

# Social Enterprise in Central Appalachia: Definitions & Examples

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A Concept Paper for



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**About the Authors:** This concept paper was written by Rural Support Partners, a social enterprise working across the rural southeastern United States to strengthen anchor organizations, foster strategic networks, and support asset-based economic development efforts. The team for this project consisted of Thomas Watson and Andrew Crosson.

Rural Support Partners  
1456 Patton Avenue, Suite C  
Asheville, NC 28806 USA

**RURALSUPPORT  
PARTNERS**  
MANAGEMENT, STRATEGY, AND EVALUATION.

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Central Appalachia's economy is changing, and we believe that social enterprise has the potential to be an important part of that change. We've spent the past year surveying the literature on social enterprise, talking with social enterprise supporters, and learning from social enterprises and entrepreneurs. This paper aims to share some of our learning about what social enterprise is, what it looks like in reality, and what it can mean for the region.

- I. Why Social Enterprise?
- II. Defining Social Enterprise and Social Entrepreneur
- IV. Legal Structures of Social Enterprises
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### I. Why Social Enterprise?

There are new economic opportunities emerging in Central Appalachia. Along with the rest of the country, the region is experiencing a steady increase in consumer attention toward social and environmental issues. The social impact market is growing rapidly, as consumers look to support social change and values-based causes through their spending and investments. Younger generations are embracing Appalachia's landscape, culture, and traditions, giving rise to new economic opportunities in the region. Meanwhile, crowdfunding, social media, and other technologies are increasing the visibility and market access of values-oriented businesses.

These trends are creating more entry points for entrepreneurs and non-profits interested in pursuing social enterprise as a market-based solution to social needs and problems. Many of these opportunities are clustered within a handful of emerging or evolving sectors which have strong social or environmental components, are community-based, and build on the region's assets and strengths. Food, energy, health, textiles, small-scale manufacturing, forestry, wood products, and tourism are some of the promising sectors that have the potential to help catalyze Appalachia's transitioning economy.

While it is a small segment of the region's entrepreneurial economy, we see the acceleration of the social enterprise sector as a crucial driver of economic transition in Appalachia. As a unique subset of enterprise development overall, social enterprises capitalize on growing consumer demand for values-oriented goods and services. They offer an opportunity for the region's many non-profits with revenue-generating activities to sustain and expand their services and products. For the region's many entrepreneurs and small businesses with social missions, a social enterprise model makes it possible to make ends meet and begin to fill the gaps in rural social and environmental services. In persistently distressed communities, social enterprises can explore and grow market opportunities that wouldn't exist otherwise. And by pursuing double or triple bottom line results, social enterprises and social entrepreneurs act as change agents, gradually shifting the region's economy toward one that promotes sustainability and broadly shared benefits.

There is enthusiasm for social enterprise among the growing number of businesses and non-profits in the region that have the potential to create social impact and generate revenue. However, this opportunity is currently limited by a lack of capacity, connections, and resources in the social enterprise field. We believe these gaps must be closed for the full potential of social enterprise in the region's economy to be realized. With the right support structure and resources, social enterprises can be catalysts for transforming their local and regional economies. We also recognize that Appalachia faces unique challenges in the development of a social enterprise economy. Our region is largely rural, has low population density, has smaller and fewer markets, and has less access to capital, technical assistance, and other support resources than other areas of the country. This means that developing the right support system will be hard, slow, and expensive, but we believe it is a critical strategy for accelerating the economic transition in Central Appalachia.

