

# Social Enterprise in Central Appalachia: Challenges and Opportunities

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A Research Report and 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, Erin Harris, and Andrew Crosson.

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## Executive Summary

Central Appalachia’s economy is changing, and we believe that social enterprise has the potential to be an important part of that change. We began this project with an interest in understanding social enterprises: their forms, their characteristics, and the challenges and opportunities associated with them. A review of the national literature (summarized in Appendix A) helped us get a sense of the context of the broader social enterprise field. We also needed to understand the landscape of social enterprise in our own region. Through focus groups and interviews with social entrepreneurs and support organizations, we identified common barriers, needs, and opportunities that face social enterprises in Central Appalachia. We then drew on this research to explore what effective support for social enterprises would look like in our region. While we are clear that any additional efforts should build on existing support systems, we recognize a need for new forms of technical assistance, capital, and peer networking that are well-connected and specifically tailored to social enterprises. This paper shares the findings of our research as well as our vision for a Central Appalachian social enterprise support system.

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## I. Regional Context and Vision

### Moment of Transition

Central Appalachia is home to strong communities, rich natural resources, and talented and motivated people. Historically, these assets have been undermined by an economic base that has relied heavily on extractive industries and external ownership. As a result, Appalachia’s political systems, infrastructure, public services, resource management, and business ownership have all been negatively impacted. However, we are currently in a moment of economic transition. There is growing public dialogue around building more resilient economies. There is also unprecedented political openness to diversified economic development strategies and to government playing a role in supporting economic transition.

Our region is also facing new pressures and needs. The private sector is experiencing growing pushback against business as usual, as consumers demand more accountability and local control. There is broadening recognition that the extractive industries that have dominated our region's economy have concentrated wealth and political power in the hands of a few. Communities are struggling with the decline of coal jobs in the region and are now also facing the uncertain impacts of shale gas exploration.

At the same time, rural areas are seeing a reduction in government services and support systems, and there is little confidence that the political status quo will address the region's problems. The public sector remains important to the region's development potential, but needs help identifying the right roles to play in supporting an economic transition. Non-profit organizations and community groups, meanwhile, are increasingly taking on the burden of providing social goods and services in rural communities. Yet they are being forced to do more with less, as the rural philanthropic resources they rely on become increasingly scarce. These trends indicate a clear need for innovative approaches to providing social goods and services in our region.

### **Market Opportunity**

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At the same time, there are new opportunities 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.

### **Why Social Enterprise?**

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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 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

To place our analysis of our region's social enterprise field within a national context, we conducted a survey of the national academic and practitioner literature on social enterprise. This full literature review can be found in Appendix A.

From this 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.”**

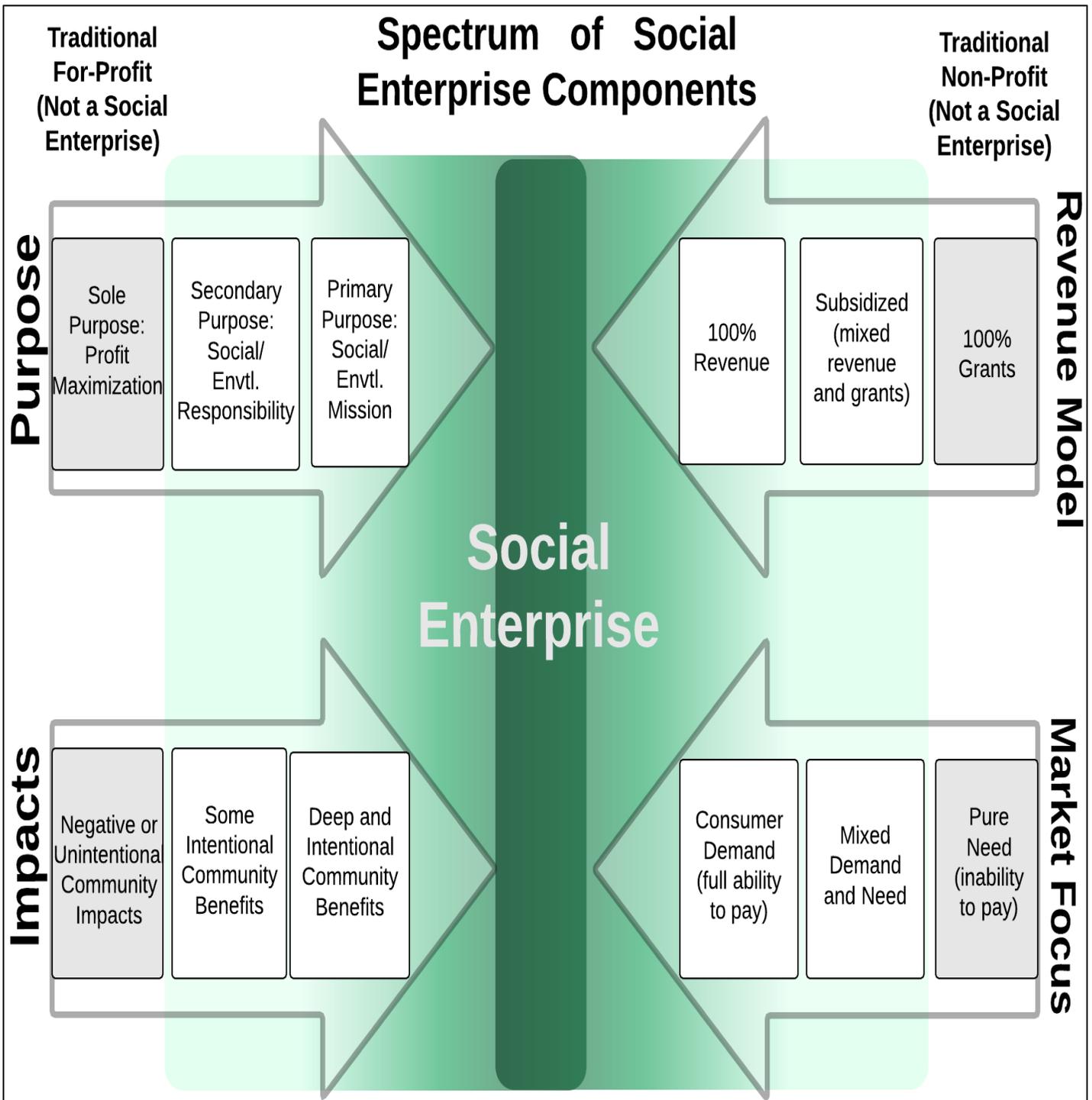
We recognize, however, that no definition can do justice to the variety and complexity of social enterprises, which bring together characteristics of traditional for-profit businesses and non-profit organizations. We have found it most helpful to think about the components of social enterprise as a series of continuums, understanding that social enterprises occur at various points along each continuum (*see Diagram 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. If demand is emerging or a market is still developing, a social enterprise may need to subsidize its revenue with grants or other income.



