate costs, which in turn would drive up prices. The idea that people would be willing to pay for more and get less is far-fetched in today's market and requires a complete transformation of the consumer mindset. In many markets, lowest price leads, making it difficult to compete as a for-benefit company regardless of the amount of social impact generated or the need for social benefit.

If for-benefit companies are niche rather than the norm, and for-profit corporations pursue unsustainable practices in the service of cheap consumer goods, the effort to establish a model for the consumer could fail. The introduction of a for-benefit model must be positioned for success: changing the nature of commerce is a very big job.

For the change to occur, traditional for-profit companies will need to move to a place of greater social and environmental responsibility at the same time as for-benefit companies gain recognition as a recognizable and trusted standard for sustainability.

> *Rather than moving existing C-corps*[1] *to a place of greater social and environmental responsibility, they could be "off the hook" as we focus our attention on those who incorporate under a new model. – Eli Malinsky, Associate Director, Aspen Institute Business and Society Program*

The notion of sidestepping responsibility is a thread that runs throughout discussions about for-profit and not-for-profit models, and the role of government, and hence taxes, in upholding values and the public interest.

> *The first concern is the absenting of governments from funding organizations and programs that deliver on "the public good" and second, the risk of creating a hierarchy of social needs. – Debbie Douglas, Executive Director, Ontario Council of Agencies Serving Immigrants*

The question of who holds responsibility for solving social problems and how they meet social needs differs between groups based on their demographics, ideology, and system of beliefs. In Canada, a broad swath of interests exists simultaneously and shifts over time. What taxes pay for – and what is a selective purchase of goods or services – represents the distribution of responsibility across society. It reflects shared human values and society's collective purpose at a given point in time.

> *We need to care for the environment, and we need to raise women's voices. Indigenous people are part of a society that embraces equity and equality. – Deborah Richardson, Deputy Minister, Ontario Ministry of Indigenous Relations and Reconciliation*

Canadians will benefit from getting the for-benefit model right, but it will take work and commitment. Finding a way for private capital and public interests to work together crosses industries, cultures, and geography. As an economic model, the for-benefit corporation is positioned to play a significant role in addressing the issues that Canadians care about – the environment and the economy (CBC News, 2015).

1 A C Corp is a US term for a corporation that is taxed separately from its owner.

Social value must be measured

5.5

There's little doubt that the for-benefit model would legitimize the structure for double and triple bottom line businesses and increase the profile of all entities that operate social enterprises. Conceptually, instituting a model would lead to standardized practices for reporting on measurable, evidence-based outcomes. By raising and broadening the way businesses and society view environmental, social, and economic relationships, new sets of interlocking value propositions will spread the benefits more broadly than our current configurations.

Formalizing the frameworks for social impact measurement would be extremely valuable to social enterprises and social innovation in Canada. The for-benefit corporation's integration into the standards of practice for professionals will cross several fields, including legal, accounting, management consulting, and marketing, and extend to industry and trade associations. Fundraisers, estate planners and others who have traditionally operated in the charitable realm will cross over to for-benefit companies.

There are several tools available for businesses to evaluate their performance and measure their social and environmental impact. The most common are: Impact Reporting and Investment Standards (IRIS); the Global Impact Investing Rating Systems (GIIRS), and Social Return on Investment (SROI). Although each of these is useful, no single method meets the needs of all ventures and stakeholders.

> *It's tough to measure. As an education company, we can't effectively use the B Corp or IRIS standards to gauge our impact. We need to tell stories: qualitative measures are still more effective for us. – Joseph Wilson, Director, Spongelab Interactive*

The evolving system for social and environmental impact reporting has the potential to establish consistent terms and further our understanding of how concepts play out in different contexts such as corporate form, industry, region, and country.

New systems for measurement are evolving. In Usability and Accessibility of Impact Assessment, Komal Faiz recommends: "As a starting point the analysts and intermediaries need to come together to discuss their lead role in improving the system of impact assessment" (Faiz, 2016).

On the corporate side, the Future-Fit Benchmark is a free tool that identifies the "extra-financial break-even point for business, expressed as a unified set of social and environmental goals" (Future-Fit, 2017).

B Lab sets the gold standard for Benefit Corporation reporting in the US, and increasingly in the UK and Canada. The B Impact Assessment is a robust, interactive, online assessment tool that measures social and environmental impact and provides a comparison with thousands of other businesses. Any company can use the assessment, but it fits hand-in-glove with B Certification by B Lab.

Globally, ISO 26000:2010 aims to clarify social responsibility and share best practices (ISO, 2010). Unlike most ISO standards ISO 26000:2010 is not currently a certification, but it provides standards that align with the Organization for Economic Co-operation and Development guidelines for multinational enterprises and the UN Agenda 2030 (United Nations, 2016). ISO 26000:2010 aims to clarify social responsibility and share best practices, and is directed toward all types of organizations regardless of their size or location. ISO 26000 has been adopted by more than 80 countries and is available in 30 languages.

The technology and standards for a shared data platform are a vitally important aspect of measuring, connecting and comparing impact. An interconnected, interoperable system that captures high-value data based on common standards is needed to measure social and environmental returns. Using financial reporting as an analogy, this is comparable to the relationship between Generally Accepted Accounting Principles, the US Securities and Exchange Commission, the New York Stock Exchange, the TSX, NASDAQ Canada, and others.

An ethical framework that allows enterprises to communicate transparently about their value chain depends on a system bringing together form and function on a platform of shared values, standards for interpreting the data, and a mechanism for connecting investors and ventures. An international system will establish interoperable reporting frameworks – and by sharing both data and stories about ourselves, we might also share values and dreams for our collective future.

The for-benefit model itself requires an evaluation framework. In the UK, the Office of the Regulator of Community Interest Companies produces an annual report, which mainly reports on statistics and provides case studies of CICs. A Canadian model could embrace a more robust evaluation framework; firstly, by applying social and environmental measurement principles to the regulatory body or secretariat, and secondly by expanding its evaluation framework to include methods employed by organizations that focus on a deep understanding of their constituency.

One example is journey mapping, used by UX designers to gain insights into the customer or user experience. Another is learning impact evaluation, used by designers to assess and fine-tune new approaches.

> *It would be useful to launch the for-benefit model with a learning impact evaluative frame attached – to understand how it is operating differently and the benefits and real risks – and to gather the information at regular increments - after launch, 2-3 years, 5-7 years, ten years, and so on. – Violetta Ilkiw, CEO & Consultant, Nature of Change*

Benefit Corporations in the US are typically legislated to have a benefit director in the management team who oversees the company's social and environmental impact. US Model Benefit Corporation Legislation requires that the Board of Directors receives an annual benefit report. Best practice is that the annual benefit report is assessed against a third-party standard, and made publicly available.

SustainAbility, founded by activists John Elkington and Julia Hailes in 1987, launched a multi-phase research program to examine sustainability ratings and improve quality and transparency (Sadowski, 2011). The series of Rate the Raters publications provide insights into the system of ratings in the US and are a valuable resource for benefit directors, who represent an emerging profession that could eclipse the CSR director.

Using for-benefit reporting purely as a marketing vehicle could create consumer apathy about CSR. Corporate values and social benefits are all too often set out in a vaguely worded offer and overused tropes. Starbucks' holiday campaign features the hashtag #givegood and encourages customers to embrace the spirit of giving:

> Good is in the air
> We know the holidays mean something different to everyone. And we want to celebrate all the unique things that matter to each and every person who walks through our doors.
> This year, the cup is just the beginning. How you make it special is up to you.
> (Starbucks, 2017)

Four billion Starbucks paper cups end up in landfills every year (Stand, 2017), so when (non-recyclable) coffee cup sales are an acceptable measure for #givegood, a global system to measure social and environmental impact can feel a long way off. Corporations could opt out of a for-benefit model because of the difficulty of measuring and reporting results – and the risk of exposure for underachieving on social impact.

In a worst-case scenario, informed consumers, over-regulation and onerous reporting could lead to a marketing shift away from social responsibility – and the sizzle that's been kept aflame by well-padded corporate budgets could well flame out. The heft of the for-benefit corporation and standardized impact investment measures are needed to counter the capriciousness of marketing trends and the demands of profit-first shareholders.

A Canadian model could embrace a more robust evaluation framework; firstly, by applying social and environmental measurement principles to the regulatory body or secretariat, and secondly by expanding its evaluation framework to include methods employed by organizations that focus on a deep understanding of their constituency.

not-for-profits need new OPTIONS

5.6

Canada's charitable and nonprofit sector is the 2nd largest in the world. There are an estimated 170,000 nonprofits and charities in Canada.
(Imagine Canada, n.d.)

Even people who provide services to, or work for, not-for-profit organizations, are unclear about the differences between non-profits and charities, and what it means to be one or the other of these. This confusion is compounded by the fact that the related provincial and territorial Acts name them differently (Figure 16), making it difficult to frame a national perspective.