## II. Defining Social Enterprise and Social Entrepreneur

From a review of the national literature and a series of conversations with regional social entrepreneurs and supporters, it is clear there is no common language around social enterprise. For this project, we define a social enterprise as **“an enterprise or organization that uses business disciplines and the power of market demand to create social, economic, and environmental impacts for a community or region.”**

The Social Enterprise Alliance, the leading national association for social enterprises, defines “social enterprises” as “businesses whose primary purpose is the common good.” While a social enterprise can be a public, private, or non-profit entity, they all share the following three characteristics:<sup>1</sup>

- They directly address a social need and serve the common good
- Their commercial activity is a strong revenue driver
- The common good is their primary purpose

We recognize, however, that no definition can do justice to the variety and complexity of social enterprises, which bring together characteristics of traditional for-profit businesses and non-profit organizations. We have found it most helpful to think about the components of social enterprise as a series of continuums, understanding that social enterprises occur at various points along each continuum (*see Figure 1*).

A social enterprise is distinguished from traditional for-profits in two key areas:

- **Purpose:** A social enterprise must have a social and/or environmental mission as part of its core purpose and motivation, whether or not it also seeks profits. A values-driven purpose is what distinguishes a social enterprise or socially responsible business from one that pursues profit as its only bottom line.
- **Impacts:** A social enterprise should intentionally generate significant social and environmental benefits for communities and people, in addition to revenue. Businesses that only produce financial results, or produce shallow or unintentional social outcomes, are not social enterprises.

A social enterprise is also different from traditional non-profits in the following elements:

- **Market Focus:** A social enterprise must have a market where there is both demand and some ability for consumers to pay for the goods or services offered. If there is a market for goods and services, but no ability to pay for them, the provider is meeting a need rather than a demand. These providers are important, but are not considered social enterprises.
- **Revenue Model:** A social enterprise should generate some portion of its income through the sale of some good or service, though the proportion depends on its market focus. If there is established demand and consumers have the full ability to pay for goods and services, then a social enterprise should be able to operate on revenue alone. These are referred to as “self-sufficient enterprises.” If demand is emerging or a market is still developing, a social enterprise may need to subsidize its revenue with grants or other income. These are termed “sustainable enterprises.”<sup>2</sup>

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<sup>1</sup> <https://www.se-alliance.org/why#whatsasocialenterprise>

<sup>2</sup> Massarsky, C. and Beinhacker, S. (2002). *Enterprising Non-profits: Revenue generation in the nonprofit sector*. Yale School of Management - The Goldman Sachs Foundation Partnership on Nonprofit Ventures.

