

ECONOMIC FREEDOM IN THE THIRD SECTOR: THE DEVELOPMENT OF A SOCIAL IMPACT BUSINESS IN A CIVIL SOCIETY ORGANIZATION

LIBERDADE ECONÔMICA NO TERCEIRO SETOR: O DESENVOLVIMENTO DE UM NEGÓCIO DE IMPACTO SOCIAL EM UMA ORGANIZAÇÃO DE SOCIEDADE CIVIL

Recebido em **24.7.2020**
Aprovado em **23.9.2020**

Lilian Aparecida Pasquini Miguel

Professora do Programa de Pós-Graduação em Administração do Desenvolvimento de Negócios da Universidade Presbiteriana Mackenzie.

E-mail: lilian.miguel@mackenzie.br

Lucas Rodrigues Lomelino

Mestre em Administração do Desenvolvimento de Negócios da Universidade Presbiteriana Mackenzie.

E-mail: lucas.lomelino@hotmail.com

Samira Vasconcellos Miguel

Diretora de Assuntos Legais e Institucionais do Instituto Ayrton Senna.

E-mail: samiravmiguel@gmail.com

ECONOMIC FREEDOM IN THE THIRD SECTOR:
THE DEVELOPMENT OF A SOCIAL IMPACT BUSINESS IN A CIVIL SOCIETY ORGANIZATION

Vania D'Angelo Dohme

*Professora do Curso de Graduação em Administração
da Universidade Presbiteriana Mackenzie.*

E-mail: vania.dohme@mackenzie.br

ABSTRACT

The objective of this paper is to present the conception, in conceptual and practical terms, of a project of a social impact business that aims at profitability, as well as the social impact, in the community in which it is being developed as a way of presenting ideas about this model type. The main objective of this business is to help Nossa Senhora Rainha da Paz Association financially, an association of shelters, a civil society organization established 30 years ago in the south of the city of São Paulo. This work is based on the principles of entrepreneurship, value creation for the customer, and economic freedom, with practical application involving social innovation. The essential aspects of economic freedom are discussed as a way to promote human dignity through job creation, education, and the consumer market. It is also discussed one of the most challenging aspects of the development of the subject business model, which is the lack of a regulatory structure to guide the enterprises of the same kind, making them viable. As it is still a conception, it is not intended to present a conclusion, which will occur after the implementation of the subject project.

KEYWORDS

Economic freedom. Third sector. Social entrepreneurship. Social impact business. Social marketing.

RESUMO

O objetivo deste artigo é apresentar a concepção, em termos conceituais e práticos, do projeto de um negócio de impacto social que objetiva a rentabilidade, bem como o impacto social, na comunidade em que está sendo desenvolvido, como forma de apresentar ideias a respeito desse tipo de modelo. O principal objetivo desse negócio é ajudar financeiramente a Associação Nossa Senhora Rainha da Paz, uma associação de abrigos, organização de sociedade civil estabelecida há 30 anos no sul da cidade de São Paulo. Este trabalho baseia-se nos princípios do empreendedorismo, criação de valor para o cliente e liberdade econômica, com aplicação prática envolvendo inovação social. Os aspectos essenciais da

LILIAN APARECIDA PASQUINI MIGUEL, LUCAS RODRIGUES LOMELINO,
SAMIRA VASCONCELLOS MIGUEL, VANIA D'ANGELO DOHME

liberdade econômica são discutidos como uma forma de promover a dignidade humana através da criação de emprego, educação e mercado consumidor. Discute-se, também, um dos aspectos mais desafiadores do desenvolvimento do negócio em questão: a falta de uma estrutura regulatória que guie os empreendimentos da mesma espécie, tornando-os viáveis. Como se trata ainda de uma concepção, não se tem a intenção de apresentar uma conclusão final, o que ocorrerá ao cabo da implantação do projeto em questão.

PALAVRAS-CHAVE

Liberdade econômica. Terceiro setor. Empreendedorismo social. Negócio de impacto social. Marketing social.

ECONOMIC FREEDOM IN THE THIRD SECTOR:
THE DEVELOPMENT OF A SOCIAL IMPACT BUSINESS IN A CIVIL SOCIETY ORGANIZATION

INTRODUCTION

This paper aims to present the concept of an ongoing practical application, within an applied research project, whose focus is to foster the creation of social (societal) businesses. This enrolls the creation of a business model, which involves the training of social entrepreneurs, existing and potential, based on the development of a methodology that proposes a specific business model, aimed at the creation and management of social affairs, involving change geared towards social well-being.

It is supported by social entrepreneurship, whose focus is on work to bring about change and create human capacity, instead of encouraging dependency (Bornstein, 2007), using a corollary of “welfare” policies, it is assumed that entrepreneurship has been recognized as the main driving force of capitalism (Wennekers et al., 2002; Baumol, 2004), which has the consequence of intensifying social differences.

The work is based on the principles of Economic Freedom and its practical application involving entrepreneurship and social innovation. The subject organization, Associação Nossa Senhora Rainha da Paz, a civil society organization established 30 years ago in the south of the city of São Paulo, has the mission of promoting human development. That goal enrolls education and professional training in fourteen programs that meet each age group, with their demands and interests, offered to the population of the region, in social vulnerability, with monthly attendance of two thousand families.