Furthermore, the introduction of social enterprise and the concept of enterprising non-profits has affected every aspect of not-for-profit operations, and the cross-pollination of ideas between the UK, US, and Canada, while exciting and critical, has further muddled not-for-profit concepts.

When interviewing people with a not-for-profit orientation, there's a tangible sense of anxiety about the introduction of a for-benefit model. Respondents expressed concerns that the for-benefit model could disenfranchise not-for-profits, and that an economically-driven model could erode government social spending.

> *Non-profits are feeling threatened. They view the marketplace for good as competitive. It is disruptive to create space for change. There's also a perception that a self-operating business model "lets the government off the hook." – Tim Draimin, Executive Director, Social Innovation Generation*

First, it is essential to consider how charities and non-profit programs fund their activities. A primary source of funding is Transfer Payment (TP) agreements, which usually take the form of a contribution or a grant, defined by the Treasury Board of Canada Secretariat, as:

> Contribution – a conditional transfer whereby specific terms and conditions must be met or carried out by a recipient before costs are reimbursed.
> Grant – an unconditional transfer payment where eligibility criteria and applications received in advance of payment sufficiently assure that the payment objectives will be met (TBCST, n.d.).

Not-for-profits access funds set aside for grants and contributions rather than government procurement budgets, which are used to obtain goods and services. TPs represent social spending, defined by the OECD as "classified as public when general government (that is central, state, and local governments, including social security funds) controls the relevant financial flows." Government social spending represents a sizable portion of the GDP: in 2016, social spending in Canada represented 19.3% of the GDP, averaging 7K USD/per capita 2012-2015 (OECD, Social Spending, 2017).

Since eligibility criteria for TPs usually require not-for-profit status, social entrepreneurs face a critical decision on how they will form their corporation. If they view government social spending as a core source of funding for their activities, they will opt for not-for-profit incorporation to meet the eligibility criteria. Survey respondents with small businesses conveyed mixed feelings about whether they would be in a better situation if they had incorporated as a not-for-profit.

> I think I would be further ahead if I had become a non-profit and been able to get grants to build the business.
>
> I feel that not-for-profit status would open up other possible funding avenues for my project.
>
> It's challenging to find and receive funding for individuals or small groups that are not registered as a non-profit or charity.
>
> – Comments, Social Entrepreneurs' Survey

Secondly, there's a perception that not-for-profit organizations can secure grants and donations more easily than for-profit companies can access financing. The reality however, is that there is a significant barrier to running a fundraising campaign or applying for government TP projects.

For a non-profit, obtaining charitable status is viewed as helpful on two levels; one is that it is possible to tax-receipt for donations, and the other is that a charity can operate a related business, so it can be the case that a charity actually issues very few tax receipts. Consider this scenario:

> A charity that operates a related business earns $50K from fees, receives $1M in pro-bono services and in-kind contributions, and secures $50K per year in other funding including government TPs – and receipts $3.5K in charitable donations.

The revenue from donations would be unlikely to cover the additional costs of running a donor campaign and operating as a charity. The option of operating as a non-profit social enterprise (which requires changes to the ITA) or a for-benefit company (which requires changes to the CBCA) would be alternatives allowing the venture to operate more effectively.

In Canada, 1% of not-for-profit organizations command 60% of all revenues, and competition between not-for-profits is the reality. Identifying opportunities, preparing applications and project plans, and possibly capitalising the carrying costs require infrastructure. But social innovation needs a broad base, and start-ups and small enterprises need to work together to diversify the base and to change the mindset of for-profit versus not-for-profit.

To re-frame to the research question, one might ask "What role does the not-for-profit model play in meeting social needs and solving social problems?" Two unique features of the Canadian not-for-profit model are: that there is separate not-for-profit legislation, and there is a distinct non-profit form. The legislation supports a bona fide segment of Canadian society dedicated to public benefit, and not-for-profits are an influential force, committed to public benefit.

> *Public assets need to remain in public hands. – Lynn Eakin, Policy Advisor, Ontario Nonprofit Network*

The collective knowledge represented by Canada's 170,000+ not-for-profit organizations is a phenomenal public asset that needs a mechanism for social enterprise; however, CRA must address the restrictions on charitable purposes and punitive nature of Canadian tax laws on not-for-profits (MaRS, 2014). In doing so, the not-for-profit model will increase its potential to meet social needs, the for-benefit model will be situated optimally on the Canadian corporate spectrum, and there will be new options for solving social problems.

ONLY IN CANADA

The Three Country Study revealed four significant differences between not-for-profits in the UK, US, and Canada.

1. **Canada has a separate not-for-profit acts federally and in some provinces and territories.**
2. **There is a tax-exempt, non-profit corporation that is not a charity.**
3. **The allowable purposes for charitable status are restricted.**
4. **There is no mechanism allowing charities and non-profits to operate profit-making programs that fall outside the regulations and pay taxes on the income.**

Figure 27: Differences between not-for-profits in the UK, US, and Canada

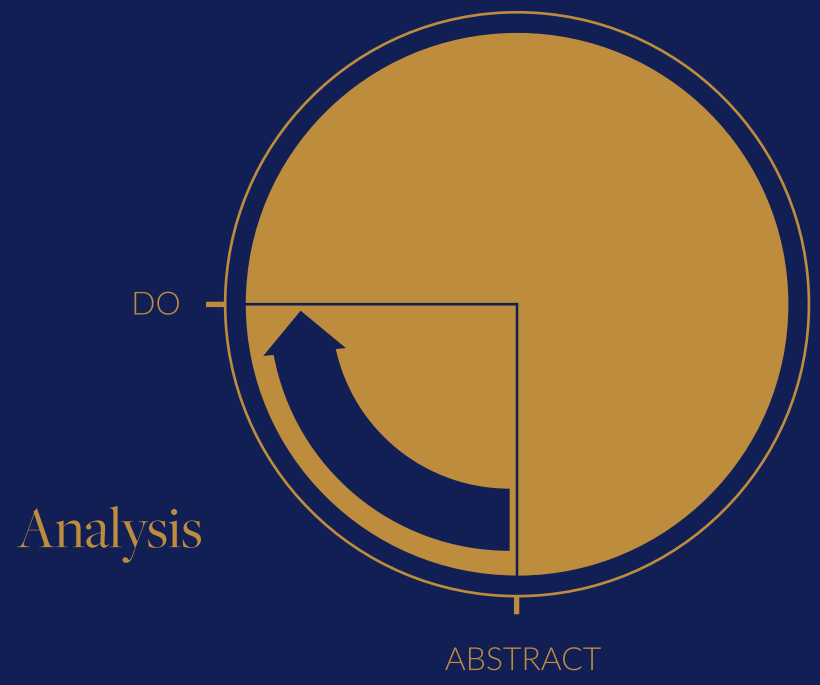


Figure 28: Analysis phase of design cycle

Analysis

PHASE 3

6. Identifying Barriers

The third part of the research question is “How can barriers be overcome?” Research results revealed barriers to moving forward with a for-benefit model in Canada and framed two problems associated with those barriers.

The first problem is that people don’t have a clear understanding of concepts related to corporations. The corporate system is not something most people think about; however, a working knowledge is needed to engage in discussion.

Unfortunately, this has limited the scope of consultation. Input from entrepreneurs and business professionals, who are a core user group, is lacking. Tax laws imposed on not-for-profits are not well understood and are so out of sync with concepts of social enterprise that they engender disbelief. When it comes to the notion of public benefit and public money, the public is cautious about governance and accountability.

Another problem is that the for-benefit model needs a compelling business case. Although this research detected a high level of support from respondents, the for-benefit model has had limited uptake across the three countries studied.

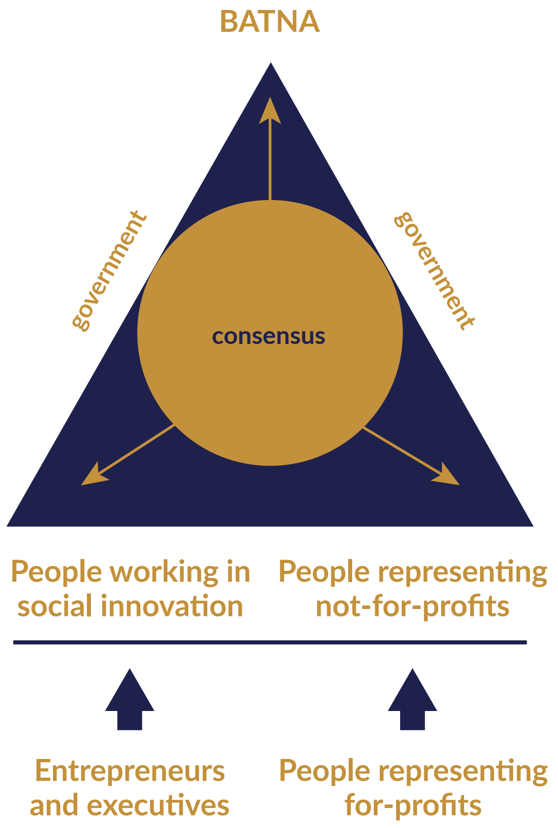


Figure 29: The dialectic

The current dialectic is a good starting place as a building block, not as a means to achieving an optimal design outcome. The interlocutor is motivated to gain information.