**Diagram 1. Spectrum of Social Enterprise Components**

Social enterprises can take a variety of legal and structural forms, often depending on where they fall on the above continuums. For a description of some common social enterprise structures, see Appendix A.

The following list reflects the various sectors, market orientations, and legal structures of existing social enterprises in the study region.

## **Existing Social Enterprises in Central Appalachia: A Few Examples**

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### **WoodRight (VA)**

Profile: Wood products broker that connects small landowners and sustainable forestry businesses to green building markets.

Structure: LLC incubated by a non-profit. Used grants for planning and start-up and is now transitioning to revenue-based model.

### **Print My Threads (KY)**

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

Structure: Private LLC business that has made use of CDFI loans for startup and expansion.

### **The Wild Ramp (WV)**

Profile: Food hub that provides retail space to connect area small farmers to local consumers.

Structure: Non-profit enterprise incubated by another non-profit, supported by grants and member dues.

### **Coalfield Development Corporation (WV)**

Profile: Workforce development organization that advances sustainability sectors.

Structure: Non-profit that has used grant funding to design and launch a spin-off LLC, Reclaim Appalachia, that will be revenue-based.

### **Brushy Fork Institute (KY)**

Profile: Community capacity-building organization that provides training, facilitation, technical assistance, and project management.

Structure: Berea College outreach program (off-budget) that generates earned revenue through workshop fees and contract services.

### **Appalachian Harvest (VA)**

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

Structure: Non-profit operated program that generates 80-90% of support through revenue.

### **AppaPhil (OH)**

Profile: Provides capacity-building and support resources for non-profits and social enterprises.

Structure: Non-profit exploring the revenue generating potential of its services.

### III. The State of Social Enterprise in Central Appalachia

Our thinking about social enterprise support needs in Central Appalachia is rooted in a thorough analysis of the state of social enterprise. The analysis in this section is informed by existing national literature, two regional focus groups, a series of 20 interviews with regional social enterprises and support organizations, and a two-day meeting with representatives of MACED, the One Foundation, and Rural Support Partners. For more information about this research process, please see interview methodology and participant list in Appendix B. Within the categories of State of the Field, Technical Assistance, and Capital, we highlight the most important findings and summarize our takeaways from this research.

#### State of the Social Enterprise Field

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**The interest in social enterprise uncovered by this research suggests significant and growing demand for new resources, support structures, and opportunities.** Social enterprise development in Central Appalachia is being approached from multiple directions, with growing interest from a variety of regional actors, including non-profits, existing businesses, and new entrepreneurs. Non-profits are exploring social enterprise as a means to increase their financial viability and achieve their mission through consumer-driven markets. They express the need for a better understanding of social enterprise models and best practices, structures to help them assess the viability of their plans, and the resources to pursue opportunities. They want to learn from other experiences and avoid re-creating the wheel or repeating past mistakes. Existing for-profit businesses are interested in tapping into emerging social impact markets. They want to give back to their community, environment, or local economy, but need support to figure out how to make it work as a business model. New entrepreneurs are hungry for a fresh approach to doing business, and need help refining and testing their ideas for pursuing social impact through enterprise. Many are also interested in innovative structures like cooperatives, but need help understanding how these models work and how well they might fit their enterprise. These interests and needs indicate a demand for comprehensive regional support focused on social enterprise development.

**The development of a social enterprise field in Appalachia is being held back by a lack of common language, shared understanding, and connections.** There is not a clear definition of what a social enterprise is or does, limiting the growth of a cohesive social enterprise movement. For-profit and non-profit social entrepreneurs do not feel well connected to each other. Organizations and businesses are pursuing social enterprise development without recognizing they are part of the larger movement. The energy and interest is there, enterprises operating in isolation will continue to struggle with this lack of common language and connections.

**There are existing peer and sector networks in the region that are interested in supporting social enterprise, but no clear leadership or common forum for social enterprise development.** Supporters of social enterprise are largely working in isolation from one another and are limited the scale of who they can reach. This field's progress is being held back by a lack of learning opportunities and access to tools for understanding what distinguishes social enterprises, how to fully measure their impact, and what makes them successful. Other commonly identified needs include conversation space, networking, and platforms to share strategies and lessons learned.

#### Field-Building Priorities:

- Cultivate regional social enterprise leadership that builds on existing interest and networks
- Focus attention on developing shared language and understanding of social enterprise

- Develop a forum or platform for sharing social enterprise resources, lessons, and strategies
- Increase networking and peer learning opportunities among social entrepreneurs and supporters, including mentorship and coaching opportunities

## Technical Assistance for Social Enterprises

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**While there is a broad range of technical assistance available in the region, it is reported as being poorly connected and inconsistent in its availability and quality.** Many technical assistance providers are interested in social enterprise, but are often limited by their geographical service area and aren't actively collaborating with other providers. Mainstream economic development actors such as small business development centers (SBDCs), land grant universities, and local development districts are potentially important resources but currently lack the tools and understanding to be effective supporters of social enterprise. Meanwhile, the region's many revenue-generating non-profits are often unable to access existing technical assistance resources due to legal restrictions. In general, most existing technical assistance is regarded by social entrepreneurs as too generic or shallow and ultimately not very helpful. Overall, we found that existing service providers could use better coordination and a platform for sharing tools, ideas, and strategies for social enterprise development.

**Social enterprises have specific technical assistance needs at different stages of development, which are difficult to address through existing resources.** While some useful technical assistance services exist, there are gaps in support for different stages of enterprise development which are holding back the evolution of a social enterprise pipeline. New entrepreneurs, as well as many non-profit managers with revenue-generating activities, need high-quality workshops and tools to help strengthen basic business and financial management skills. Emerging social enterprises need support for the crucial stage of market assessment, including research, marketing, and demand analysis. More advanced social enterprises, meanwhile, need deep individualized and deep industry-specific assistance, which tends to be expensive and underfunded. Established enterprises value connections to more experienced peers, including conventional businesses that know their industry well. In every stage, the region's social enterprises struggle to build staff capacity internally or to attract the right staff. Social enterprises also need assistance around specific issues, including legal guidance and the ability to measure and brand their impacts. Overall, social enterprises need an integrated and comprehensive system of technical assistance that addresses their unique needs at various stages of development. This system should build upon existing support systems and resources, but also will require new interventions that plug crucial gaps.