The offer of a proposal for a social business model allows the creation and management of social value creation. The business concept will enable the existing and potential social entrepreneurs to foster the creation of social business models, to improve the social condition of individuals and their status as citizens. The idea is based on the precepts of Economic Freedom, which deal with the sustainability of the common social good, through education, entrepreneurship, value creation, and the development of businesses and markets that generate and maintain consumers, in a continuous virtuous circle, allowing the social transformation.

It also promotes the creation of social impact, which generates value for all stakeholders that are involved, so that part of its profit is allocated to the financial sustainability

of the programs offered, allowing greater freedom of transformative actions in the short, medium, and long term.

The opportunity presented also addresses the current difficulty of the food sector in São Paulo in finding well-trained professionals in the bakery and confectionery areas, and one of the programs offered by the NG is exactly a training school for these branches of gastronomy.

THEORETICAL BASIS

The project conception is based on social entrepreneurship, aimed at provoking change and empowerment, to the detriment of dependency (Bornstein, 2007), considering entrepreneurship as the main driving force of capitalism (Wennekers, Uhlander, Thurik & Baumol, 2004). According to Mises (2010), the concept of economic freedom is about the sustainability of social goods, education, value creation, and businesses that manage and maintain consumers.

Education on social entrepreneurship has attracted attention to the problem of combining business and social values (Tracy and Phillips, 2007). The complexity of dealing with the business and social interests that result from these businesses is at the heart of the challenges of managing a social enterprise (Pache & Chowdhury, 2012; Tracey & Phillips, 2007).

Entrepreneur and Entrepreneurship

Entrepreneurship was born, according to Filion (1999), from the thinking of Say (1816), who considered the investor to take risks in new ventures, seeking profitability, without, however, carrying the thinking of the capitalists. Schumpeter (1928) was who imprinted entrepreneurship definitively, in his association with innovation, through the perception and use of new opportunities, fostering economic development.

For Baron (2011), entrepreneurship is a process that begins with the recognition of an opportunity that is potentially valuable and can be explored in practical terms with the

ECONOMIC FREEDOM IN THE THIRD SECTOR:
THE DEVELOPMENT OF A SOCIAL IMPACT BUSINESS IN A CIVIL SOCIETY ORGANIZATION

exercise of creativity. For the author, social competence involves abilities that are relevant to the activities performed by the entrepreneurs, among which stand out: (a) trust, (b) leadership and cooperation, (c) expressiveness, and (d) discipline and perseverance.

As traces of the entrepreneur, Dornelas (2007) points out to be visionaries, determined, dynamic, passionate, independent and self-confident, leaders, and opinion leaders. The author identifies among the main, some types of entrepreneur: the born-one, who learns, made by necessity, the corporate one, and the social.

These concepts result from the following educational objectives to be worked with these audiences: (a) discovering opportunities for entrepreneurship, and (b) developing creativity, (c) developing a critical sense.

Social entrepreneurship (societal)

It is unclear when the term “social entrepreneurship” was first used. Sassmannshausen and Volkmann (2013) indicate the publication of Parker (1954), as a starting point in the research on social entrepreneurship. Studying the German mining industry, Parker (1954) cites a different form of entrepreneurship, for that time, called social entrepreneurship. For the author, the interest of the individual in social entrepreneurship depended on the fluidity of the German social structure, the patterns of progress, and the individual's restlessness.

In the years 1999 to 2000, the number of business research on the subject almost doubled (Sassmannshausen & Volkmann). Since the beginning of the 21st century, social entrepreneurship (SE) has come to occupy a prominent place in research on the general theory of entrepreneurship (Stewart & Hjorth, 2006; Sassmannshausen & Volkmann, 2013).

The activities carried out by social entrepreneurship (societal) result in the development of consumer markets, focused on business creation, which aims essentially at creating customer value, either through services or through the creation of products.

It is possible to identify four criteria in the definition of social entrepreneurship: (1) social value; (2) civil society; (3) innovation; and (4) economic activity (Hulgård,

2010). The first element in the definition affirms that social entrepreneurship links to the creation of social value. This element (unlike the three remaining ones) is present in most approaches to social entrepreneurship and social enterprise.

The criterion of “civil society” is important in distinguishing social entrepreneurship from social activities in the private commercial sector and the public sector. It is important to differentiate it from Corporate Social Responsibility.

The “innovation” aspect is explicitly included in the definition to highlight the fact that social entrepreneurship is about developing a new approach to a social problem and not just about the ambition to form a company.

The “economy” must be understood in a broad sense, and should not be limited self-interest, often related to the notion of “economic man”. The notion of economics is relevant to all stakeholders in the activity: for the entrepreneur, who assumes an economic risk, and for the participants, who can benefit from improved health, social service production, community development, access to work etc. (Hulgård, 2010).

According to Porter and Kramer (2011, p. 1), the way to reactivate credibility in business within the capitalist system involves “a new approach that embraces economic and societal concerns”. The authors advocate a review of existing ways of developing products and markets, as well as the need to redefine productivity in the value chain, including at the heart of these processes the care for the planet and the need for social aspects.