BATNA: Best Alternative To a Negotiated Agreement (Fisher, Patton and Ury, 2013).

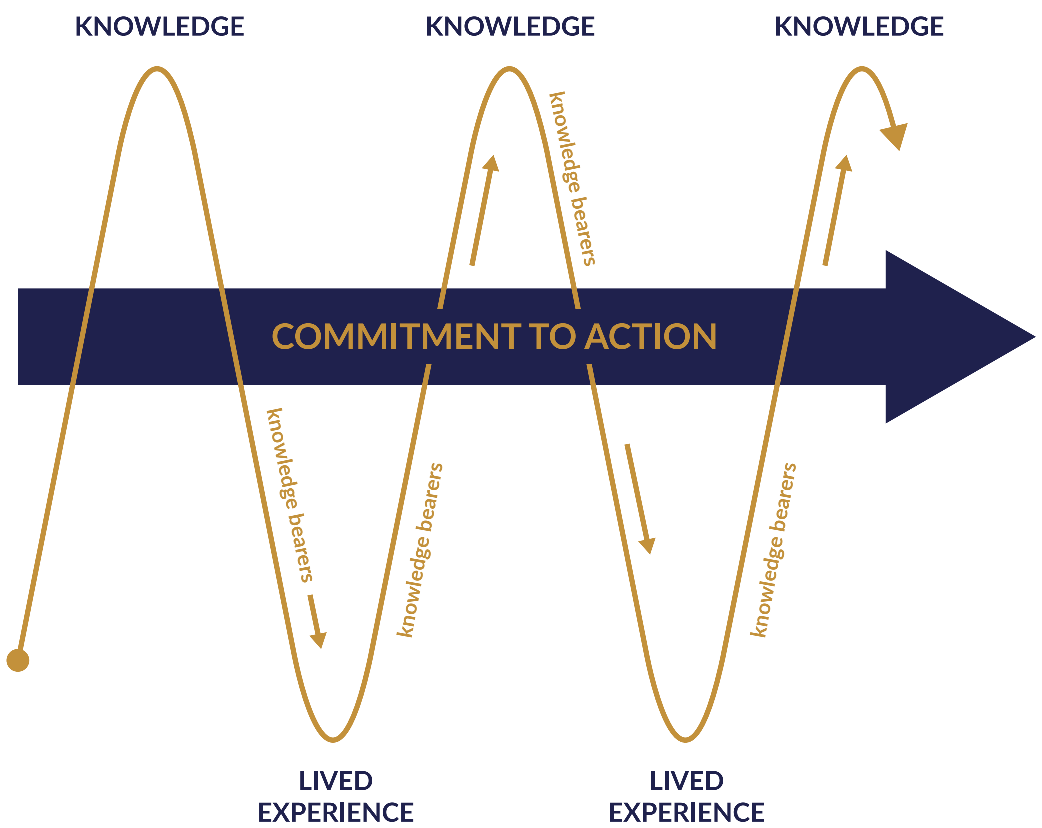


Figure 30: The dialogic

The dialogic establishes a commitment to action and creates cycles that transform lived experience into new knowledge. The interlocutors are knowledge bearers.

Problem 1: Concepts related to corporations are unclear for most people

6.1

The first problem is that concepts related to Canadian corporate forms, much less those of the UK and US, are not common knowledge. Discussion about the for-benefit model is limited in scope because laypeople perceive it as the domain of experts, and cannot, or do not care to, participate in the discourse about the for-benefit model in Canada. Admittedly, even in expert circles, there are knowledge gaps that create barriers and hamper progress.

Balancing social and financial returns requires a commitment to action and a mechanism for the ongoing process of creating new knowledge based on lived experience. What has occurred in Canada; however, is a dialectic about social enterprise between people representing the interests of not-for-profit organizations and people working in social innovation. As noted at the beginning of Chapter 4, there are two questions that dominate the discussion regarding the for-benefit model in Canada:

1. Is there a need for a for-benefit corporation in Canada? (yes/no)
2. Which model would work best in Canada? (US versus UK)

The binary nature of these questions and the dialectical nature of the debate (Figure 29) makes it challenging to build collective knowledge and make a commitment to action. The dialectic model is a useful way to examine two aspects of an issue with the goal of synthesizing ideas; however, as a method for systems design, it is incomplete.

A broad dialectic inquiry would make way for a third option – a Canadian federal model. To begin, a greater scope of participants is required to gather knowledge; however, without multiple dialectics between multiple informants, only a limited synthesis is possible. Bringing the synthesis of ideas together in an ongoing dialogic, led by a commitment to action, could move all the actors into a productive, forward-moving process of creating new knowledge and reframing the discussion.

By moving toward action and viewing the interlocutors as "knowledge bearers", (Figure 30) the methodology could open the process up to different types of interlocutors, creating a more inclusive process and reflecting a greater diversity of thought. It would mitigate the hierarchical nature of the discussion, an issue that occurs when government oversees the research process, and management experts facilitate it.

Research to date reflects little in the way of input from entrepreneurs and for-profit business professionals. The "users" of the system are relatively silent. A broader set of informants can efficiently engage in the design of the for-benefit model by establishing a shared point of reference. In this paper, these factors proved to be a critical starting place for expert interviews:

- Clarity regarding the differences between for-benefit models in the UK, US, and Canada (Figure 31)
- Shared terminology when referring to the basic models of corporate governance
- A common understanding of the current corporate forms in Canada

Interviewees and respondents to the questionnaire consistently raised questions about accountability. In the context of for-benefit companies, this means that governance practices and an appropriate level of regulation must be in place. Table 5 represents a simplified discussion aid that covers ten regulatory factors.

As one would expect, soliciting charities are a heavily regulated form; however, what is surprising is that a distributing UK-CIC or NS-CIC have the same number of regulations, although they are different (Table 5).

The US benefit corporation is an open model with strict reporting standards, and the UK CIC is a locked model with minimal reporting requirements. The US Benefit Corporation is not asset-locked, has no set dividend cap, and is capable of conversion to a for-profit company with a majority vote. The role of a benefit director and an annual report assessed by a third-party standard are mandated. In the UK, the CIC is asset locked, has a dividend cap, and no conversion options; however, there is no mandated benefit director or third-party standard for reporting.

In Canada, the two provinces with legislation that include a for-benefit corporation have mostly replicated the UK model. The BC-C3 follows the UK-CIC, except there is no registrar. The NS-CIC follows the UK-CIC model, including a registrar. The topic of existing Canadian for-benefit models needs rigorous examination.

The most troubling outcome of the research is that the BC-C3 and the NS-CIC may represent a flawed design methodology, and with provincial legislation in place in two provinces, there's a strong possibility that the path has been laid down. Two "feelings" were present in the nuances of interviews and comments to the questionnaire and survey.

The CIC feels like the right vehicle
Canada's constitutional history and alignment with the UK on significant issues such as the universality of health care makes the UK system feel closer to Canadian values. At a time when the US health system is depicted to be moving further away from universality, it is more difficult to trust a US systems piece such as the For-benefit Corporate model.

Roll-out feels like a good mechanism
The solution of adapting to a model legislation is an easy fix, and the US Benefit Model Corporate Legislation has demonstrated its power to effect a state-by-state roll-out. The US implementation process also avoids issues connected to federalism, which date back to the 1880s (thecanadianencyclopedia.ca, n.d.).

