



Were the Privateers Social Entrepreneurs?

Social Enterprise Has Been Around a Long Time

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Introduction

I have been working on the L³C concept since 2005. We achieved passage of the first L³C law in Vermont in 2008. Roxanne became a supporter in 2009. With all that Roxanne, I, and others have written about the L³C and its potential I have never articulated the underlying philosophy that led me down this path, a shortcoming that needs correction. Many of the over 600 L³Cs that have been formed since 2008 have been formed by individuals whose philosophies are not totally in sync with mine, but that is OK since no idea ever begins to reach its potential until others add their voices and their own ideas to the mix. My own, though unspoken, underlying motivation was that we should be able to mix for profit dollars with nonprofit dollars in a way which created an entity that could benefit the community while paying the investors and the managers without a lot of overburdening regulation. A simple concept, but one which had not been expressed quite in the way I did. But it is not totally original, as we will show.

Part of my motivation was that there was a lot of investment money around but much of it was being used for nonproductive purposes. Since Adam Smith (circa 1776) and others articulated the free enterprise, capitalistic theories of investment to further the production of goods and services has always been an embodied component. Capital has always been with us since the first cave man fashioned a spear to kill lunch. The spear made properly became a reusable tool and hence was a capital investment. We have no real history of cave life but it is not hard to imagine the possibility of one cave man who was a bad hunter but a great spear maker starting to make spears for others in return for a portion of the kill. If so he would have been an early investor who lent or gave his capital to others in return for a percentage of the earnings. Since that time until well into the 19th century there was always a direct line between investment and resulting products or services.

If we look at the investment opportunities available today, too many of them, if examined honestly, do not meet the standards of a true investment. They do not foster the production of product or the creation of useful services. Unwrap the fancy package of many and you have a high end gambling casino. There are untold trillions of dollars tied up in derivatives alone. Most of the commodity traders have less than zero interest

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in actually owning the item they are trading. Parallel to that is the growth of “process.” A lawyer I know made the remark regarding his fellow barristers that only 25 % are really solid and add value. The clear implication being that 75% of all legal work is process which serves only to line the pockets of lawyers. But lawyers are not the only culprits. Government cannot function nor interface with the public without handing someone a form to fill out, much of the information asked serving only to fill up the paper. Is industry a paragon of virtue here? Do not be silly. Anyone who has been to the endless corporate meetings that result only in more meetings comes away with the suspicion that if the meetings were eliminated, so could half the people be terminated.

The L³C is my attempt to create a new opportunity for some of those nonproductive dollars to be invested in investments that present return opportunities while providing community benefit. But my starting point is not today. My ideas have roots in past centuries. We call it social entrepreneurship but in the past it was often just good business. – *Robert Lang*

Social Entrepreneurship

Social entrepreneurs are modern day cowboys. At least that's the way we romanticize them in the United States today. They're fighting for what's good and just, exploring a new frontier, and playing by a different set of rules.

The idea of social entrepreneurship has become increasingly popular over the last 30 years. Because there was no name for social entrepreneurship until the end of the 20th century, the concept of combining for profit methods with nonprofit goals has been treated as a new idea, but what if the real cowboys, replete with horses and boots, actually were social entrepreneurs? What if they combined mission and business before there was a term for the marriage of the two? What if they weren't the only ones? Would that change our view of social entrepreneurship in 2012? If social entrepreneurship has existed in America since the American Revolution, then the new frontier that current social entrepreneurs are exploring is an illusion. The field is much bigger than that. If we recognize it as such, we can move beyond discussion of form, and focus on solutions to the world's most pressing problems.

When looking back at the past few decades, it may appear that there has been a progression from social enterprises led by nonprofits to for profit social enterprises. The story makes sense: Nonprofit social enterprises are subject to and limited by nonprofit regulations, which may prevent them from reaching their full potential and accomplishing the most good. Because of this, structures like the L³C have emerged as self-sustaining, mission driven companies – for profit businesses with a nonprofit soul. The purpose of this paper is to illustrate that the former did not necessarily lead to the latter. For-profit, mission driven organizations have existed since our country's inception, meaning the L³C is more a long-awaited formalization rather than a new way of doing business. The fact that businesses and organizations resembling social enterprises have been in operation for centuries cannot be ignored. Many recognizable businesses and nonprofit organizations have quietly championed social enterprise and shown how qualities of both sectors can be combined to make a difference. The L³C endorses the idea of making money while furthering a charitable purpose.