The idea that local partnerships allow suppliers, purchasers, government and non-governmental agencies to work more effectively and jointly, because they are closer, is part of the concept advocated by Porter and Kramer (2011) as a whole.

A good social enterprise has three components: (1) meeting a need in the community or the local market, (2) advancing or achieving a specific social mission, and (3) contributing to financial sustainability. The connotation of social enterprise can be described in three dimensions: the essence of social enterprise, social impact, and commercial operations (Chang-Lin & Yu-Ping, 2016).

Economic freedom

For Mises (2010, p / p), “in genuine capitalism, the greed of an individual entrepreneur benefits not only himself but also all other people.” According to this author, the concept of economic freedom is about the sustainability of the common social good, through education, creation of value, and businesses that manage and maintain consumers.

The consumer – all of us –, under such optics, is sovereign, determining by the act of buying or not, what should or should not be produced, in what level of price and quality. Companies that attempt to comply with this rule of the game will thrive (MISES, 2010).

Mises (2010) postulates that, in a free-market economy, those who hold the capital should invest in those that focus on customer service, causing this capital to change hands, constantly, because it has the guidance of the investment in the best service to the consuming public. The author states, “This is what economists refer to when they say that the market economy is a democracy in which every cent gives the right to vote.”

Corroborating such postulates, Martin (2018) emphasizes the importance of competition as a powerful tool since humans are not born with the knowledge of the best conditions to achieve their goals, nor of the theories that explain the world around, nor yet how to manage interactions between people, seeking to promote cooperation to the detriment of conflict.

For the author, based on Hayek’s (1968), insights on the limitation of human knowledge, “both freedom to experiment and responsibility for failure are necessary for innovation and progress” (p.1). According to Mises (2010, p/p),

Capitalism benefits everyone: not just consumers, but also the masses in general. It does not only benefit executives [...]. [...] this competition under capitalism is that it assures consumers that entrepreneurs will do their very best to provide them, the consumers, the goods and services they want.

The author’s interest lies in finding the economic system that optimizes the well-being of individuals and the conditions of life of the masses, which in his view is economic

freedom under capitalism, in which consumers are sovereign in the free capitalist market. Based on this view, the consumer can be considered the most important stakeholder of an organization, for whom the concept of value varies and must be carefully analyzed, although it is not the only one.

Creating market value

The beginning of the issue of value creation can be pointed out around the 1970s, based on agency theory, advocating value creation for shareholders, believing that this would ensure firms' ability to be competitive (Copeland, Koller & Murrin, 2010; Stacey, 2010; Cravera, 2012). Friedman (1970), in his article *The Social Responsibility of Business to Increase its Profits*, makes it clear that the sole purpose of the company is to generate profits (value) for its shareholders. Shortly after Edward Freeman's first publications on stakeholder theory in 1984, the Brundtland Commission published the sustainability report in 1987. From this, over the years, stakeholders and sustainability walk together, since the value is created not only for the shareholder but also for other communities in which the companies are inserted.

Given this evolution, value creation started to be studied and developed on several other perspectives, all of them considering the logic of value creation, as a direct or indirect way of creating a competitive advantage for the organization. The creation of value becomes fundamental to the creation of a competitive advantage. A key strategic element of companies to create value for their customers and consumers (Othman & Sheehan, 2011).

Stabell and Fjeldstad (1998) elaborate a typology of value creation based on technology, in three aspects the first transforming inputs into goods and services, the second used by knowledge experts to solve customer problems, and the third, creating a network of contacts facilitating all transactions.

The work of these authors gives rise to the application of value creation at various stages of the supply chain, whether by manufacturing companies or not, in terms of production, knowledge, or transactions (Othman & Sheehan, 2011). This was followed by a study of value creation in terms of company resources, which was done by Barney (1991),

ECONOMIC FREEDOM IN THE THIRD SECTOR:
THE DEVELOPMENT OF A SOCIAL IMPACT BUSINESS IN A CIVIL SOCIETY ORGANIZATION

based on a sustainable competitive advantage created by resources and skills that are valuable, difficult to imitate, not substitutable, and articulated by the organization's DNA.

In terms of Marketing, in 1972, based on the expanded view suggested by Kotler, Marketing starts to worry about creating customer value to satisfy it. According to Anderson, Fornell, and Lehmann (1994), such satisfaction is then a function of the perception of value that the client has. Some of the authors who care in different ways about the theme are Zeithaml (1988), who discusses customer perception of price, quality, and value. Woodruff (1997) seeks to understand value from the customers satisfaction point of view, concerned with the value creation process as a resource for competitive advantage. Churchill and Peter (2000) dedicate a whole book to defending the Marketing action focus on the creation of value to the customer.

Value is created in the relationship between consumer and company. The basic proponents of this pattern, which has been given the name of value creation, focus on Prahalad and Ramaswamy (2000, 2004a, 2004b), Vargo and Lusch (2004, 2006, 2008), Gronroos (2008). A little later, Payne et al. (2009) discussed the role of the consumer in the co-creation of brands.

Therefore, companies should not only create value in their activity but must be flexible to keep up with the constant changes in the market (Chakravarthy & White, 2002; Ghoshal & Bartlet, 1997).