Survey respondents familiarity with for-benefit corporate forms

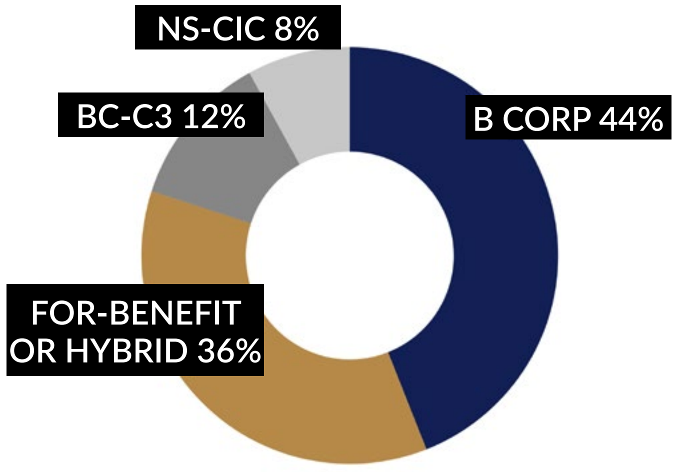


Figure 31: Familiarity with for-benefit corporate forms, from Survey of Social Entrepreneurs

The BC-C3 and NS-CIC models have been put in place to enable social enterprise in those provinces, and the result is a non-profit hybrid, much like the UK model. Restraints presented by the CRA at the federal level have possibly influenced the design of for-benefit legislation in BC and NS:

- The ITA provision that a non-profit can operate for "any other purpose except profit" (CRA, 2017)
- The CRA's 2009 interpretation that no individual activity of a non-profit can intentionally earn a profit (CRA, 2003)
- The punitive nature of the rules that limit the business activities of charities (CRA, 2003)

Both UK and US charities have provisions for paying taxes on income derived from non-exempt activities. Only Canadian tax law takes the punitive step of financial penalties, revoking status, and in the case of charities, dissolution. A taxation valve like that of the UK or US system would establish a mechanism that acknowledges:

- Earned income is a necessary part of the not-for-profit revenue model
- Social enterprise has established itself as a mainstream activity carried out by not-for-profits
- There is no pretense: a social enterprise is a profit-generating activity

If the rules governing not-for-profits were realigned to accomodate social enterprise, for-benefit design requirements could shift from compromise to systems transformation.

While the lexicon of social innovation is far from universal, people in the field apply terms uniformly, and the layperson can easily find consistent definitions (1.4). "Public benefit," "community benefit," and "benefit to society" are a more vexing matter. They are liberally used in all three countries in different ways, as both colloquialisms and in formal policy frameworks. When it comes to the for-benefit model, the US Benefit Corporation Model Legislation refers to a "general public benefit." The crossover of terms confounds the design process in Canada because "public benefit" is used exclusively to apply to the not-for-profit sector. Federally it is used to determine whether a non-profit qualifies for the tax privileges given to charities under the ITA. The ONCA uses the term to refer to a corporation that is charitable or receives "public" money. It is a potent term because it is the determinant of eligibility for much of the government grants and contributions funding.

Structuring discussion around four types of corporations proved to be useful. Throughout this paper, the terms used are "for-profit," "for-benefit," "non-profit," and "charity." Regardless of the person's level of knowledge, these terms can be easily established as a working vocabulary at the start of the discussion and help support the clarity and flow of conversation. The terms don't need to be prescriptive or exhasutive, but need to take a plain language approach in the service of productive dialogue. By being clear about what form we are discussing, we can begin to have a conversation.

> Intelligence is not to make no mistakes, but quickly to see how to make them good. – Bertold Brecht

Ten Regulatory Factors

Table 5: Regulatory factors

	DISTRIBUTING					NON-DISTRIBUTING					NON-SOLICITING		SOLICITING	
	for-profit	US-Benefit	UK-CIC	BC-C3	NS-CIC	for-profit	US-Benefit	UK-CIC	BC-C3	NS-CIC	non-profit	charity	non-profit	charity
Conversion	🔓	🔓	🔒	🔒	🔒	🔓	🔓	🔒	🔒	🔒	🔒	🔒	🔒	🔒
Asset Lock	🔓	🔓	🔒	🔒	🔒	🔓	🔓	🔒	🔒	🔒	🔓	🔓	🔒	🔒
Dividend Cap	🔓	🔓	🔒	🔒	🔒	🔓	🔓	🔒	🔒	🔒	🔒	🔒	🔒	🔒
Restriction on profit	🔓	🔓	🔓	🔓	🔓	🔓	🔓	🔓	🔓	🔓	🔒	🔓	🔒	🔓
Tax Exempt	🔓	🔓	🔓	🔓	🔓	🔓	🔓	🔓	🔓	🔓	🔒	🔒	🔒	🔒
Tax Filing	🔒	🔒	🔒	🔒	🔒	🔒	🔒	🔒	🔒	🔒	🔓	🔒	🔓	🔒
Audited F/S	🔒	🔒	🔒	🔒	🔒	🔓	🔓	🔓	🔓	🔓	🔓	🔒	🔒	🔒
Activity Report	🔒	🔒	🔒	🔒	🔒	🔓	🔒	🔒	🔒	🔒	🔓	🔓	🔓	🔓
Regulator	🔒	🔒	🔒	🔓	🔒	🔓	🔓	🔒	🔓	🔒	🔓	🔒	🔓	🔒
Benefit Director	🔓	🔒	🔓	🔓	🔓	🔓	🔒	🔓	🔓	🔓	🔓	🔓	🔓	🔓
# of Regulations	4	5	7	6	7	1	3	6	5	6	4	6	6	7

This is a simplified table illustrating the level of regulations on different corporate forms. Factors related to soliciting and non-soliciting non-profits and charities vary based on revenues and funding sources as set out in the related legislation.

Problem 2: The for-benefit model needs a business case

6.2

A national strategy to support the introduction of a new model for social enterprise is not in place. Canadian for-benefit legislation, BC-C3s and NS-CICs, legislated in 2013 and 2016, has led to only just over 50 incorporations.

Entrepreneurs look for flexibility in their corporate structure, investors weigh risks and returns, and consumers respond to media campaigns – and a strategy is essential to raise awareness and shift mindsets. Therefore, the for-benefit model needs a business case.

The business case must address caution on the part of the federal government. Canadian corporate legislators need the confidence to make bold advances similar to those that brought about the *Canadian Not-for-Profit Corporations Act* (CNCA) in 2011. The CNCA goals of "accountability, transparency and good corporate governance" (Industry Canada, 2008) are the foundations of the for-benefit business case and the impetus for a federal for-benefit corporate statute.

First, the business case must establish goals and connect social enterprise and for-benefit legislation to social innovation and systems transformation. For-benefit company registration (Appendix A) is a measure that might be considered:

1. Canadian for-benefit registrations achieving UK levels (1,404 for-benefit companies)
2. For-benefit companies reaching the same number as not-for-profits (10% of all corporations)
3. A balance of for-profit and for-benefit companies (45% of all corporations)

Low registration numbers reflect the difficulty of communicating corporate features and a general lack of awareness. Social entrepreneurs surveyed were unfamiliar with B Corps, For-Benefit or Hybrid Corporation, Community Contribution Company (BC), and Community Interest Company (NS) (Figure 32).

Consistency in the models or continuity in the models that exist are needed to establish a recognized "brand". BC and NS have different frameworks for assets, share distribution, accountability, and reporting and the UK and US models exist on the far ends of the for-benefit area on the spectrum utilized for this research. The business case must describe and rationalize the range of models available.

In Canada, the percentage of for-benefit companies relative to other types of corporations could be the result of models that replicate the non-profit corporation. The BC-C3 and NS-CIC are options that are weighed against incorporating as a charity, while the US Benefit Corporation is weighed against incorporating as a for-profit.

The for-benefit business case must be designed and built for investment success. It will be compared to other investment options and will need to compete with a compelling offer of financial and social returns. The business case must point the way toward credible reporting and features that will attract investors and measure the release of new money into social needs and environmental issues.

Accountants, lawyers, and portfolio advisors must understand the mechanics of how to create articles of incorporation, share capital guidelines, and finance options to support for-benefit companies as they move from start-up to growth and maturity. The role of the finance sector, from traditional banking to social finance, and fintech and the blockchain must also be considered.

For-benefit models must establish uniformity and strike clarity around expectations, together with accepted principles for measurement, and a range of choices that direct the investments of different market segments.

For-benefit shares must be able to compete financially, meet expectations, and companies must have the potential for growth. The US Benefit Corporation offers a set of attributes that conform with shareholder requirements, and the model has many high-profile adopters that make excellent case studies.

Kickstarter and Patagonia are leading brands that are for-benefit corporations. In February 2017 Laureate Education began trading on the Nasdaq Global Select Market. These leading US For-Benefit Corporations have put social and environmental values on par with financial returns, and consumers have trusted them to fulfil their promise.

The introduction of a best practice model – most likely "for-benefit company with B Certification by B Lab" is critical for investor confidence and entrepreneurs need a pathway to achieve heightened for-benefit status and demonstrate excellence.

The for-benefit "brand" will impact the decision-making process of consumers by enabling them to choose products and services from companies they trust. People will pay more for less if they are confident that companies are following up on their good intentions (Network for Business Sustainability, 2009, p.g. 5).

The business case must describe the potential of a transformed supply chain: decision-makers looking to social enterprises to promote their corporate social responsibility; and suppliers and partners establishing social enterprises that appeal to decision-makers.

Best-case implementation factors, including remodelled legislation and critical system enablers, need to be clearly aligned with the ways they will break down barriers between profit and not-for-profit mindsets.

Finally, the business case must describe the range of viable, flexible, and legitimate options for social entrepreneurs to incorporate social enterprises and the processes involved.

The essence of community, its heart and soul, is the non-monetary exchange of value; things we do and share because we care for others, and for the good of the place.