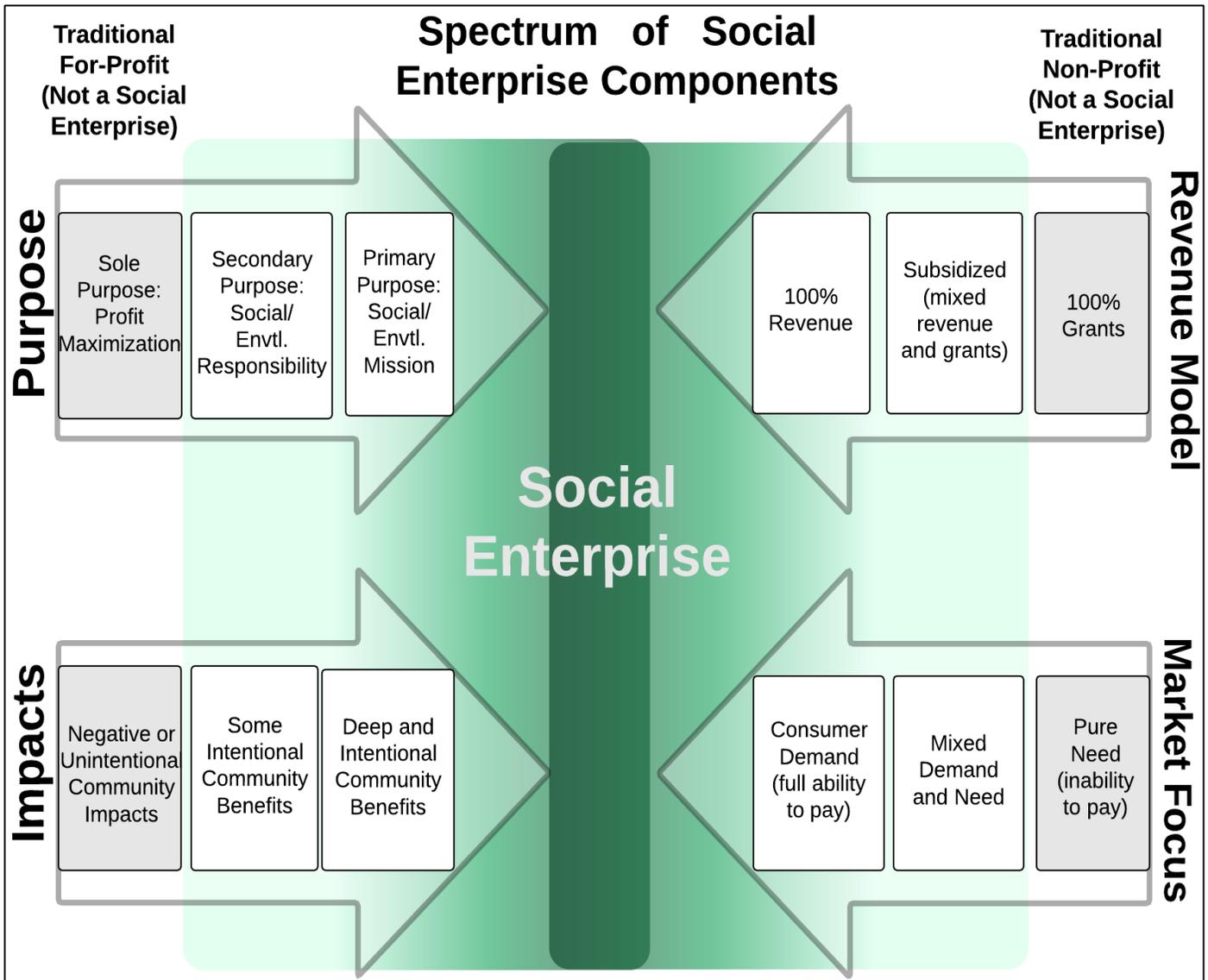


Figure 1. Spectrum of Social Enterprise Components

Social entrepreneurs are the individuals that envision, establish, and manage social enterprises. They can be found in the public, private, and non-profit sectors, and are generally comfortable working across these sectors in order to move their agenda. They are committed to social causes, embrace the free market, are willing to take risks, and value competition. Research shows that successful social entrepreneurs exhibit certain traits as demonstrated in Figure 2 below.