The most current aspect is the creation of social value, defended by Porter and Kramer (2011). The authors agreed to call "big idea: creating shared value", postulated by them as the creation of "policies and operational practices that foster the competitiveness of a company while at the same time improving the economic and social conditions of the community in which the company operates" (p. 1).

As Catelli (1999, p. 31) argues, organizations should "highlight and value entrepreneurial attitudes...", since if each area and each employee treats their area as a company of which they own, the effectiveness of the company, as a whole, will be "a function of the effectiveness of the areas".

To face global competitiveness, countries have sought to make bilateral agreements on science and technology, labor, and especially education, among other factors of society's competitiveness (Catelli & Santos, 2003).

SOCIAL IMPACT BUSINESS CONTEXT: A NEW LOOK AT SUSTAINABLE SOCIAL DEVELOPMENT

Social businesses should be understood the environment of connection between business and social appeal, of which social impact businesses are one of the species. All social businesses revert the profit obtained with their activities entirely in the business itself, on principle.

Social impact businesses are a form of economic intervention that integrates the different impacted or impacting actors in the quest for innovation, social transformation, and financial performance, and encompasses quality education, health services, urban mobility, and other social needs.

Four criteria usually define social impact businesses (ICE, 2015): (1) purpose of generating explicit social and/or environmental impact in its mission; (2) commercial operation model, focused on financial sustainability; (3) governance that simultaneously considers the interests of investors, customers, and the community; (4) knowledge, measurement and evaluation of the impact it produces.

The social sector has increasingly developed, grown, and received attention, worldwide. However, it still presents some challenges, according to Aranha (2015, p. 2), which states

(...) many entrepreneurs still lack clarity about the types of support that are available for the development of their business and to which organizations can appeal; with that, they stop receiving support, or connect to the organization that seeks them, without making a comparative and quality decision (...).

When it comes to business with social impact, the eventual profit obtained with social activity, besides being reinvested in the business, has part of it distributed among the investors, according to parameters defined at the time the investment is realized. One of the forms of private social investment, which have supported these businesses, are philanthropic investment funds.

ECONOMIC FREEDOM IN THE THIRD SECTOR:
THE DEVELOPMENT OF A SOCIAL IMPACT BUSINESS IN A CIVIL SOCIETY ORGANIZATION

Civil society organizations are defined upon five criteria (by John Hopkins University; United Nations), as an International Classification of Non-Governmental Organizations: (1) Formalization: somehow institutionalized; (2) Private: they are organizations of which the State does not participate, although there may be interdependence between them and the State, to achieve its social objectives; (3) Non-distribution of profits; (4) Self-management: they can control their management, with governance mechanisms; (5) Voluntary participation: it has a high index of voluntary work, unpaid and inherent in its reason for existing.

In light of the criteria and definitions mentioned above, it is intuitive to conclude that social and social impact businesses have very specific characteristics. This brings them closer to the idea of entrepreneurship and entrepreneurial business, constituted to reach a specific consumer audience and to address situations that arise from society – from a profit-maximizing viewpoint, profits, as from civil society organizations, or third-sector organizations, which privately seek to address relevant social issues without the participation of the state, and with autonomy for being managed.

That situation of convergence between the legal types now known and recognized (first sector (companies/entrepreneurs) and third sector (nonprofit associations) and the need for a proper regulation through which social or social impact business can fully develop their service and development potential, which are precisely the object of analysis and recommendation.

Individual and micro-enterprises and their relationship with social impact business

In September 2015, the results of research supported by the UNDP (United Nations Development Program), sponsored by the Fundação Dom Cabral, with the support of several other partners, entitled Inclusive Markets in Brazil, which have been established in various forms and whose purpose is to bring some impact to the communities they serve.

In January of that same year, Project Brasil 27 was published, which reproduces social impact business initiatives in Brazil, which also translates into very diverse forms

of constitution and management (micro-enterprises, cooperatives, individual entrepreneurs).

In common, these reports make tangible the national reality and the reflexes of the absence of a precise legal definition on these businesses, so that their constitution is directed to own regime, for which governance, fiscal issues, among others, must be considered.

The fact is that there are multitudes of social impact businesses that have been constituted as individual companies or micro-enterprises driven by two factors in particular:

1. Generation of profit and the need to distribute part of it to its investors, a situation that cannot be fulfilled when the same business was formed in the form of a civil society organization (or third sector organization);
2. Possibility of a more attractive tax regime, given the possibility of paying taxes with percentages lower than those to which are submitted the companies that operate under the presumed or actual profit regime.

Considering the first aspect, the need for resources to be undertaken, not only in Brazil but in other countries, is a relevant issue for a given business to establish.

How third-sector organizations obtain the resources they need is focused on donations or partnerships - both at the public and private levels. In all cases, however, the objective of those who support these organizations is centered on the development of that project and/or activity, with the achievement of the results proposed by the organization itself. There cannot be, by the expressed legal provision, distribution of income or part of their income under any title, which means that the one who supports this type of organization does not aim at any different return than the result proposed by the organization itself, with effect to the project or activity.

On the other hand, entrepreneurs (individual or micro-entrepreneurs) increase the capacity to obtain resources and can use other means available to make a business viable. The most common example of this type of initiative is incubators concerning to startups that are supported by “angel” investors, before they are prepared for more complex operations such as the opening of share capital in the stock market, among others.