— Dee Hock, One from Many: VISA and the Rise of Chaordic Organization (Hock, 2005, p.g. 30)

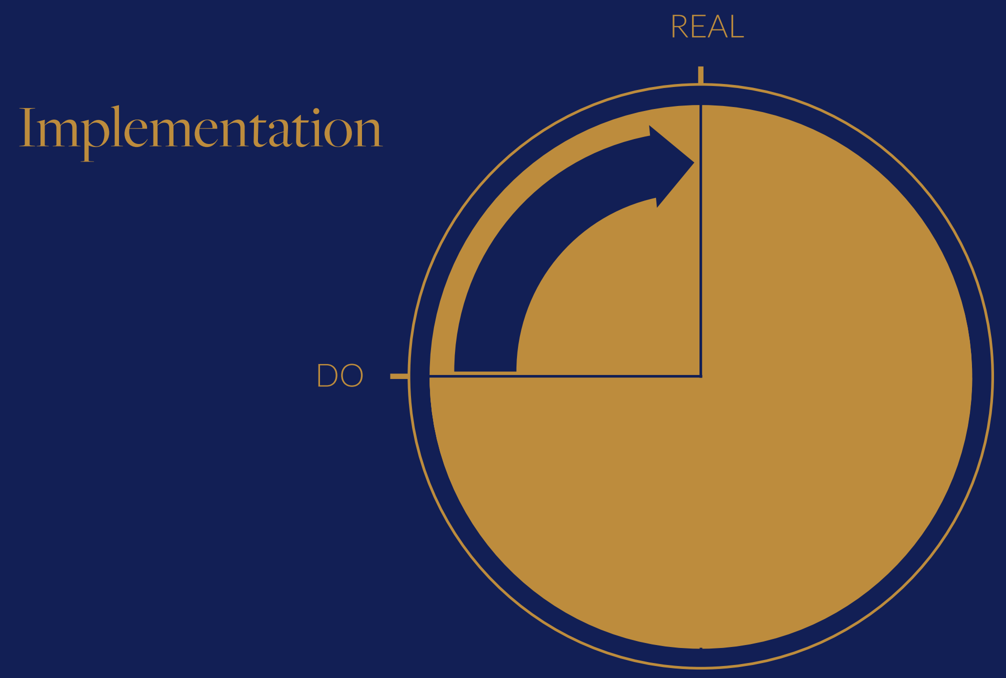


Figure 32: Implementation phase of design cycle

Implementation

PHASE 4

7. Toward Solutions

The question posed by this paper is "What role might the for-benefit corporate model play in meeting social needs and solving social problems in Canada?" The research pursued three sub-questions.

- What are the similarities and differences between corporate models in the United Kingdom, the United States, and Canada?
- Why is a hybrid corporate structure needed to serve social innovation?
- How can barriers be overcome?

The Three-Country Study (Chapter 4) is an in-depth look at 20 features of corporations in the UK, US, and Canada. The results of interviews, questionnaires, and surveys are put forward in Canadian Context (Chapter 5), pointing to a need for a new corporate model and demonstrating a strong base of support for the legislation. Barriers to moving forward are framed as two questions in Identifying Barriers (Chapter 6).

This section provides a summary of the research, a final discussion about the role the for-benefit corporate model, and recommendations for next steps.

summary

7.1

Research for this project took place from September 2016 to January 2018. During this 18-month timeframe, several developments in the field of social innovation took place.

Most significantly, the federal government launched an Innovation Agenda. The coordination between the federal government and provinces and territories, evidenced by co-announcements and press releases connected to the Innovation Agenda, creates a favourable environment for a project that is seeking systems change (5.1). It also addresses a concern discussed in Chapter 6 of this paper: that provinces copy US state by state implementation (Section 6.1). The Constitution Act gives the federal government the power to make laws concerning trade and commerce (Figure 7) and the Innovation Agenda provides an opportunity to apply federalism as a mechanism to accelerate and align for-benefit legislation.

Chapter 5 establishes that respondents view the for-benefit model favourably, but 5.6 and 6.1 stress that Canadian tax law needs to be updated to enable a system in which social enterprise can flourish. The for-benefit model is not merely a matter of dropping templated legislation into an existing act; the initiative demands systems thinking on a national scale. The Canadian Context (Chapter 5) represents a process of codifying and synthesizing respondents comments into six critical themes for implementers to consider.

The elasticity of the existing system and the adaptive nature of entrepreneurs have supported the emergence of social enterprise, but the system lacks the connective structure needed for social innovation. As discussed in 5.3, a systematic approach creates an inclusive model, and the principle of inclusion is intrinsic to social innovation. Human-centred design cannot occur without the lived experience of humans. In the proposed dialogic model (6.1), the notion of "knowledge bearers" is meant to extend beyond experts to people with lived experience, and further, to people with diverse personal and professional experience.

This research started with a set of statistics on for-benefit corporate registration in the UK, US and Canada (Appendix A). UK-CIC legislation has been in place since 2005, and there are 13,000 CICs, representing 0.4% of all UK corporations. US state by state legislation, beginning in 2012 has been passed by 66% of states; overall, the number of for-benefit companies registered represents 0.2% of all US corporations. In Canada, there have been over 50 BC-C3 registrations since BC passed legislation in 2013.

Research for this paper indicates that the percentage of registered for-benefit corporations could be far higher. Systemic design work to date is not reflective of the advances in design research methods (6.1). Technology and industrial designers utilize human-centred design to avoid failure. UX design, research innovation methodologies, and learning and knowledge practices must be part of the process of designing a for-benefit model in the Canadian corporate context.

Far from impeding progress, reframing the research as systemic design will accelerate change. Design research methods are the stock in trade of strategic foresight and innovation practitioners, who conduct their research pragmatically, often with restrictive timeframes and limited budgets.

The requirements of social entrepreneurs and impact investors are primary considerations and this paper identifies them as a group whose lived experience should inform both the model and the system. The federal government's commitment to a social enterprise (entrepreneurs) and social finance (investors) strategy is an encouraging step in this direction (6.1).

As identified in 6.1, the questions that run throughout existing discussions and reports jump to solutions. Preliminary project work indicated that a step back was required to address the research question. The first phase of research resulted in nine numbers that were brought together from a statistical review of corporations in the UK, US and Canada (Appendix A). The intention was to break the numbers down into for-profit, for-benefit, non-profit, and charitable categories. A critical factor changed the statistical analysis from four numbers to three: Canada is the only country with a stand-alone federal not-for-profit corporate statute.

Canadian legislation has resulted in a unique non-profit form that is not a charity. Because the concept of a non-profit is different in each country, and the UK and US do not have a tax-exempt non-profit that is not a charity, it is challenging to compare the non-profit form on the three-country corporate spectrum.

The CNCA (*Canadian Not-for-Profit Corporations Act*) is in place to "foster greater public trust and confidence in the not-for-profit sector" and "improve the flexibility and efficiency of the legislation by reducing the regulatory burden on both the corporations and the federal corporate registrar" (Canada, 2012). The statement made by The Honourable Diane Ablonczy, Minister of State (Small Business and Tourism) in 2008 also describes the role of for-benefit corporate statues:

> This new Act would promote accountability, transparency and good corporate governance for the not for profit sector and is the first significant modernization of Canada's not-for-profit legislation since 1917." (Industry Canada, 2008)

This paper makes a case for for-benefit legislation based on the same requirements for public trust and confidence and as a way to reduce the regulatory burden. For-benefit corporate legislation will lower the entry burden for social entrepreneurs, creating diversity and inclusivity in for-benefit leadership and furthering the goals of inclusive innovation.

The central problem with seeking a solution based on the UK and US models is that non-profits in Canada are not the same as their US and UK counterparts and Canada has a distinct federal not-for-profit corporate form. However, a further complication is that provinces and territories have separate corporate legislation. The robust solidarity economy (économie sociale et solidaire) in Quebec is an additional unique corporate consideration.

In the Canadian Context (Chapter 5), the themes point to opportunities and issues within the existing system. The scope of this project extends to notes on the implementation of for-benefit legislation informed by systems considerations and an imperative for action.

Conclusion

This research concludes by returning to the federal Social Innovation and Social Finance Strategy Co-Creation Steering Group question:

> "Changing the whole social innovation ecosystem is complicated. Are there one or two actions you think would kick-start the process?" (SISFSC Steering Group, 2017)

Designing and legislating for-benefit models and creating a tax valve for the not-for-profit social enterprise are actions required to connect social enterprise to the social innovation system.

The role of the for-benefit model is central to Canada's social innovation ecosystem. For-benefit corporations could change the nature of business and redefine the concept of return on investment. Legislated for-benefit models will pave the way for social enterprises to transform how Canadians address social needs and solve social problems.

A tipping point will occur when there's a critical mass of for-benefit corporations. An encouraging future state will emerge when the pervasive corporate form balances financial outcomes with beneficial social and environmental impacts.