### Technical Assistance Priorities:

- Improve connectivity and strategy-sharing among existing technical assistance providers
- Increase the understanding of social enterprises and the tools and capacity to support them
- Develop high-quality workshops focused on the specific needs of social enterprises, including impact measurement, branding, and legal guidance
- Provide focused financial management training and capacity building for non-profit managers and early-stage entrepreneurs
- Develop and deliver industry and sector-specific technical assistance, as well as peer connections and mentoring between social enterprises
- Weave these interventions together into an integrated and comprehensive system of technical assistance for social enterprise development

## Capital for Social Enterprises

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**While there is a significant amount of capital in the region suitable for stronger enterprises, there is a gap between what is available and what social enterprises need.** The debt capital available through the region's community development financial institutions (CDFIs) and banks has strict limitations that make it inaccessible to many social enterprises, especially those with high risk profiles. Satisfying fundamental underwriting criteria such as collateral, cash flow, credit and legal structure are issues even for traditional enterprises, and are an even greater challenge for social enterprises. CDFIs also have a limited set of financial tools and legal restrictions that limit their lending flexibility. Additionally, the scale of capital offered by most CDFIs, angel funds, and impact investors rules out many of the region's social enterprises, which tend to need smaller amounts at a lower return on investment.

**There are regional foundations that are well-connected and interested in supporting social enterprises, but they lack the time or capacity to develop the necessary understanding and tools.** While regional foundations could fill a critical gap in social enterprise development by providing start-up or early stage grants to social enterprises, they lack the vetting mechanisms to determine effective investments. They are concerned about the risk of funding social enterprises that may lack financial management capacity and business readiness, and are hesitant to raise expectations by being seen taking a lead role in the field.

**Crowdfunding and other emerging fundraising platforms are emerging alternative sources of capital, but social enterprises need additional support to effectively capture these opportunities.** Crowdfunding offers flexible capital that can be scaled to fit the needs of a social enterprise, especially smaller social enterprises with tangible products. It can also build on community support and raise the visibility of a social enterprise's goals and impacts. However, not all social enterprises have the marketing expertise to be able to design and execute a successful campaign or the planning and management skills to be able to use the investment effectively. Crowdfunding can be a small but effective tool in the capital-raising toolbox, but requires better support for social enterprises to capitalize on it.

**Lack of borrower readiness and financial management capacity are the principal barriers for social enterprises to access capital, even when lenders and investors are interested.** Despite recognizing the social and economic potential of social enterprises, lenders often have trouble meeting the underwriting standards necessary to be able to make a loan. Lenders and investors want to see good financials, a marketing plan, and market research or testing in order to feel good about providing capital. They recognize a need for more front-end capacity building around financial management, and are interested in structures that tie capacity to capital. In many cases, intermediaries can play an important role in preparing social enterprises for investment, vetting their readiness, and brokering connections to the appropriate types of capital. Overall, social enterprises need support to be able to show up ready for capital.

### Capital Priorities:

- Encourage debt capital that is risk-tolerant and scaled to the size of social enterprise needs
- Provide grants and other equity-like investments that can be used as start-up or venture capital for social enterprises
- Develop vetting mechanisms for foundations interested in investing in social enterprises
- Support financial management and other capacity building that improves the borrower readiness of social enterprises
- Increase connections, shared understanding of social enterprise needs, and tool-sharing among the region's existing capital providers, including CDFIs, foundations, and angel funds
- Expand marketing and branding support for value proposition efforts such as crowdfunding

**IV. Support Model for Social Enterprise**

Following this research, a planning team representing MACED, the One Foundation, and Rural Support Partners engaged in several days of conversation about what an effective social enterprise support system would look like. Based on these research findings and this group’s experience, we recognize a clear need and interest for a set of new interventions that support social enterprise development in Appalachia. We believe the below model will address these needs through a focused and coordinated set of support strategies (see *Diagram 2*).