ECONOMIC FREEDOM IN THE THIRD SECTOR:
THE DEVELOPMENT OF A SOCIAL IMPACT BUSINESS IN A CIVIL SOCIETY ORGANIZATION

In fiscal terms, it is important to indicate that third sector organizations are only immune to taxes on income, assets, and services when certain legal requirements are met. In practice, therefore, they are often taxed until they are recognized as non-profitable and may no longer be subject to their collection.

However, companies can opt for a regime that is more beneficial to them, considering the volume of revenue or profit they earn, at each beginning of the fiscal year, thus increasing their profit potential. In addition to this option – real profit or presumed profit – individual entrepreneurs and micro-entrepreneurs have a much lower tax burden than other companies.

The institution of *Simples Nacional*, in contrast to the fiscal regime of presumed profit and real profit, has made it attractive for companies considered micro (total gross annual revenue limited between three hundred and sixty thousand Reais – for micro-entrepreneurs) and small (four million and eight hundred thousand Reais), the establishment of businesses and the generation of incomes and jobs.

Despite the opportunities, the fundraising, also for these entrepreneurs, is not easy or more effective. They are often led to seek funds from financial institutions, which practice an aggressive rate of return and interest if they consider that their activity, in addition to profit, will bring social impact to the community served. The standard investor is only interested in maximizing his or her outcome, unlike the social investor, who seeks, in addition to financial return, a social return to that community that will be served. This differentiation begins to become more evident, but there is still a great difficulty for the social entrepreneur to gain visibility for his business and to approach social investors successfully.

One initiative aimed at helping these social entrepreneurs was the creation and dissemination, by the Quintessa Institute, of *Guia 2.5* in October 2015. - Guide for the Development of Business of Social Impact, whose objective was to facilitate the connection of the entrepreneur with the social investor. However, much remains to be done and the most important thing to do is to recognize the importance of this sector to the world economy. This includes the national level, to institutionalize the business model, by defining its legal regime, from its form of constitution and governance to tax aspects that

can treat the social entrepreneur with the relevance of his contribution to the emancipation of the situation of social vulnerability established.

Forms of the legal constitution of the businesses of social impact in Brazil

As there is no specific legislation in Brazil, the various types of businesses with a social impact are constituted through various structures. The legal form that will determine the sustainability of that business, as well as issues related to the remuneration of managers, distribution of dividends, and allocation of assets: (1) cooperatives; (2) system B; (3) civil society organizations; (4) companies, as summarized below, based on ICE (2015):

- Cooperatives in Brazil date back to the 1970s and can be summarized as a society of people that aims to develop a common goal, the result of which is shared among cooperative members, according to the rules that will be established. Today they cover several production sectors, such as agribusiness, financial, educational, and housing, labor, among others, some of which are considered civil society organizations and, therefore, third sector organizations. In the scope of social impact business, this form of constitution is present in cooperatives of work and financial. Examples are the Poty Velho Craft Cooperative (Cooperart Poty) and the Palmas Bank, respectively.
- System B brings together companies with a vision of economic development based on the well-being of people, society, and nature. This system brings together several organizations in more than 50 countries around the world that have issued and continue to develop business certification criteria that are aligned with sustainable economic development objectives. In the 2016 report, there were already 23,500 certified companies. An important example is the Natura.
- Third-sector organizations in Brazil have been regulated both by the Brazilian Civil Code, which regulates the constitution and functioning of associations (and/or institutes) and foundations, as well as by specific laws, such as Cooperatives and those included by force. Law 13,019/14. In addition to those that are already born immune to taxes (social assistance, health, and education), today Brazil maintains more than

ECONOMIC FREEDOM IN THE THIRD SECTOR:
THE DEVELOPMENT OF A SOCIAL IMPACT BUSINESS IN A CIVIL SOCIETY ORGANIZATION

800 thousand civil society organizations, which cover issues related to the environment, technology, culture, arts, among others.

- Finally, corporate societies are conceptualized as the organized economic activity for the production or circulation of goods and services. The way these societies are constituted is diversified and widely regulated.

In addition to individual entrepreneurs (EIRILI), we have limited companies, joint-stock companies, joint-stock companies, simple partnerships (which will not necessarily be tied to the simple national tax regime), partnerships, and partnerships simple. All these legal regimes are disciplined in the Brazilian Civil Code and specific laws. However, what matters about these societies is how they are managed, their distribution of dividends and profits, and their taxation.

The Social Impact Investment Task Force (SIITF), created at the G8 meeting in England in 2013, suggests that the creation of a legal format for social business would officially encourage the existence of this type of activity. The absence of this model, in turn, should not create impediments or barriers so that profitable organizations with social purpose could act and perpetuate themselves.

Historically, philanthropic organizations or civil society organizations are linked to social causes of high relevance and difficult sustainability (human rights, citizenship, social justice, diversity, gender, political reform). Its sustainability, therefore, is achieved through partnerships with governments, and donations. Therefore, it has been understood that these (philanthropic) organizations, which are species of civil society organizations, will continue to play their role and activities alongside other civil society organizations that will be characterized as social impact businesses.