A sustainable society that supports all members begins with how we organize and reorganize ourselves. Society is a form of organization, and the way a society organizes itself is a reflection of its aspirations, values and collective dreams. Therefore, the way we manage human and economic activity reflects the society in which we want to live.

It is time to reorganize the corporate system to include for-benefit corporate models and make a compelling case for social enterprise as a critical enabler in the social innovation system.

a catalytic instrument

7.2

> *Is there an instrument that could be more catalytic?*
> *– Tim Draimin, Executive Director, Social Innovation Generation (SiG)*

What's working?

Social innovation represents a way to address social and environmental issues, and within the social innovation system, social enterprise plays a critical role because it operates within the market economy. Contemporary ideas about the moral responsibility of corporations have been at the forefront for more than 60 years (Levitt, HBR, 1958) – and the fact that consumers purchase the things they need and make choices based on their needs and values, make social enterprise a potentially catalytic instrument.

Social innovation has gained traction over the past twenty years and has come to represent a complex system and set of system dynamics that include social enterprise and social entrepreneurship:

> 'Systems thinking' is a term used to describe a perspective and a set of methods that make it possible to look at the full extent of a system, rather than at fragments or parts. Taking a systems approach, it becomes clear that messy, longstanding problems are created by the systems in which they exist. To innovate on these social and environmental problems, it's necessary to find ways to see, understand and use the system itself (SiG, 2015, p.g. 5).

Social enterprise leverages the market economy and engages investors, entrepreneurs, and consumers in economic activities that satisfy their needs in a way that is aligned with or furthers their social and environmental values. In addition to actively engaging citizens in identifying and solving social and environmental problems, social enterprise contributes to the tax base.

Social enterprise has the promise of a win-win-win solution: raising social and environmental awareness, resourcing solutions, and broadening the tax base.

What's not working?

The corporate spectrum utilized throughout this paper covers four corporate models governed by legislation and covered by the corporate laws of the UK, US, and Canada. All three countries have established systems that support for-profit companies and charitable organizations. For-benefit legislation in the US and the UK are similar in their intent; however, there are significant differences in regulations. The Three-Country Study (Chapter 4) reviews the existing corporation features and identifies similarities and differences that social innovation proponents must consider in the evolution of corporate legislation and governance.

Canada's unique not-for-profit legislation creates a non-profit entity that is tax-exempt but is not a charity. When viewed on the social enterprise spectrum (Figure 32), the introduction of models similar to the UK-CIC in BC and NS are seen to be very close to the unique model of Canadian non-profits, except for the ability to offer share capital.

Although the introduction of the BC-C3 and NS-CIC reduce the social innovation gap, corporate models for social enterprise remain undeveloped.

The Canadian social innovation gap, represented by a red overlay (Figure 32, G), illustrates the gap between the non-profit and for-profit corporate forms and highlights the missed opportunities and unrealized potential of the for-benefit corporate model.

Social enterprise is operating in a narrow framework; the enabling corporate models and tax rules that connect it to social innovation are missing from the system.

The Canadian Context (Chapter 5) reflects six themes that represent the areas of the system that connect social enterprise to social innovation and that designers must address in the development of a new model or models.

The failure of the current system to provide for-benefit corporate statutes and the lack of a tax valve for not-for-profit social enterprise pins social innovation to the fringes of the spectrum.

IMPACT INVESTORS: The nascent social enterprise framework cannot fulfil the potential of the billions of dollars of Canadian impact investments under management (MaRS, 2014).

SOCIAL ENTREPRENEURS: Restrictive for-benefit and not-for-profit models limit the potential for social entrepreneurs to successfully launch market-driven approaches to social needs and environmental issues and develop them into scalable ventures that initiate transformative change.

CONSUMERS: The lack of consumer codes that indicate bona fide social enterprise (such as a corporate form connected to a system of certification, measurement, and brand status) reduces the opportunity for an era of conscious consumerism to evolve in step with contemporary social and environmental issues.

NOT-FOR-PROFIT SOCIAL ENTERPRISES: No tax valve exists for not-for-profit corporations to operate profitable social enterprises and pay corporate income tax on market-driven activities.

GOVERNMENTS: Federal, provincial and territorial governments are missing the opportunity to encourage taxable social enterprise across the corporate spectrum – and most importantly, governments have not fulfilled the role of legislation in the social innovation system. Without legislation, scalable solutions to social and environmental problems that are aligned with the needs and values of citizens are left in on the fringes of social innovation.

Imperatives

1. Despite the low number of for-benefit corporations in all three countries, field research overwhelmingly supports a new model for Canada.
2. Although respondents expressed caution about unintended consequences, an overarching theme is that people are concerned about the future (5.1).
3. A new way to address social and environmental issues is both urgent and necessary.

Considerations

1. A broader group of stakeholders will need to be consulted and informed about the for-benefit model.
2. Resources are required to enable social entrepreneurship and the professional service industry's ability to support social enterprises.
3. The types and sources of public money that might be accessed by new corporate models need consideration; for example, eligibility for loans and grants, and changes to government procurement policies.

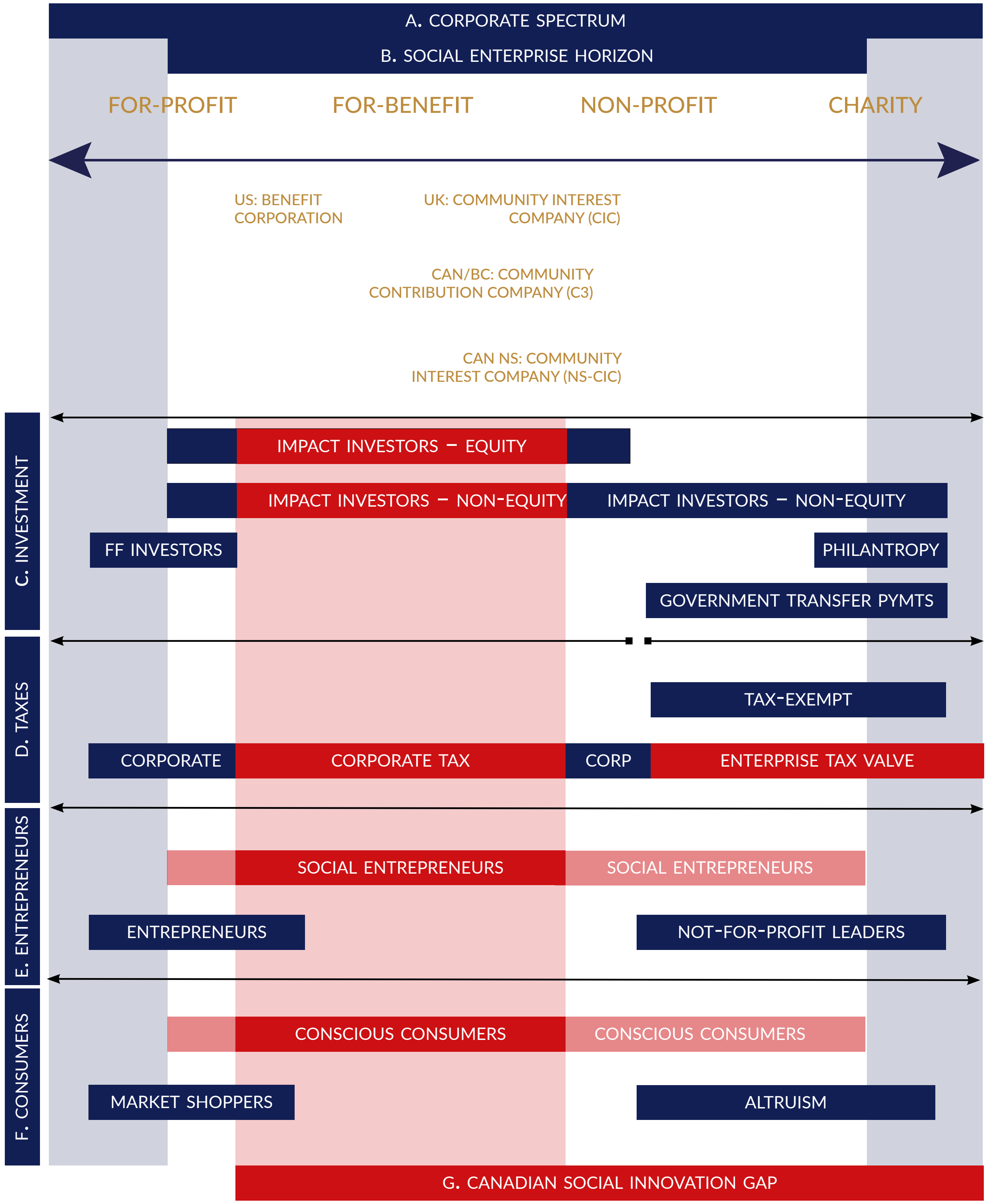


Figure 33: Canadian Social Innovation Gap. The illustration indicates unrealized potential in red and restricted potential in light red.

eliminating the gap

7·3

Canadian corporate legislators need the confidence to make the bold moves that brought about the CNCA in 2011. The goal of “accountability, transparency and good corporate governance” (Industry Canada, 2008) drives the present requirements for legislated for-benefit corporations.