**Central Appalachian Social Enterprise Initiative**

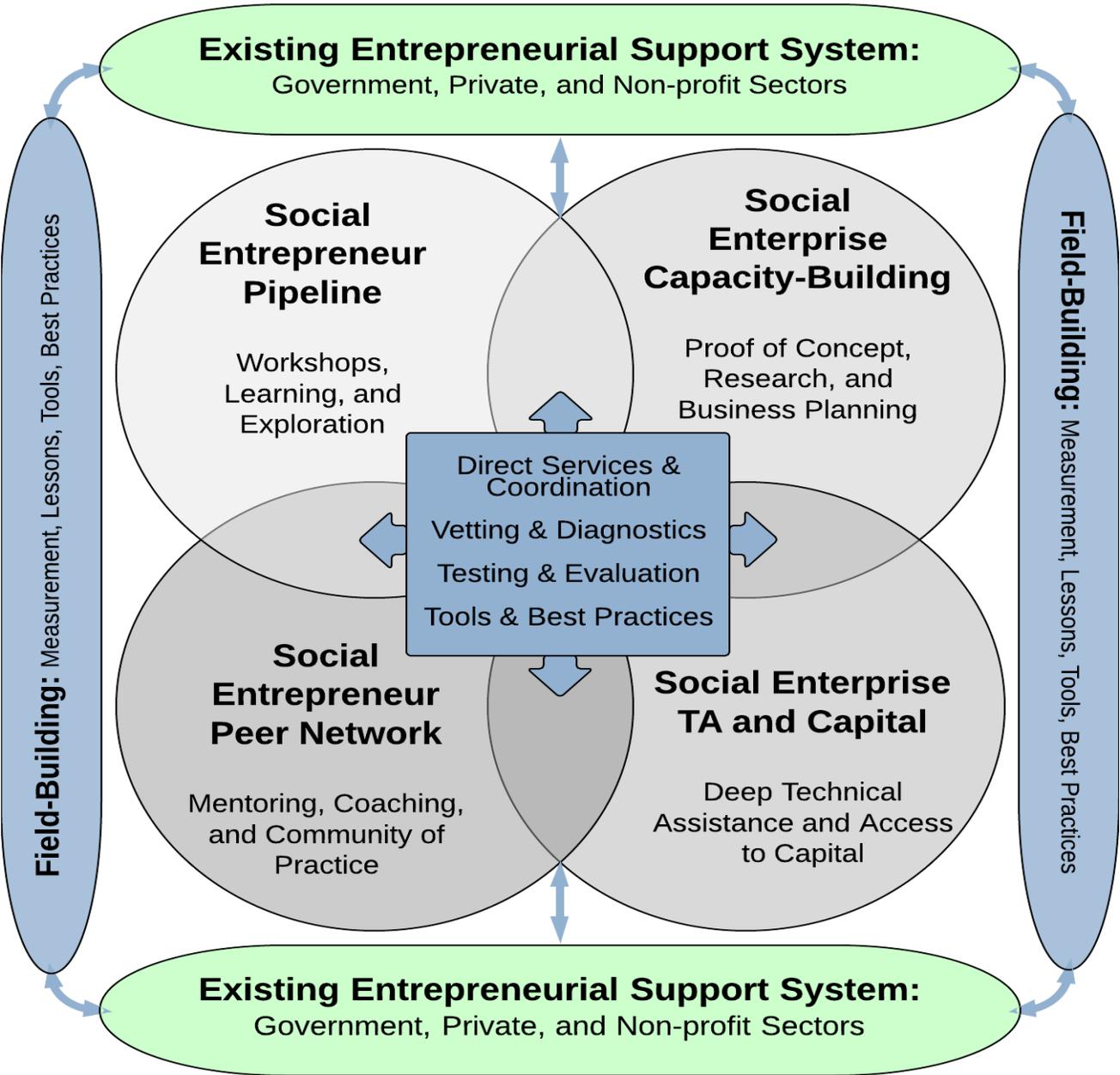


Diagram 2. Design for a Potential Social Enterprise Support Initiative

## **Testing Demand for This Model**

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This model represents our best thinking around what our region's social enterprise field needs, and we believe these interventions will contribute to significant social and economic impacts. However, it will be important to test the demand for these services continuously as we develop and implement each intervention, asking the following questions: Are we meeting an existing or emerging need? Is this intervention necessary to plug a critical gap in the support ecosystem? Is it an effective use of time, energy, and resources? Do social enterprises have the ability and interest to make good use of this intervention? Are we providing the services that are most likely to advance the field?

## **Social Entrepreneur Pipeline**

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We envision this pipeline beginning as a series of workshops that would help create a dedicated space for social enterprise development. These workshops would allow participants to deepen their understanding of social enterprise, share tools and best practices, build connections and relationships, develop stronger business plans, test their social enterprise ideas or evaluate ongoing efforts, and identify their support needs.

Potential participants include non-profit managers, existing businesses, new entrepreneurs, established social enterprises, and others interested in social enterprise development. These workshops would be the first step toward establishing a pipeline of social entrepreneurs, and would produce common language, tools and connections. This would also help to strengthen the social enterprise field and grow a regional community of practice around social enterprise.

## **Social Enterprises Capacity-Building**

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This set of capacity-building interventions would support social entrepreneurs with reasonably well-formed ideas or actual enterprises in development. They would commit to a series of enterprise planning, market research, financial management training and self-assessment activities with the support of the intermediary. These activities would likely include development of a business plan, market research, proof of concept, and product testing, as well as exploration of capital needs, legal structure and revenue model.

The intermediary would provide some direct support to these entrepreneurs, and would also connect them to technical assistance providers prepared to address their specific needs. The intermediary would provide tools, assignments, and readiness assessments for participants, as well as guidelines for how to proceed with their enterprise development.

## **Social Enterprise Technical Assistance and Capital**

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Social enterprises with business plans and internal capacity in place, once vetted and selected, will have access to deep technical assistance and capital. The technical assistance would include hands-on management support and sector-specific assistance to support social enterprises that are ready to launch, expand, or scale their efforts. There would also be continued support for general capacity needs such as business planning, organizational development, legal guidance, measurement, branding, and financial management capacity. Much of this technical assistance would be provided by a core network of existing high-capacity technical assistance providers. These providers would be brought together to ensure a shared understanding of social enterprise needs and best practices for effective support, gradually influencing the broader entrepreneurial ecosystem.

Enterprises receiving this deep technical assistance would also have support for meeting their capital needs. The intermediary would help to gain a deeper understand the enterprise's capital needs and prepare them to receive capital. This capital could take multiple forms, including loans, grants, and other equity-like investments from a central Social Venture Fund. The intermediary would also align external capital providers, provide vetting mechanisms, and broker investments for social enterprises.

### **Social Entrepreneur Peer Network**

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Social enterprises who participate in any of the previous activities, particularly those receiving deep technical assistance and capital, would also contribute to the development of other social enterprises. The peer community and field-building component of this model is crucial, as it will allow lessons learned, models, and other wisdom to be shared across the region's social enterprises. Mature or advanced social entrepreneurs will play a coaching or mentoring role for new or emerging enterprises, helping to build a regional community of practice around effective social enterprise development.

### **Existing Support System**

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This set of interventions will build on existing support structures, making use of the technical expertise and resources available in the region. Regional actors in the public, non-profit, and business communities are interested in social enterprise and have resources and expertise to contribute. The proposed model should help to support skill-building and tool sharing that is specific to social enterprise development.

These interventions will also address identified gaps in the overall entrepreneurial ecosystem, providing new resources and learning opportunities. This design should provide ample opportunity for existing support actors to partner or contribute in supporting social enterprise, and mutually inform current and future efforts elsewhere in the region. The end goal is a well-connected and informed system of support for social enterprises in the region.

### **Field-Building**

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Throughout this support process, the intermediary will be focused on documenting lessons, sharing tools, measuring impacts, and making connections. This ongoing evaluation will help the intermediary to adjust the support interventions to be as effective as possible. This field-building learning can also be shared widely, with the end goal of building interest, understanding, and capacity across the region's broader entrepreneurial ecosystem.