There is also in this new “productive chain” the entities that have been called “intermediaries”, which act as “accelerators” or “incubators” of social impact businesses. Examples of this type of “intermediary” are Dynamo, Sitawi, among others.

And, as already explored in the previous chapter, in the scope of business companies, the figure of several types of corporate tax that determine differentiated taxes and that may or may not be used by social entrepreneurs, to enable social impact initiatives.

The absence of regulation of its own, however, instead of promoting more companies or organizations, ends up harming existing ones, either in the aspect of fundraising or because of the taxes to which they are subject and the rules of governance and transparency not clear, that compromise their sustainability and their perfect identification by social investors.

That scenario of uncertainties, which is not new in our country, ends up acting as a disincentive to the social impact activities that are so important in the Brazilian social paradigm shift.

Nonetheless, social impact businesses are in full implementation and development in our country, suffering the setback of the absence of clear regulations and seeking, regardless of the corporate form and the taxation regime, to make a difference. They are led by entrepreneurs who have a purpose and who, in addition to bureaucratic issues, believe and pursue a healthy, sustainable business and economic environment, and of welcoming the most vulnerable generations, to leading and promoting socially.

In that challenging legislative context, Law 13.800/19 was enacted in January 2019, which brought the possibility, in the case of civil society organizations, of segregation of assets and activities for an asset fund management organization. This management organization will also be a civil society organization (association or foundation) and may carry out commercial activities to ensure the best return on this heritage, which means an advance on the previous situation.

FIRST CONCEPTUAL APPROACH OF A BUSINESS WITH SOCIAL IMPACT

The entire development of the project concept is being carried out in partnership with the Mackenzie Center for Economic Freedom (CMLE), which supports the proposal, through the consultancy and methodologies indicated by the Social Impact Business group.

Rainha da Paz still possesses an old model of sustainability in partnership with public power. However, its managers realized that such a model is worn and ineffective by a large number of bureaucratic processes, the lack of continuity between mandates for each

ECONOMIC FREEDOM IN THE THIRD SECTOR:
THE DEVELOPMENT OF A SOCIAL IMPACT BUSINESS IN A CIVIL SOCIETY ORGANIZATION

election, professional and distant, and lack of transparency, which do not allow free growth, solid and planned, delaying a possible structural transformation in impacted communities.

The proposal concept in development presents a sustainable social aspect, which implies profitability, investments with return and social impact, conjugated in business, as shown in Figure 1.

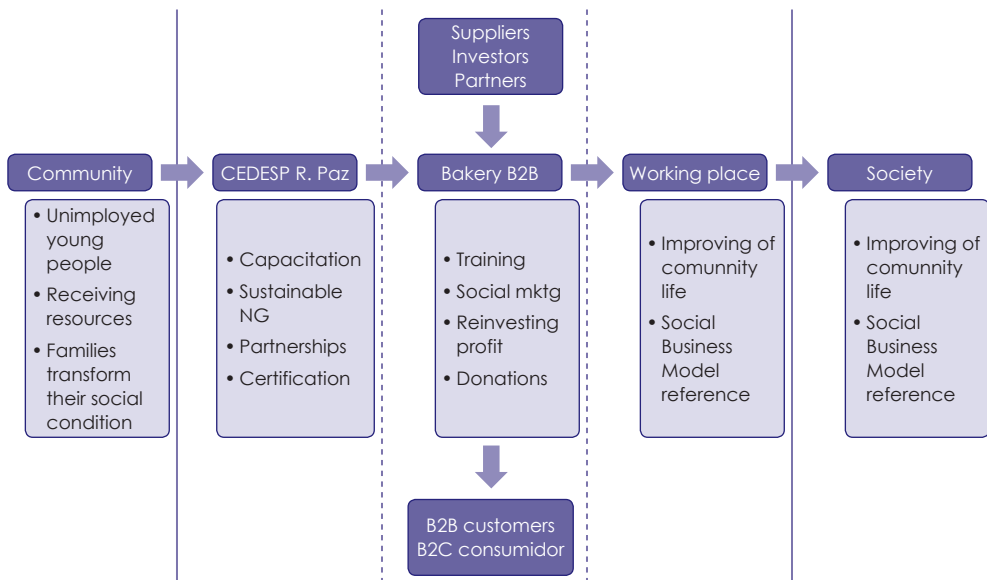


FIGURE 1 – Preliminary view of the business with social impact model

Source: Associação Rainha da Paz (2019).

The proposal is presented as a social impact business model, since it offers paid training and internships, as well as employment opportunities at the end of the internship, for residents of regions with high social vulnerability. Its financial sustainability is based on the vision of profit through the sale of products of bakery and confectionery, using this newly formed workforce. For this to happen, it is necessary to invest capital and partnerships for the construction of B2B Bakery, an investment that is of interest to

companies in the food sector, since they have the high demand of skilled employees in the bakery and confectionery business.

It is possible to observe two axes that underlie the project proposed in Figure 1. The first is social development, which moves from left to right, from the group “Community” to the “Society” group. Within this axis, the proposal is the development of the population that is in high social vulnerability, through technical education in bakery and confectionery of the Associação Rainha da Paz, through the temporary stage of B2B Bakery and positioning itself in the labor market, in order to affect society as a whole. In this way, we seek the investment of companies in the food industry in São Paulo to build and maintain B2B Bakery in exchange for the excellent training of future employees.