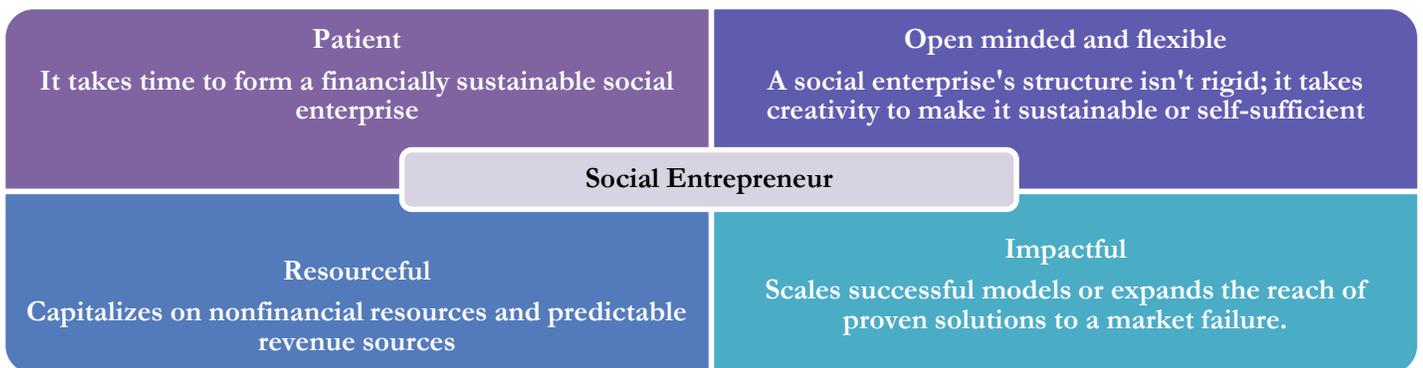


Figure 2: Traits of Successful Social Entrepreneurs

## IV. Legal Structures of Social Enterprises

Social enterprises can take a variety of forms. The most common are <sup>3</sup>:

- **Limited Liability Company (LLC):** A hybrid legal structure that provides the limited liability benefits of a corporation and the tax efficiencies and operational flexibility of a partnership.
- **Non-profit corporation (501(c)3):** A tax-exempt organization that serves the public interest. In order to qualify for tax-exempt, 501(c)3 status, a non-profit must be incorporated.
- **Low-profit limited liability company (L3C):** A hybrid legal structure that allows non-profit and for-profit investments in socially beneficial, for-profit ventures. L3Cs combine the legal and tax flexibility of a traditional LLC, the social benefits of a nonprofit organization, and can use the L3C status to create a branding and market positioning advantage.
- **Benefit Corporation (B Corp):** B Corp is not a specific legal structure, but a designation given to for-profit entities that focus on the triple bottom of people, planet, and profit. To become a B Corp, the corporation must be certified to higher standards of accountability and transparency.
- **Cooperatives (Co-ops):** A cooperative is a business or organization owned by and operated for the benefit of those using its services. Profits and earnings generated by the cooperative are distributed among the members, also known as user-owners.

## V. Case Studies of Regional Social Enterprises

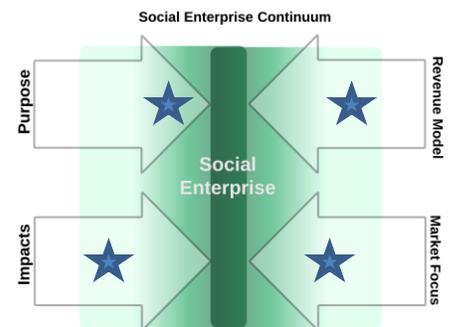
The following list reflects the variety of sectors and legal structures of existing social enterprises in the study region, and shows where they might fall on the social enterprise spectrum.

### WoodRight (VA)

Profile: Wood products broker that connects Appalachian wood products manufacturers to green building markets.

Structure: Non-profit program transitioning to for-profit structure.

- Purpose: High - Clear social and environmental purpose
- Impacts: Medium - Some intentional community benefits
- Revenue Model: Medium - Subsidized (Used grants for planning and start-up and is now transitioning to revenue-based model)
- Market Focus: Medium - Responds to growing consumer demand and develops new products to test market

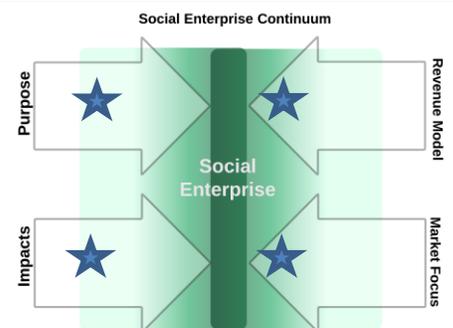


### Print My Threads (KY)

Profile: Textile printing company that uses sustainable practices and fair wage local labor.

Structure: Private LLC business.