## V. Anticipated Results

### What We Hope to Accomplish

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We believe that building this social enterprise support system will ultimately contribute to a more sustainable and resilient economy in Central Appalachia. Concretely, the support system we envision will generate the following outcomes:

- A visible and growing pipeline of social entrepreneurs in the region
- A growing set of examples of successful social entrepreneurship within the region
- Clear and growing knowledge around what effective social enterprise support looks like
- An improved entrepreneurial ecosystem with a more effective and better connected set of technical assistance providers
- Platforms for investment that are appropriately scaled for social enterprise size and capacity
- Social and environmental impacts in key sectors such as energy efficiency, local food, social services, wood products, and others
- Increased community ownership and shared benefits from inclusive social enterprise business models
- Buy-in from stakeholders and other actors that scales and expands the impact of this effort

### Preconditions for Success

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For the proposed model to be effective in supporting and growing the field of social enterprise in Central Appalachia, the following assumptions will need to hold true:

- Synergy and cooperation exists among support actors and other stakeholders.
- There is enough buy-in and interest in the region to produce a critical mass of social enterprises and entrepreneurs.
- Consumers are interested in socially-oriented goods and services, and will pay for them.
- Regional and national foundations and support organizations are interested in supporting social enterprise in Central Appalachia.
- Relationships between Appalachia and surrounding areas are positive and expand access to social impact markets for regional social enterprises.
- This set of support interventions can be adjusted based on our learning and experiences.

### Conclusion

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Our goal is to better understand and support Central Appalachia's movement towards a resilient regional economy, sustained natural resources, and empowered communities. We believe that social enterprise is an important component of this emerging regional vision. The support interventions outlined in this paper will advance the region's existing social enterprises, incubate new ones, strengthen the support ecosystem, and attract more attention and resources to social enterprises and social entrepreneurship. We believe that this focused and strategic support will maximize the contribution of the social enterprise sector toward a lasting economic transition in Central Appalachia.

## Appendix A: National Social Enterprise Literature Review

### Literature Review Contents

- Definition of social enterprise
- Legal structures of social enterprises
- Funding and financing for social enterprises
- Support for social enterprise development
- Social entrepreneurs
- Social enterprises in Central Appalachia

### Definition of Social Enterprise

To ground this research project, we defined social enterprises 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.”**

Within the literature, there doesn't seem to be a universal definition of social enterprise. However, the Social Enterprise Alliance, the leading national association for social enterprises, defines “social enterprises” as “businesses whose primary purpose is the common good. They use the methods and disciplines of business and the power of the marketplace to advance their social, environmental, and human justice agendas.” 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

### Legal Structures of Social Enterprises

Social enterprises can take a variety of forms. The most common are <sup>2</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.<sup>3</sup>
- **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. The structure of a non-profit corporation is similar to a for-profit corporation but without shareholders.<sup>4</sup>
- **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.<sup>5</sup>

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

<sup>2</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](#).

<sup>3</sup> <http://www.sba.gov/content/limited-liability-company-llc>

<sup>4</sup> [http://www.nonprofit.pro/nonprofit\\_organization.htm](http://www.nonprofit.pro/nonprofit_organization.htm)

<sup>5</sup> Adapted from <http://www.businesslawgr.com/1/post/2013/01/the-cure-to-the-social-enterprise-problem-the-lc3.html> and <http://en.wikipedia.org/wiki/L3C>.

- **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 and voluntarily submit to higher standards of accountability and transparency.<sup>6</sup>
- **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.<sup>7</sup>

Market demand or more accurately, the target market’s ability to pay for goods and services is often a major determinant of a social enterprise’s financial strategy and organizational structure, as shown in Table 1.

**Table 1: Social Enterprise Structures** <sup>8</sup>

Model	Definition	Strategies for financial sustainability	Likely organizational structure
<b>No-market model</b>	Beneficiaries cannot pay for products or services being provided.	Full subsidy (grants)	Government organizations or non-profit organizations
<b>Limited market model</b>	Beneficiaries have some ability to pay for products or services rendered.	Partial subsidy (grants and revenue)	Nonprofit organizations
<b>For-profit model</b>	When the beneficiary has potential to pay full cost, so the social enterprise receives a profit that can be utilized to solve social problems	Patient or below market investment (loans, impact investors, revenue)	For profit companies or hybrid non-profit/for-profit organizations

### Funding & Financing for Social Enterprises

The literature describes social enterprises as either “self-sufficient” or “sustainable.”<sup>9</sup>

- **Self-sufficient enterprises** finance their venture through revenue alone, making use of debt and equity to finance their operations.
- **Sustainable enterprises** finance themselves by subsidizing their revenue with grants or other non-repayable funds.

Social enterprises have access to a variety of funding and financing options. The most common include:

- **Grants:** Financial awards from foundations or government agencies which do not have to be repaid.
- **Debt:** Loans or lines of credit, which must be paid back to the lender
- **Equity:** Investment from institutions, groups, or individuals.
- **Revenue:** Income generated by product sales or fees-for-service.
- **Social Venture Capital:** Financial resources from donors or investors focused on market-driven, social value creation.

<sup>6</sup> <http://en.wikipedia.org/wiki/B-corporation>

<sup>7</sup> <http://www.sba.gov/content/cooperative>

<sup>8</sup> Adapted from Wolk, A. (2007). Social entrepreneurship & government: A new breed of entrepreneurs developing solutions to social problems. A Root Cause Report, prepared for The Small Business Administration, Office of Advocacy: 32.

<sup>9</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.

Examples of the various institutions that offer funding and finance to social enterprise can be found below.