The second axis is the one that flows from the “Suppliers” group to the “Clients” group, and the proposal is the generation of profit through the transformation of inputs into products, throughout the process of management and production of B2B Bakery. Here, customers (other businesses) consume our products, with high benefits (quality, variety, and social) in exchange for payments. It is understood, therefore, that the social business model is consolidated since both the lucrative and the social depend on each other directly at the center of all relations established between the stakeholders.

Thus, value creation is maximized, since it focuses on the market demand and the demand of a population in need of opportunities, through an innovative and sustainable model that counts on partnerships of organizations from all sectors of the economy. The managers of B2B Bakery should always pay attention to the importance of the quality of relationships established inside and outside the organization since they have a fundamental place in the general model.

Inspired in the proposal for civil society organizations at John Hopkins University, and the United Nations (UN), this new business model of social impact with profitability suggested: (1) Formalization according to a new legal framework; (2) Private without state interference, and eligible to obtain tax, incentive and sponsorship facilities; (3) Independence of financial management with profit distribution; (4) Validation of social objectives by a council constituted as a curator composed of community opinion trainers,

ECONOMIC FREEDOM IN THE THIRD SECTOR:
THE DEVELOPMENT OF A SOCIAL IMPACT BUSINESS IN A CIVIL SOCIETY ORGANIZATION

experts in the case, assisted, political, religious and academic representatives; (5) Possibility of voluntary participation endorsed by the Curator Council.

The idea of this new model aims at allowing entrepreneurs willing to have their own business with autonomy and guarantee their financial independence along with the desire to mitigate social ills. On the other hand, the creation of the Curator Council is the guarantee that the social objectives that justified its creation are maintained and improved by the community participation, who is directly affected by, besides specialists in the area.

The proposed model also seeks to ensure sufficient financial strength for the model to be multiplied in other parts of the national territory, motivating its managers to increase financial gain and attendance of a greater number of assisted, which has repercussions in the creation of value, both private and public.

FINAL CONSIDERATIONS

The objective of this paper is to present the conception, in conceptual and practical terms, of a project of a social impact business that aims at profitability, as well as the social impact, in the community in which it is being developed, as a way of presenting ideas about this model type.

The opportunity found by the managers of the Associação Rainha da Paz aims to address the difficulty of the food sector in São Paulo in finding well-trained professionals in bakery and confectionery since one of its programs offered is precisely a training school in these segments of gastronomy. Companies will have their demand for employees met, young people will have the opportunity for jobs and inclusion, and the association will have a new source of resources to sustain itself.

There are still many obstacles to overcome, especially concerning the way entrepreneurs view this kind of business. The conversations with various experts involved with the social organizations' sector realize that there is mistrust that the payback will not occur and that it would be better to stick to donations and partnerships.

As indicated in previous chapters of this paper, if the business is structured in the same legal nature as Associação Rainha da Paz is now (organization of civil society), it may face several fiscal issues. Even the maintenance of that condition, by economic bias and inseparable profitability from the activity that will be made with the professionalization of students and, more especially, with the commercialization of the products that will be generated. Therefore, social entrepreneurship in our country must develop adequate and sufficient legislation to foster this new sector.

The whole context presented configures a major obstacle to be transposed, which is why it is understood that this work is quite innovative, and brings in its core a strong demand of Brazilian society, in the commercial, economic and social aspects, totally imbricated and if we are to achieve real social and economic development in the country. At the present moment, the bakery is ready and working, but besides the impact observed already, the business model is still being under development due to the lack of our country legislation, which is being subjected to political articulation attempts by some legislators.

REFERENCES

- ANDERSON, W.; FORNELL, C.; LEHMANN, D. (1994). Customer satisfaction, market share, and profitability: findings from Sweden. *Journal of Marketing*, 58(3), 53-66.
- ARANHA, A. S. (2015). *Guia 2.5: Guia para o desenvolvimento de negócios de impacto*. São Paulo: Instituto Quintesse.
- BARON, R. (2006). *Empreendedorismo: uma visão do processo*. Brasil: Cengage Learning.
- BAUMOL, W. J. (2004). *The free-market innovation machine: analyzing the growth miracle of capitalism*. Princeton: Princeton University Press.
- BORNSTEIN, D. (2007). *How to change the world: social entrepreneurs and the power of new ideas*. Oxford University Press.
- CATELLI, A. (Coord.) (1999). *Controladoria: uma abordagem da gestão econômica – GECON*. São Paulo: Atlas.