The Privateers of the American Revolution as Social Entrepreneurs

In the early days of the American Revolution the Continental Congress faced a serious problem: the British had a navy and the colonies did not. The British Navy could attack the American ports, ships and coastline freely and the Americans were effectively helpless. It took time and money to build ships, neither of which Congress had. What they did have was access to a group of individual ship owners, who were taking up arms to protect their property. The solution was simple – find a way to entice these entrepreneurs to act as a navy. At the time, when one ship beat another in battle it was not uncommon to strip it of anything useful before scuttling it. This was just the motivation that was needed to convince individual ship owners to actively protect the colonies from the British.

So the social entrepreneur model was born. The privateers, as they came to be known, would attack British warships, cargo ships and passenger vessels at will. They would take a percentage of the booty and as legal agents of the Continental Congress were exempt from prosecution under American piracy acts. Once the Americans had a defacto Navy, Congress had time to raise money and build ships for a real navy, but as a quick fix private enterprise did the work of the government and was sustainable. It is an early example of social entrepreneurship despite the fact that it bears little resemblance to today's social enterprises.

Social Entrepreneurship in the American West: The Pony Express

In 1860, almost a half million people were living west of the Rocky Mountains. Communication from the East was slow, and the most common route for mail was across the Panama Canal. The system was imperfect, to say the least, and many desired a more expedient method of communication. In 1855, Senator Gwin of California proposed a weekly express letter service between St. Louis and San Francisco on a ten day schedule. The bill never made it out of committee.

It was not until 1860, when the country was on the brink of war, that a private firm, Russell, Majors and Waddell, established the Pony Express to bridge the communication gap between the Eastern United States and the West. Since 1855, when Gwin made his proposal to the Senate, the need for quicker communication between the east and west had become more dire. As relations between Washington and the South deteriorated, there was increasing worry that California, which had been admitted into the Union in 1850 as a free state, would fall to the South. Communication with the west was now not a matter of convenience, but important in preserving the Union.

In the winter of 1859-60, William Russell met with Senator Gwin, who encouraged him to create an express mail service connecting East to West. According to Glenn D. Bradley, author of "The Story of the Pony Express," Russell, "while a loyal citizen and fully alive to the strategic importance which the matter involved... also believed that he saw a good business opening." Upon convincing his reluctant partners, Russell's firm formed the Central Overland California and Pike's Peak Express Company in early 1860. The highest quality horses and the most able horsemen formed a relay team across stations that spanned nearly 2,000 miles. Generally, mail delivered by the Pony Express arrived in 8-10 days, cutting communication time almost in half. The fastest delivery recorded brought an important message from newly elected President Abraham Lincoln:

We are not enemies, but friends. We must not be enemies. Though passion may have strained, it must not break our bonds of affection. The mystic chords of memory, stretching from every battlefield, and patriot grave, to every living heart and hearthstone, all over this broad land, will yet swell the chorus of the Union, when again

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touched, as surely they will be, by the better angels of our nature.

President Lincoln's first inaugural address was delivered to California in just seven days and 17 hours.

The Pony Express was not a financial success. In fact, if measured only by profit, it was an outright failure. The best horses and riders were expensive, and the route was treacherous. Attacks by Native American tribes alone cost the firm thousands of dollars. After 19 months of operation, the company saw a loss of \$200,000. Even so, the Pony Express is an early example of a for profit company putting a social purpose before financial returns. The company offered a quick and reliable service that facilitated communication during a time of crisis and continued until the Overland Telegraph Company completed the telegraph line.

Goodwill Industries

One of the most widely recognized nonprofits, Goodwill Industries, is rooted in the belief that commerce can facilitate a charitable goal. Around the turn of the 20th century, Reverend Edgar James Helms went door-to-door collecting household goods and clothing from Boston's wealthiest. While Helms first attempted to give out these items to the poor, he soon came to the conclusion that there was a better way to help the underprivileged: by "allowing individuals the dignity of earning and doing for themselves." Helms hired them to repair the goods for re-sale in a thrift shop, and in 1902 Morgan Memorial Cooperative Industries and Stores, Inc., later Goodwill Industries, was incorporated as a nonprofit organization. By 1921, yearly receipts were over \$1 million. By the late 1920s, Helms was spreading the story of the Goodwill around the world.

Since its inception, the Goodwill has evolved to serving the disabled in addition to the economically disadvantaged. Today, donated goods are not refurbished, but sold as-is in Goodwill shops. Profits from the shops fund vocational services.