**Table 2: Sources of Social Enterprise Financing & Funding**

Source	Definition	Examples
<b>Foundations</b>	“A non-governmental entity that is established as a nonprofit corporation or a charitable trust, with a principal purpose of making grants to unrelated organizations, institutions, or individuals for scientific, educational, cultural, religious, or other charitable purposes.” <sup>10</sup>	<ul style="list-style-type: none"> <li>▪ <a href="#">FB Heron Foundation</a></li> <li>▪ <a href="#">Mary Reynolds Babcock Foundation</a></li> <li>▪ <a href="#">Ashoka</a></li> <li>▪ <a href="#">Skoll Foundation</a></li> <li>▪ <a href="#">Schwab Foundation</a></li> <li>▪ <a href="#">Claude Worthington Benedum Foundation</a></li> </ul>
<b>Impact Investors</b>	<p>“Investments made into companies, organizations, and funds with the intention to generate measurable social and environmental impact alongside a financial return.”<sup>11</sup></p> <p>Some of the more popular forms of impact investing, including:</p> <ul style="list-style-type: none"> <li>• <b>Angel Investors</b>- the top 10 Angel investor groups in the U.S. are <a href="#">listed here</a>.</li> <li>• <b>Social Venture Capital Firms</b>- <a href="#">Good Capital</a></li> <li>• <b>Crowdfunding</b><sup>12</sup></li> </ul>	<p>The top ten crowdfunding sites include:</p> <ul style="list-style-type: none"> <li>▪ <a href="#">Kickstarter</a></li> <li>▪ <a href="#">Indiegogo</a></li> <li>▪ <a href="#">Crowdfunder</a></li> <li>▪ <a href="#">Rocket Hub</a></li> <li>▪ <a href="#">Crowdrise</a></li> <li>▪ <a href="#">Somolend</a></li> <li>▪ <a href="#">appbackr</a></li> <li>▪ <a href="#">Angel List</a></li> <li>▪ <a href="#">Invested.in</a></li> <li>▪ <a href="#">Quirky</a></li> </ul>
<b>Community Development Finance Institutions (CDFI)</b>	CDFI’s help expand credit, capital, and financial services to historically underserved populations and communities. The most common forms of CDFI’s include: community development banks, community development credit unions, community development loan funds, community development venture capital funds, microenterprise loan funds. <sup>13</sup>	There are more than 1000 CDFIs in the U.S. To learn more about them as a collective group, visit the <a href="#">CDFI Coalition</a>
<b>Co-operatives</b>	Shared-ownership business structures; owners share decision-making power, responsibilities, risks, and benefits. Farmer-owned, worker-owned, and consumer-owned cooperatives are common models. A cooperative structure allows social enterprises to generate operating capital by pooling a large number of small investments or equity shares from a large number of stakeholders or user-owners that will share in the cooperative's benefits.	<ul style="list-style-type: none"> <li>▪ <a href="#">Evergreen Cooperatives provides a prominent and illustrative example</a></li> </ul>

<sup>10</sup> <http://www.grantspace.org/Tools/Knowledge-Base/Funding-Resources/Foundations/What-is-a-foundation>

<sup>11</sup> "About Us". Global Impact Investing Network (GIIN). Global Impact Investing Network (GIIN). 2013. Retrieved January 12 2013.

<sup>12</sup> Crowd funding is web-based collaborative funding that either provides incentives for donations or attracts investors willing to accept lower return on investment to support a social cause. This global industry raised \$2.7 billion across more than 1 million individual campaigns in 2012, and is projected to grow by \$5.1 billion.<sup>12</sup>

<sup>13</sup> <http://community-wealth.org/strategies/policy-guide/cdfi-fund.html>

## Support for Social Enterprise Development

The national literature provides significant information on support needs of social enterprises and predominant ways in which these enterprises are receiving support. The most extensive national study on this topic identified the following as the primary support needs most reported by social enterprise managers.<sup>14</sup>

- **Staff and organizational capacity:** Many non-profit managers have modest business backgrounds, so the need for internal capacity building is high in most social enterprises. The most prevalent capacity needs mentioned by managers include defining the right organizational structure, developing internal policies and procedures, creating an effective financial management system, and the development of short and long-term strategic plans.
- **Structured peer learning:** Social enterprise managers stated too few opportunities to share their experiences or learn from others in the field. Managers want industry specific peer learning opportunities that help them understand the experience and lessons of their peers and that connect them to new research and/or dialogue with cutting-edge thinkers.
- **Capital knowledge and connections:** Social enterprise managers noted a lack of understanding of the various forms of capital available and weak relationships with lenders and grantmakers. Access to coordinated networking opportunities with lenders, collective fundraising or capital raising efforts, and the creation of social enterprise investment pools were listed as high priorities among this group.

The Appalachian Regional Commission (ARC) also conducted a 2006 study on social enterprises in Appalachia.<sup>15</sup> In this study, the ARC defined the following set of key requirements for the successful creation and operation of social enterprises.

**Table 3: Six requirements for successful social enterprises according to the ARC Study**



Of these six requirements, the report advised that social enterprises in Appalachia are in particular need of support in the following three areas: 1) market access 2) management capacity, and 3) patient financing.

<sup>14</sup> Massarsky, C. and Beinhacker, S. (2002). Enterprising non-profits: Revenue generation in the non-profit sector. Yale School of Management - The Goldman Sachs Foundation Partnership on Non-profit Ventures. <http://community-wealth.org/sites/clone.community-wealth.org/files/downloads/paper-massarsky.pdf>

<sup>15</sup> Burns, B. (May 2006). Supporting non-profit social enterprise in Appalachia. Venture Fund White Paper. The research project region included KY, WV, OH, NC, VA, TN

Lastly, we synthesized the most common national models for supporting social enterprises. The below table summarizes the various support methods and lists of national social enterprise support organizations.

**Table 4: Common Models for Social Enterprise Support**

Support Methods	Definition	Sample of Support Actors
<b>Business Plan Competitions</b>	Business plan competitions bring together entrepreneurs to help them create and deliver a pitch for their business venture. The competition is judged and the winner often receives a financial award.	<ul style="list-style-type: none"> <li>• <a href="#">BiD Network</a></li> <li>• <a href="#">Ashoka's Changemakers</a><sup>16</sup></li> </ul>
<b>Government Agency Support</b>	Government agencies and programs provide grants and loans, foster collaboration among social enterprises, conduct research and lend credibility, and sometimes purchase products or services from social enterprises.	<ul style="list-style-type: none"> <li>• <a href="#">Small Business Development Centers (SBDCs)</a></li> <li>• <a href="#">Appalachian Regional Commission</a></li> </ul>
<b>Conferences &amp; Networking</b>	There are numerous forums for social entrepreneurs to connect and share experiences, though most are very general.	<ul style="list-style-type: none"> <li>• <a href="#">Skoll World Forum on Social Entrepreneurship</a><sup>17</sup></li> <li>• <a href="#">Social Capital Markets</a><sup>18</sup></li> <li>• <a href="#">Enterprise Forum</a><sup>19</sup></li> </ul>
<b>Advocacy &amp; Research</b>	The field of social enterprise is constantly being refreshed by new research, educational opportunities, and advocacy efforts.	<ul style="list-style-type: none"> <li>• <a href="#">Social Enterprise Alliance</a><sup>20</sup></li> <li>• <a href="#">The Institute for Social Entrepreneurs</a><sup>21</sup></li> <li>• <a href="#">Duke CASE</a><sup>22</sup></li> </ul>
<b>Accelerators</b>	Accelerators focus on supporting and advancing a cohort of social enterprises that are already established and ready to expand (as opposed to an incubator, which provides startup support).	<ul style="list-style-type: none"> <li>• <a href="#">Accelerating Appalachia</a><sup>23</sup></li> <li>• <a href="#">Village Capital</a><sup>24</sup></li> </ul>
<b>Fellowships</b>	Fellowships focus on the entrepreneurs themselves, providing forums for them to exchange ideas and find support for projects.	<ul style="list-style-type: none"> <li>• <a href="#">Ashoka</a><sup>25</sup></li> <li>• <a href="#">Skoll Foundation</a><sup>26</sup></li> </ul>

<sup>16</sup> Provides a number of resources on social entrepreneurship.