ECONOMIC FREEDOM IN THE THIRD SECTOR:
THE DEVELOPMENT OF A SOCIAL IMPACT BUSINESS IN A CIVIL SOCIETY ORGANIZATION

- CATELLI, A.; SANTOS, E. S. (2003). *Competitividade, criação de valor e gestão econômica*. Trabalho apresentado no Congresso Internacional de Custos (pp. 1-20). Punta Del Este.
- CHANG-LIN, Y.; YU-PING, L. (2016). Training System Building for Social enterprise managers and social entrepreneurs. *Annual International Conference on Business Strategy & Organizational Behaviour*, pp. 16-19.
- CHURCHILL, Jr. G.; PETER, P. (2000). *Marketing: criando valor para os clientes*. 2. ed. São Paulo: Saraiva.
- COPELAND, T.; KOLLER, T.; MURRIN, J. (2010). *Valuation: measuring and managing the value of companies*. New Jersey: McKinsey & Co.
- DEES, J. G. The meaning of social entrepreneurship. (1998). *Center for the advancement of social entrepreneurship*. Fuqua School of Business, Duke University.
- DORNELAS, J. C. (2007). *Empreendedorismo na prática*. Rio de Janeiro: Campus.
- FREEMAN, R. E. (1984). *Strategic Management: a stakeholder approach*. Boston: Pitman Publishing.
- FRIEDMAN, M. (1970). The social responsibility of business is to increase its profits. *New York Times Magazine*, Sept 13th edition, p. 17.
- HULGÅRD, L. (2010). Discourses of social entrepreneurship: variations of the same theme. [Working paper N°. 10/01]. *EMES European Research Network*.
- ICE – Inovação em Cidadania Empresarial (2015). Carta de Princípios para Negócios de Impacto no Brasil. Retrieved from: http://ice.org.br/wp-content/uploads/pdfs/Carta_Principios.pdf.
- KOTLER, P.; KELLER, K.L. (2012). *Administração de marketing*. São Paulo: Prentice-Hall.
- MARTIN, A. (2018). The limits of liberalism: good boundaries must be discovered. *Society for the Development of Austrian Economics*. v. 31(2), Jun., pages 265-276.
- MISES, L. (2010). *Os fundamentos econômicos da liberdade*. Mises Brasil. Retrieved from: <http://www.mises.org.br/Article.aspx?id=187#.VyjWJwJac-8.email>.
- OTHMAN, R.; SHEEHAN, N.T. (2011). Value creation logics and resource management: a review. *Journal of Strategy and Management*. 4(1), 5-24.
- PACHE, A.; CHOWDHURY, I. (2012). Social entrepreneurs as institutionally embedded entrepreneurs: towards a new model of social entrepreneurship education. *Academy of Management Learning & Education*, 11(3), 494-510.

- PARKER, W. N. (1954). Entrepreneurship, industrial organization, and economic growth: a German example. *The Journal of Economic History*, 14(4), 380-400. Retrieved from: <http://www.jstor.org/stable/2114248>.
- PAYNE, A., STORBACKA, K., FROW, P.; KNOX, S. (2009). Co-creating brands: diagnosing and designing the relationship experience. *Journal of Business Research*, 62(3), 379-389.
- PORTER, M. E./KRAMER, M. R. (2011): Creating shared value. How to reinvent capitalism – and unleash a wave of innovation and growth, *Harvard Business Review*, v. 89 (1), pp. 62-77.
- PORTER, M. E.; RAMASWAMY, V. (2000). Co-opting customer competence. *Harvard Business Review*, pp. 79-87.
- PORTER, M. E. (2004a). *The future of competition: Co-creating unique value with customers*. Boston, Harvard Business School Press.
- PORTER, M. E. (2004b). Co-creation experiences: the next practice in value creation. *Journal of Interactive Marketing*, 18(3), 5-14.
- SAMANT, S. M; SANGLE, S. (2016). A selected literature review on the changing role of stakeholders as value creators. *World Journal of Science, Technology and Sustainable Development*, 13(2), 100-119.
- SASSMANNSHAUSEN, S. P; VOLKMANN, C. (2013). *A bibliometric based review on social entrepreneurship and its establishment as a field of research* [Schumpeter Discussion Papers 2013-003]. Wuppertal: Schumpeter School of Business and Economics. Retrieved from <https://www.econstor.eu/bitstream/10419/97203/1/748707158.pdf>.
- STABELL, C.B.; FJELDSTAD, O. D. (1998). Configuring value for competitive advantage: on chains, shops and networks. *Strategic Management Journal*, 19(5), 41-437.
- STACEY, R. D. (2010). *Complexity and organizational reality: uncertainty and the need to re-think management after the collapse of investment capitalism*. New York: Routledge.
- STEYART, C.; HJORTH, D. (2006). *Entrepreneurship as social change*. Cheltenham: Edward Elgar.
- TRACEY, P; PHILLIPS, N. (2007). The distinctive challenge of educating social entrepreneurs: A postscript and rejoinder to the special issue on entrepreneurship education. *Academy of Management Learning & Education*, 6(2), 264-271.

ECONOMIC FREEDOM IN THE THIRD SECTOR:
THE DEVELOPMENT OF A SOCIAL IMPACT BUSINESS IN A CIVIL SOCIETY ORGANIZATION

- WENNEKERS, S.; UHLANDER, L. M.; THURIK, R. (2002). Entrepreneurship and its conditions: A macro perspective. *International Journal of Entrepreneurship Education*, 1(1), 25-64.
- WOODRUFF, R. Customer Value. (1997). The next source of competitive advantage. *Journal of the Academy of Marketing Science*, 25(2), 139-153.
- ZEITHAML, V. A.; BITNER, M. J. (1988). Consumer perceptions of price, quality, and value: A means-end model and synthesis of evidence. *Journal of Marketing*, 52(3), 2-22.