Enabling social enterprise would be “the first significant modernization of Canada’s not-for-profit legislation” since 2011 (Industry Canada, 2008, and Figure 7).

The Canadian social innovation gap (Figure 32) represents an extended corporate spectrum and offers a view of four systems areas (A). An overlay representing the social enterprise horizon (B, white) reflects social enterprise across a broad span of the Canadian corporate spectrum: for-profit, for-benefit, non-profit, and charity.

Research for this paper indicates that only the extreme ends of financial first (FF) for-profit corporations and donor-based charitable organizations operate without a social enterprise intent.

The extended corporate spectrum illustrates the primary areas of economic activity: investment, taxes, entrepreneurs, and consumers. Unrealized potential is depicted in red and restricted potential in light red.

The Canadian social innovation gap (G) represents the absence of integrated for-benefit model or models as part of a systemic approach to social innovation. With for-benefit models in place, the red overlay (the social innovation gap) is eliminated, demonstrating the potential of a new model as a catalytic instrument of social innovation.

IMPACT INVESTMENT

The investment band (C) reflects the role of the for-benefit model in expanding the activity of impact investors. These are a growing group of investors who participate in capital markets that generate social and environmental value as well as financial returns. The social enterprise horizon is currently limited to investors who are satisfied with the CSR mission of for-profit companies and non-equity investors who are willing to finance not-for-profit ventures through loans, annuities and bonds. For-profit businesses operate in an established economic system that has evolved to meet the requirements of finance first (FF) investors. The flexibility inherent in the US Benefit Corporate model widens the potential for for-benefit companies to qualify for FF investments if they meet the risk and return criteria of the investor. The investment band (C) also shows the placement of philanthropy and government TPs in the not-for-profit realm.

CORPORATE TAXES

The tax-exempt status of not-for-profits (D) aligns with philanthropy and government TPs, which allow for infrastructure development and limited-term service expansion.

In Canada, the potential for corporate income tax revenue is currently restricted to for-profit companies and BC-C3s and NS-CICs. An enterprise tax valve for non-profits and charities alleviates market concerns about income tax-exemptions and brings related revenue into public policy decision-making in the form of taxes on the profit-driven activities of not-for-profits (Section 4.12).

Establishing robust for-benefit alternatives responds to the requirements of social entrepreneurs and contributes to government and publicly-funded services through corporate income tax revenue.

SOCIAL ENTREPRENEURSHIP

Entrepreneurs who incorporate their ventures require legislation that reflects the purposes of the corporation and systems to support the activities it carries out. Current Canadian for-benefit models limit the potential for social entrepreneurs to extend social innovation to the market economy (E). The for-profit end of the spectrum enables social entrepreneurship but limits it to for-profit companies with a CSR mission, and CRA rules connected to tax-exempt status restrict the not-for-profit social entrepreneur.

Existing for-benefit models, while making social enterprise possible, have not proven to be catalytic. The BC-C3 and NS-CIC for-benefit models enable a form of social enterprise that allows for profits from operations and equity investment, but functions with the same conversion, asset lock, and dividend cap regulations as soliciting non-profits and charities (Table 5).

Flexibility and adaptability appeal to a broader group of entrepreneurs. Extending for-benefit models across the spectrum engages social entrepreneurs who require the scaling mechanisms of a for-profit form.

The US model has demonstrated its appeal to larger enterprises and growth-focused companies, as evidenced by high-profile conversions to Benefit Corporations by companies such as Patagonia and Kickstarter.

CONSCIOUS CONSUMERS

The rise of an era of conscious consumers represents a new market opportunity, and the for-benefit model responds to this opportunity by creating a model whereby businesses can commit at the corporate level to directing a portion of profits to meet social needs. Studies indicate that consumers will pay an average premium of 10% for goods with social or environmental attributes (Network for Business Sustainability, 2009, p.g. 5).

Fact: the average 2016 Canadian household expenditure (rounded) is $62K (Statistics Canada, 2017), therefore:

There is potential for an annual increase of $8.68B ($6.2K X 14M households) to be released into consumer-directed causes through household expenditures.

The next steps are proposed based on the research undertaken and the established best practices in service transformation. These include: coordination across government; experts convening an independent alliance, and a dedicated design team that works on the model (7.4).

The Need for a Canadian Alliance

An alliance of Canadian stakeholders is needed to eliminate the social innovation gap and enable the systems change required to advance social enterprise. The stakeholder map (Table 8) identifies core groups:

1. academic and education
2. consulting and development
3. entrepreneurial and management
4. government
5. impact investors and finance
6. social enterprise and innovation.

People who participated in this project or influenced this work are put forward as representative of the diversity of knowledge and depth of commitment required to take the for-benefit model into the design and implementation stage.

This paper takes the view that comprehensive for-benefit legislation is at the core of the action required by the Canadian federal government. Anne-Marie Slaughter, President and CEO of New America defines government responsibility in a World Economic Forum article:

> ... to recognize and address the changing needs of citizens over their entire lifetimes, provide platforms to help them get the resources and make the connections they need, and see a whole set of public goods created by the sum of their deliberately many parts." (Slaughter, 2017)

Accordingly, legislation is a systems enabler that must be in place to support the design, implement and cultivation of social enterprise as a catalytic instrument for social innovation. A legislated for-benefit model (or models) are at the foundation of social innovation and required to accelerate and amplify the potential for transformative change.

The notion of the for-benefit corporation is put forward not merely as a piece of legislation or a workaround for outdated tax laws, but as a vital social enterprise system component. The for-benefit model has to potential to address the social innovation gap in ways consistent with the Canadian Constitution and federalism, reflective of Canadian identity, and recognizing Canadian values such as equality and equal access to basic needs, civility, generosity, compassion, and empathy toward others (Canadian Race Relations Foundation, 2014).

Recommendations

This paper makes three significant recommendations (Table 7&8). From a design perspective the first two actions can only work in unison:

1. The CBCA should be amended to include a federal for-benefit form that draws on the US Benefit Corporation (Table 6&7, A)
2. A tax valve must be applied to enable non-profits and charities to develop social enterprise initiatives to their full potential (Table 6&7, B)

This paper focuses on the for-benefit model from the federal perspective and consideration for provincial and territorial legislation has been undertaken to contextualize the research. Since legislation is unique to each jurisdiction, recommendation three is:

3. Alternative for-benefit models reflective of the needs of citizens should be considered if warranted (Table 6&7, C)

Further Research

In addition to provincial and territorial studies, this research raises five critical questions for further research:

1. What role might the for-benefit corporate model play from the perspective of Indigenous Peoples?
2. What role might the for-benefit corporate model play in francophone communities in Quebec and across Canada?
3. What is the impact of the for-benefit model on Cooperatives? Can Cooperatives be for-benefit hybrids?
4. What is the impact of the for-benefit model on Community Economic Development? Might it further inclusive innovation?

Table 6: A new model status across the UK, US, and Canada

Legislation: Status

	US Benefit Corporation	UK CIC	Non-profit	Charity
Canadian Federal	A. Under consideration	A. Under consideration	B. Exists, social enterprise cannot intend to make a profit	B. Exists, social enterprise restrictions
Canadian Provincial & Territorial	C. Under consideration	C. Similar entity exists in BC-C3 (2013) and NS-CIC (2016)	Exists, varies by jurisdiction	CRA – federal jurisdiction
United Kingdom	There is some indication that UK may adopt this model (not official)	Exists	No not-for-profit legislation	Exists
United States	Model is in place and rolling out state-by-state	No indication that US states are considering this model	No not-for-profit legislation	Exists

Table 7: A new model recommendations for Canada

Legislation: Recommendations

	US Benefit Corporation	UK CIC	Non-profit	Charity
Canadian Federal	A. Recommend that CBCA amended to include a similar form	A. This research does not support a similar model at the federal level	B. Establish an enterprise tax valve	B. Establish an enterprise tax valve
Canadian Provincial & Territorial	C. Could adopt similar model if warranted	C. Exists in BC & NS, others could adopt similar model if warranted	Exists, varies by jurisdiction	CRA – federal jurisdiction
United Kingdom	There is some indication that UK may adopt this model (not official)	Exists	No not-for-profit legislation	Exists
United States	Model is in place and rolling out state-by-state	No indication that US states are considering this model	No not-for-profit legislation	Exists

Table 8: Stakeholder map

CANADIAN ALLIANCE
STAKEHOLDER GROUPS AND REPRESENTATIVE SAMPLE

ACADEMIC & EDUCATION

Nabil Harfoush, OCADU
Nogah Kornberg, UofToronto, Rotman
Theo Peridis, York U, Schulich
Jack Quarter, OISE
Cheryl Rose, UofWaterloo
Frances Westley, UofWaterloo