<sup>17</sup> An international gathering of social entrepreneurs and some social investors (in Oxford, UK).

<sup>18</sup> An annual US-based conference focused on social investing. The official listserv of the Social Enterprise Alliance with thousands of participants worldwide.

<sup>19</sup> The npEnterprise Forum is the global, moderated, free listserv of ~7500 subscribers who discuss practical ways social enterprises (SEs) can advance their social or environmental missions through entrepreneurial strategies

<sup>20</sup> A membership organization for social entrepreneurs in the United States devoted exclusively to building sustainable non-profits through earned income strategies. Its conference for social entrepreneurs is the largest of its kind in the world, and it also provides a variety of other education and technical assistance. Most Alliance members are non-profit practitioners and grant-makers, but also include management consultants, for-profit businesses and academics.

<sup>21</sup> Provides seminars, workshops and consulting services for social entrepreneurs in the United States and elsewhere.

<sup>22</sup> Part of Duke business school, The Center for the Advancement of Social Enterprise provides a pipeline of social entrepreneurs that connects research and best practices with existing social enterprise investment groups.

<sup>23</sup> Accelerating Appalachia is one local example of their accelerator model, which focuses cohorts of seed-stage social enterprises on building the management practices, capacity, and business plans necessary to receive expansion investments

<sup>24</sup> Structured training program providing business support, technical assistance, peer learning and connections to financing options. Focused on scaling a cohort of "nature-based businesses" in Western North Carolina.

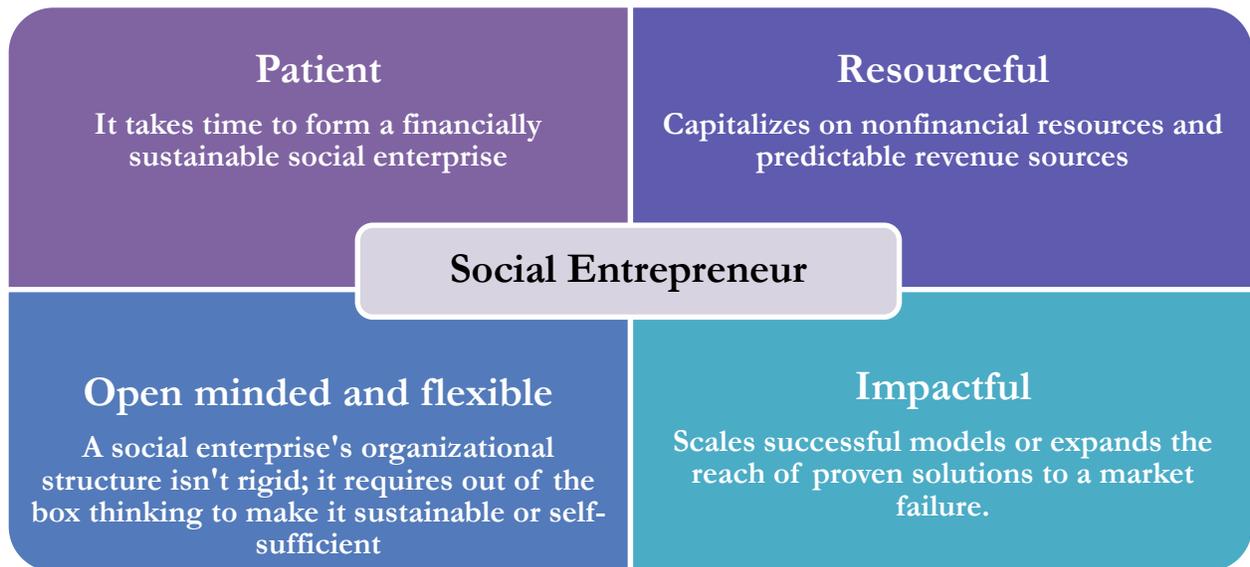
<sup>25</sup> More than 1,500 Ashoka Fellows in 53 countries are developing systemic-changing organizations in the areas of economic development, health, environment, education, human rights and civic participation. Ashoka currently chooses and finances about 150 new Fellows each year.

<sup>26</sup> The Skoll Awards for Social Entrepreneurship support the work of established social entrepreneurs around the world. The Foundation also sponsors the Social Edge listserv and has created a public television documentary series.

## Social Entrepreneurs

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 1 below. Several of the national support organizations listed above focus on the leadership and personal development of the entrepreneur as well as the enterprise.

**Table 4: Traits of Successful Social Entrepreneurs**



## Social Enterprises in Central Appalachia

In February 2008, ARC commissioned another regional study to assess the size of the social enterprise field and its potential for growth and community impact. The study also gauged the demand for social enterprise support services in Central Appalachia. Please see below for the most relevant findings of this study.<sup>27</sup>

**Table 5: Overview of Social Enterprises in Central Appalachia (2008)**

<b>Size</b>	<ul style="list-style-type: none"> <li>▪ One-third of the non-profits in Central Appalachia currently operate a social enterprise (67 of the 196 respondents).</li> <li>▪ Seventy-five percent of social enterprises surveyed generated \$500,000 or less in revenue (2006), while almost 15% of social enterprises generated more than \$1 million in revenue (2006).<sup>28</sup></li> </ul>
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<sup>27</sup> Community Wealth Ventures. (Feb. 12, 2008). Survey results: Assessment of demand for social enterprise support services in Central Appalachia.

<sup>28</sup> Nationwide, the greatest number of non-profits operating social enterprise have budgets between \$5 million and \$25 million-from Massarsky, C. and Beinhacker, S. (2002). Enterprising non-profits: Revenue generation in the non-profit sector. Yale School of Management - The Goldman Sachs Foundation Partnership on Non-profit Ventures.

- Financial**
- 82% of profitable social ventures reached profitability in three years or less.
  - Social enterprises are using multiple sources of funding but relying heavily on foundation and government grants.
  - 28% of social enterprises in Central Appalachia are being operated at break-even or in the red.
  - Over 80% of organizations secured debt or equity capital to launch their social enterprise.

