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Montgomery County could benefit big from benefit corporations

New business category lets businesses make money, help community

by Sarah Gantz | Staff Writer

Imagine a business that brings in a profit and is supported by stakeholders, but has a primary responsibility to the community, the environment or the larger social good.

In October, Maryland became the first state to have this new business category — benefit corporation — which gives for-profit businesses the opportunity to serve their communities like a nonprofit, while still retaining a profit.

Montgomery County, with its well-educated, socially conscious population and forward-thinking business community, could be the ideal host for this type of business, industry experts say.

"There's a definitely a defined target market out there and there's an epicenter of that in Montgomery County," said Casey Willson, who is a program manager with Maryland Small Business Development Center at the University of Maryland, College Park.

A benefit corporation is a business that has written into its charter a dedication to work toward a social benefit, even at the expense of corporate profit, said Willson. A social benefit could be pre-tax contributions to a local cause, an effort to reduce the company's carbon footprint by investing in operating equipment that is more energy efficient but also more costly, or other work that would benefit the community the business is in. A business that is accountable to its investors alone could risk a lawsuit if it made decisions knowing they could hurt profit, Willson said.

Benefit corporations could benefit the state by attracting businesses interested in the status to set up headquarters in Maryland, one of two states with a law establishing benefit corporations. Vermont also passed a law recognizing benefit corporations. Similar legislation is in progress elsewhere, including New Jersey, where the bill is awaiting approval from the governor, and Virginia, where the bill has been approved by the House.

Since the law establishing this business class took effect in October, about 15 Maryland businesses have registered as benefit corporations with the state Department of Assessment and Taxation. The state does not tally new benefit corporations, said Paul Anderson, the chief legal review officer for the department of assessment and taxation.

Savenia Labs, a testing lab in Bethesda, is among the businesses in Montgomery County looking into the status.

The company was established in 2009 as an incubator business of Bethesda Green, an organization that helps businesses integrate environmentally friendly practices into their operations. An incubator hosts business fledglings and helps them establish roots by providing office space, resources and education.

John Jabara, the founder of Savenia Labs, said becoming a benefit corporation would compliment his company's dedication to green practices — the company tests appliances and grades them on energy efficiency.

"I thought wow, this is a pretty good concept. Being in the green industry, it's just something that seems to make sense — being transparent," said Jabara.

Benefit corporations must report their expenses and complete an audit by a third party to determine the extent of the business' contributions. Jabara said he likes the idea of his customers and investors knowing where his money is being spent because he thinks the practice will appeal to his target market, new homeowners in their 20s and 30s.

Jabara has not decided if he will pursue benefit corporation status. Doing so would require him to rewrite the company charter, which could be costly because he would need to hire a lawyer to help amend his status with the state, he said.

The filing fee for new businesses in Maryland is about \$200, Anderson said. Businesses must pay an annual fee of \$300.

The cost to an existing business to become a benefit corporation is among the impediments experts have identified that could delay the popularity of the new business model.

Benefit corporations do not get tax breaks or an upper hand when applying for state or county contracts, said Amy Kincaid, the principal for Change Matters, a consulting firm that works with socially responsible small businesses.

"It makes it not urgent, or not so compelling and attractive. You lose the immediacy of it," Kincaid said.

Businesses interested in the status may have a hard time learning what it means, Kincaid said — the state Department of Assessment and Taxation oversees benefit corporations, but the department's website does not feature information about the new class.

Despite a slow start, business experts are standing behind the concept of benefit corporations.

"They're a game changer," said Laura E. Jordan of The Capital Law Firm in Washington, D.C.

Jordan opened Jan. 31 in Lanham the first incubator for benefit corporations.

The Maryland Benefit Corporation Incubation Center does not have tenants, but Jordan said she has been working with businesses interested in moving in.

sgantz@gazette.net