CONSULTING & DEVELOPMENT

Robin Cory, Independent
Stephen Davies, Independent
Pamela Divinsky, Mosaic Institute
Lynn Eakin, Ontario Nonprofit Network
David Eaves, Independent
Peter Evans, ExpertFile
Franklin Garrigues, Social Venture Partners
Bob Goulais, Nbisiing Consulting Inc.
Violetta Ilkiw, Independent
Cathy Lang, Independent
Peter MacLeod, Mass LBP
Larry McDermott, Plenty Canada
Matthew Milan, Normative
Liz Rykert, Independent
Marilyn Struthers, Independent
Norm Tasevski, Purpose Capital
Kevin West, SkyLaw Professional Corporation

ENTREPRENEURIAL & MANAGEMENT

Richard Blickstead, Diabetes Canada
Marjorie Brans, School for Social Entrepreneurs
Chris Chopik, Evolution Green
Adil Dhalla, Centre for Social Innovation
Francesca Dobbyn, United Way
Debbie Douglas, OCASI
Anne Gloger, East Scarborough Storefront
Chris Jarvis, Realized Worth
Petra Kassun-Mutch, Eve-Volution
Paul Klien, Impakt and Rise Up
Michael Lewkowitz, Igniter Incorporated
Karen Lior, Toronto Workforce Innovation
Elisha Muskat, Peacebuilders
Anil Patel, Grantbook
John Reid, CATA
Mark Surman, Mozilla Foundation
Tonya Surman, Centre for Social Innovation
Joseph Wilson, Spongelab

GOVERNMENT

Chris Brillinger, City of Toronto
Heather Laird, Government of Alberta
Ratna Omidvar, Senate of Canada
Ceta Ramkhalawansingh, City of Toronto (retired)
Deborah Richardson, Government of Ontario
Cindy Tan, Government of Ontario
Representative, Government of Canada's Innovation Agenda
Representative, Alberta Competitiveness Act
Representative, #BCTECH Strategy and BC Jobs Strategy
Representative, Advancing Social Enterprise in Nova Scotia
Representative, Northwest Territories: Public Private Partnerships (P3)
Representative, Nunavut Research Agenda and Nunavut Food Security Strategy
Representative, Manitoba Innovation Strategy
Representative, Newfoundland and Labrador: The Way Forward, What We Heard and Invested in Innovation
Representative, Ontario Innovation Agenda
Representative, Prince Edward Island: Innovation PEI
Representative, New Brunswick: Five Pillars of Economic Development and Strategies for Innovation
Representative, Québec Innovations and Commercial Successes
Representative, Saskatchewan Plan for Growth 2020
Representative, Yukon Innovation 2016 Roundtable

IMPACT INVESTORS & FINANCE

Adriana Beemans, Metcalf Foundation
Nation Cheong, United Way
Harvey Coleman, Coleman and Associates
Ehren Cory, McKinsey
Narinder Dhami, LEAP: The Centre for Social Impact
Arti Freeman, Ontario Trillium Foundation
Karim Harji, Purpose Capital
Stephen Huddart, McConnell Foundation
Colette Murphy, Atkinson Foundation
Abigail Slater, Social Venture Partners

SOCIAL ENTERPRISE & INNOVATION

Cathy Brothers, Capacity Waterloo
Paul Chamberlain, United Way
Ethel Cote, Independent
Tim Draimin, SiG
Allyson Hewitt, SiG
Adam Jagelewski, MaRS
Krista Jones, MaRS
Eli Malinsky, Aspen Institute
Elizabeth McIsaac, Maytree Foundation
Jenn Miller, Atkinson Foundation
Joyce Sou, B Lab
Adam Spence, MaRS
Nick Temple, Social Enterprise UK

7.4.

1. Coordination across government

The for-benefit model is not limited to legislative change; it is connected to social innovation and systems transformation.

Government stakeholders work as a multi-jurisdictional group. In addition to federal representation, the group includes provincial and territorial lead ministries for innovation (Figure 25), and the corporate registrars. A special federal review team made up of representatives from Innovation, Science and Economic Development (ISED), Corporations Canada, and the CRA convene as part of the ISED's commitment to social enterprise and social finance.

7.4

2. Experts convene an independent alliance

Systems change requires commitment, but it also needs governance and management.

Alliance governance comes from the field. Mandated and resourced Canadian social innovation proponents apply their knowledge and experience to guide the work. Leadership consists of organizations identified in Chapter 3 and the experts who informed this work including this project's advisors (Table 8). Longer term, the alliance considers its own evolution into a registrar (like the UK Office of the Regulator of Community Interest Companies), a Crown corporation dedicated to social innovation, or another body as determined by knowledge gained.

7.4

3. A dedicated design team works on the model

The alliance oversees the work of a design team that is committed to action.

Design takes place over a time-limited period (e.g., 18 months) with the mandate to produce the requirements for a new model and systems design implications. The collaboration represents designers from many disciplines, but members share an innovation mindset. They present the design to the Alliance and the multi-jurisdicational governmental group who approve it for recommendation. The federal government implements for-benefit legislation as part of Canada's Social Innovation and Social Finance Strategy.

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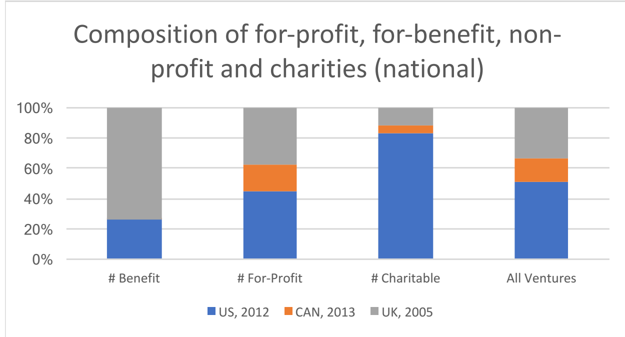
Appendix A

Statistics Worksheet

	# Benefit	# For-Profit	#All NPO	# Charitable	All Ventures	% Benefit	% For-Profit	% Charitable	Population	Ventures per capita	Benefits per capita
US, 2012	4,712	4,301,647	1,581,445	1,214,087	5,887,804	0.08%	73.06%	20.62%	326,000,000	0.0181	0.0000
CAN, 2013	52	1,647,150	170,000	86,370	1,817,150	0.003%	90.64%	4.75%	37,000,000	0.0491	0.0000
UK, 2005	13,092	3,593,602		167,109	3,773,803	0.35%	95.22%	4.43%	65,500,000	0.0576	0.0002
BC, 2013	52	394,391		12,266	406,709	0.01%	96.97%	3.02%	4,600,000	0.0884	0.0000

Table 1



Here we see 4 stacked columns, outlining composition of All-Ventures, for Benefit, for Profit, and Charitable, by the US, Canada, and the UK
With Respect to All Ventures
Going from Right-to-Left, the US has 51% of All Ventures, UK 33%, and Canada 16%, reflecting country sizes, as we might expect
In terms of Charities, the US has proportionally more charities, with 83% of Total Charities, UK covering 11%, and Canada 6%.
With Respect to for-profits, we actually fair well, representing a 1% increase to 17%, UK goes up to 38%, while the US sees a relative decline to 45%,
When it comes to for-benefit, however, the UK and US flip leads, with the UK owning 73% of the total, and US 27%; Canada barely registers at less than 1% o the total

Table 2:

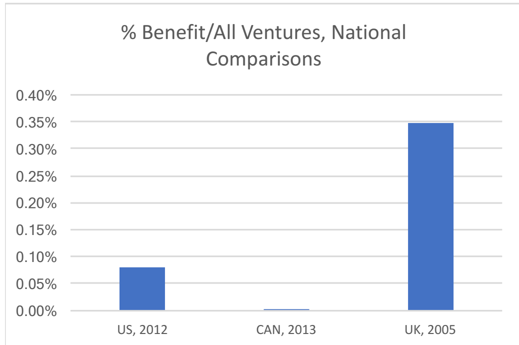


Table 2 shows % for benefit, of total ventures, per country, US, Canada, and the UK
Here we analyze numbers behind the far left column in Table 1, and dividing each country's for benefit numbers by All Ventures, to make relative comparisons
As a percentage of All Ventures, for Benefits in the US are second, with .08 percent, UK is first, with 4times that at .35 percent, and Canada is last at 1/27 of the US baseline
This means that relative to All Ventures, for every 104 for Benefits in the UK, there are 27 for Benefits in the US, and ONLY 1 in Canada, almost all of that in the in BC
Just to catchup to the US, this means Canada would have to increase for Benefit from 52 currently to (27 x 52) = 1404
To match UK levels, (4 x 1404) = 5616

A New Model
The role of the for-benefit corporation in Canada

A copy of this report can be downloaded from
www.cherylmayproject.space

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