- Structure**
- Over 80% of organizations are operating their social enterprise as a department or division within a non-profit organization

- Training**
- Over 85% of social enterprises receive training prior to launch.
  - Enterprises rely on local, regional, and national training support.
  - Over 50% of organizations cite marketing as a core training need.
  - Organizations that are considering starting, but do not currently operate a social enterprise desire training in accessing capital, business plan development and general social enterprise operations.
  - After launch of social enterprises, 41% of organizations cite lack of capital and 41% cite poor market conditions as key growth challenges.

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From the survey results, Community Wealth Ventures recommended the following strategies for stimulating social enterprise growth in the region<sup>29</sup>:

- Develop regional infrastructure and support services targeted at social enterprises.
- Offer peer based training and business coaching to a group of existing social enterprises.
- Offer peer based training and business coaching to a group of organizations interested in launching a social enterprise.
- Offer introductory workshops on the concept and benefits of social enterprise development.

The 2006 ARC study, on the other hand, made the more ambitious suggestion of developing a social enterprise “accelerator” and a venture fund for social enterprises, as the two most promising approaches to expand the development of social enterprises in Central Appalachia.

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<sup>29</sup> Community Wealth Ventures. (Feb. 12, 2008). Survey results: Assessment of demand for social enterprise support services in Central Appalachia: 4-5.

## Appendix B: Interview Methodology

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The majority of the original research conducted for this report took the form of phone interviews. We interviewed the managers of 9 social enterprises and 7 support organizations along with 4 regional actors with influence and connections to social enterprise development. Social enterprises and support organizations were selected to be as representative as possible of a sample of the pool of actors in each category across the region. We also conducted a focus group with participants from a variety of regional organizations at the 2013 ARC conference on entrepreneurship.

### Interview Protocols

Each interview began with a set of common themes and questions for discussion, though the conversations themselves varied widely depending on the perspective, interests, and experience of each interviewee.

#### For social enterprises, the interview focused on five main categories:

- Profile and characteristics of the social enterprise
- Experience and challenges accessing capital
- Availability and usefulness of technical assistance and training
- Primary needs of social enterprises in the region
- Connectedness with other social enterprises

#### For support organizations and regional actors, the interview focused on:

- Types of capital provided for social enterprises
- Challenges of providing capital to social enterprises
- Availability of capital for social enterprises in the region
- Technical assistance and training provided for social enterprises
- Effectiveness of existing technical assistance and additional needs of social enterprises
- Actors who could provide more technical assistance
- Connectedness of support actors around the region

### Distribution of Social Enterprises Interviewed

1. **Geography:** Of the nine social enterprises interviewed, there were three located in West Virginia, two in Virginia, two in Ohio, and two in Kentucky.
2. **Sector:** Five of the nine social enterprises operate in the local food sector, including retail, wholesale, and processing. One social enterprise each operates in the textile, furniture manufacturing, wood products, and solar energy industries.
3. **Longevity:** The longevity of each enterprise was spread out to gain perspective on the support needs of social enterprises in different stages of operations. Three have been functioning for over 10 years; four have been operating for 3-5 years, and two have been operational two years or less.
4. **Legal Structure:** The examples interviewed accurately reflect the wide variety of legal structures present in the social enterprise field. Five of the nine enterprises were private, for-profit businesses. Two were LLC's operated by a parent non-profit. Two were non-profit enterprises. A more in-depth analysis of these structural types can be found in Appendix E.

**Full List of Interviewees and Focus Group Participants**

<b>1. Social Enterprises</b>				
<b>Name</b>	<b>Location</b>	<b>Sector</b>	<b>Legal Structure</b>	<b>Years in Existence</b>
Coalfield Development Corporation / Reclaim Appalachia	Wayne, WV	Construction/Salvage and Furniture Manufacturing	LLC with parent non-profit	5 / 1
The Wild Ramp	Huntington, WV	Local Food Market	Non-profit with co-op features	1
Greenbrier Nurseries	Beckley, WV	Nursery/Farm to Table Market	Private business	50+ / 1
WoodRight	Abingdon, VA	Wood Products/Forestry	LLC with parent non-profit	1
Appalachian Harvest	Abingdon, VA	Local Food Hub	Non-profit enterprise	14
Print My Threads	Ashland, KY	Textiles	Private business LLC	4
Marksbury Farm Market	Lancaster, KY	Meat Processing	Private business partnership	3
Third Sun Solar	Athens, OH	Renewable Energy	Private business LLC	14
Shagbark Seed & Mill	Athens, OH	Local Food Hub	Private business LLC	3

<b>2. Social Enterprise Support Organizations</b>			
<b>Name</b>	<b>Location</b>	<b>TA &amp; Training</b>	<b>Capital</b>
ACEnet	WV	X	X
Virginia Community Capital	VA		X
WV Growth Fund	WV		X
APEG	OH	X	X
KY Innovation Network (KSTC)	KY	X	X
KHIC	KY	X	X
Kentucky SBDC	KY	X	

<b>3. Social Enterprise Regional Perspectives</b>		
<b>Name</b>	<b>Organization</b>	<b>Location</b>
Marten Jenkins	NCIF	WV
Sandra Mikush	Mary Reynolds Babcock Foundation	Southeastern U.S.
Ray Daffner	ARC	D.C.
Bradley Wilson	West Virginia University	Morgantown, WV

<b>4. Focus Group Participants</b>		
<b>Name</b>	<b>Position and Organization</b>	<b>Location</b>
Deb Markley	Director, Center for Rural Entrepreneurship	NC
Laurie Daugherty	Associate VP, Kentucky Science and Technology Corporation	KY
Jill Young	Project Coordinator, Value Chain Cluster Initiative	WV
Bradley Wilson	West Virginia University	WV
Paul Wright	Enterprise Developer, MACED	KY
Rodney Raisanen	Social Enterprise Developer, Sojourners Care Network	OH
Alexa Arnold	Organizer, Community Farm Alliance	KY
Annie Stroud	Downstream Strategies	WV
Savanna Lyons	Director, WV Food and Farm Coalition	WV
Erica Anderson	Working Lands Planner, Land of Sky	NC
Pam Curry	Director, Center for Economic Options	WV
Jennifer Jones	President, Greenbrier Valley Pasture Network/ Smith Level Farm	WV