- Purpose: Medium - Clear environmental goals, some social goals
- Impacts: Medium - Some intentional community benefits
- Revenue Model: High – Entirely revenue-supported
- Market Focus: High - Strong consumer demand



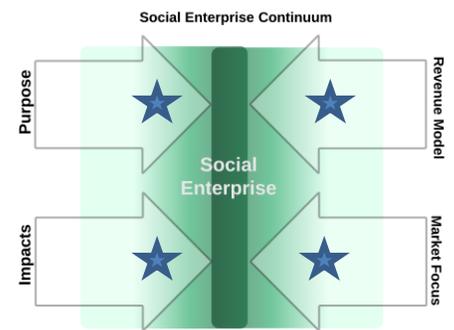
<sup>3</sup> For a full typology on social enterprises and the multiple, highly differentiated examples of social enterprise, see: [The Four Lenses Strategic Framework: Toward an Integrated Social Enterprise Methodology.](#)

## Reclaim Appalachia (WV)

**Profile:** Workforce development enterprise that repurposes deconstructed building materials for furniture manufacturing.

**Structure:** LLC incubated by a non-profit.

- Purpose: High - Clear social and environmental goals
- Impacts: High – Deep and intentional community benefits
- Revenue Model: Medium – Subsidized (Used grants for planning and start-up and is now transitioning to revenue-based model)
- Market Focus: Medium-High - Significant potential demand

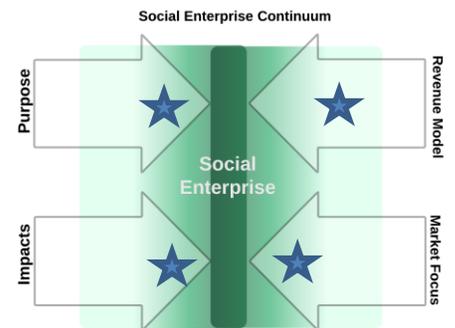


## Appalachian Harvest (VA)

**Profile:** Food hub that aggregates and sells produce from small-medium sized rural farms and provides capacity-building.

**Structure:** Non-profit operated program.

- Purpose: High - Clear social and environmental goals
- Impacts: High – Deep and intentional community benefits
- Revenue Model: Medium – Subsidized (generates 80-90% of support through revenue)
- Market Focus: High – Strong and steady consumer demand (exceeds production)

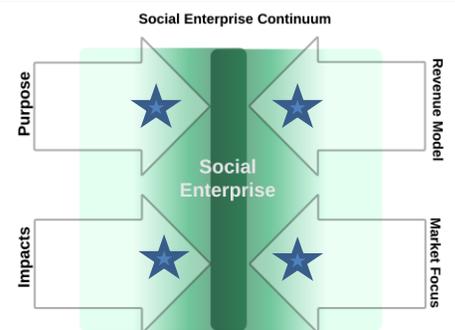


## OWL (KY)

**Profile:** Manufacturing enterprise that provides workforce development and employment support for populations with employment barriers.

**Structure:** Non-profit organization with business subsidiaries.

- Purpose: Medium-High - Clear social goals
- Impacts: High – Deep and intentional community benefits
- Revenue Model: High – 100% revenue-dependent (uses grants to pilot new projects)
- Market Focus: High – Strong demand and stays competitive in the marketplace



## What is Next?

Over the course of 2015, we aim to continue deepening our understanding of social enterprise, particularly the opportunities and challenges for enterprises in Central Appalachia. We will focus on three main areas:

- **Engage Supporters and TA providers:** Build on and connect to existing support efforts to create a network of social enterprise support resources and technical assistance providers.
- **Engage Social Enterprises:** Engage and understand the needs of social enterprises, and what forms of capital and technical assistance are most useful.
- **Engage Funders:** Increase visibility and support for social enterprise in the region from funders, institutions, and policymakers.

### For More Information:

About Social Enterprise: <http://ruralsupportpartners.com/SocialEnterprise.php>

About MACED: [pwright@maced.org](mailto:pwright@maced.org)

About the One Foundation: [barbarawyckoff1@gmail.com](mailto:barbarawyckoff1@gmail.com)

About Rural Support Partners: [andrew@ruralsupportpartners.com](mailto:andrew@ruralsupportpartners.com)