Helms described Goodwill Industries as an "industrial program as well as a social service enterprise...a provider of employment, training and rehabilitation for people of limited employability, and a source of temporary assistance for individuals whose resources were depleted." It is recognized as a powerful and established nonprofit brand, but its structure was an innovative one, and a successful example of using business to accomplish a charitable end. To that end, one of the authors, Robert Lang, has had conversations with various Goodwill entities about creating L³Cs for many of their projects.

The Mill Town

The Industrial Revolution saw America gradually shift from an economy based on agriculture to one based on industry. This also changed the nature of towns. Agricultural based communities were essentially supply and sales depots for the surrounding farms. Those who lived in town supplied needed services to surrounding farms, but even many of them lived on smaller farms closer to town. Agriculture was king. With the Industrial Revolution came large buildings or complexes of buildings called factories. Hundreds if not thousands of people worked in these factories. While many of them were located in large cities where there was already a base of thousands of potential workers, many needed to be located across America in areas that were primarily agricultural. They needed waterpower from the streams and rivers or the raw material shipping advantages that a factory making wood products could get from logs that floated downstream from the forest to the factory. Iron products were made in the “Rust Belt” because they were close to the iron mines. Workers walked to work.

Shantytowns sprung up organically, but the factory owners needed to create decent towns in order to attract a stable work force with families. They frequently built housing and even public buildings like churches and schools. While this was not their primary business, still they recognized profit-making opportunities. The housing might have been available below market, but not at a loss. The benefits of schools and other public buildings aided in locking employees into the job for the long term.

The Barn Raising

The barn raising is as much a part of American folklore as the cowboys of the Wild West. Anyone who ever watched *Little House on the Prairie* has seen one. Farmer X wants a new barn and all his friends and neighbors and the nearby town's people come and help build the barn. It is easy to understand the motivation of the other farmers – they have either received help in the past building their barn or want help in the future with the building of a barn on their property. But what of the town's people? Why would they risk real capital (horses, tools, etc.) and invest time in an activity that they knew would not be reciprocal?

The success of the community was tied to its farms. Prosperous farms meant a healthy community, and most of the money earned by the farmers was spent in the community, saved at the local bank, donated to the local church or paid in local taxes. Bigger and better barns were the core of a successful farm, and in turn a vibrant community.

Conclusion

Social enterprises aren't new. They have become more refined and defined over time, but the concept has existed for centuries. They did not all make money, but neither do all regular for profit businesses. The Pony Express founders might well have been speculators, but the riders were made to swear an oath:

While I am in the employ of A. Majors, I agree not to use profane language, not to get drunk, not to gamble, not to treat animals cruelly and not to do anything else that is incompatible with the conduct of a gentleman. And I agree, if I violate any of the above conditions, to accept my discharge without any pay for my services.

— Oath sworn by Pony Express Riders

The oath is interesting because while it is plain to see that something other than money mattered to the founders, the oath also was good business. The company wanted employees who could be ready to go on a moment's notice, who, if called upon, would be in good shape to ride. By keeping them out of bars, away from gambling etc., there would be nothing that could interfere with their work.

From the privateers to the Pony Express to the mill owners, there has always been a form of what we today call social enterprise. The question isn't whether the marriage of business and social good can work, but how innovators can utilize the range of structural options to maximize impact. Our society is now uniquely prepared to foster social enterprise. New legal structures like the L³C are not only helping to bring additional funding to bear on charitable activities; they ensure that the social purpose remains primary in these ventures.

Despite evidence that the concept behind the L³C has long been in existence, the L³C will inevitably be viewed by some as something new and foreign. It's common for people to fear new things. On April 25, 1901 New York Governor Benjamin Barker O'Dell Jr. signed an automobile registration bill that imposed a 15 mph speed limit on highways. The automobile was just appearing on the horizon and was not yet the preferred vehicle of choice, yet many already feared it and felt it needed to be controlled. Resistance to the automobile continued for years. Chelsea Piers, an entertainment venue in New York City, displays giant photos from the glory days

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of the piers. One of those photos, circa 1912, shows a crowd of taxis facing out to the Hudson looking over the piers watching a giant White Star Liner either arriving or departing. What is striking is all the cabs save one are horse drawn. More than a decade after the first speed law, the taxi industry had not yet adopted the automobile as its vehicle of choice even though the auto, even in its 1912 incarnation, was more weatherproof, far cleaner, better smelling, and less polluting than horses. The L³C is a structure still in its infancy, and it will take time before it becomes the vehicle of choice.

Sources

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