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# A Green Sector Overview

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## Social Enterprise

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**Social Enterprise** refers to organizations with primarily social or environmental objectives where surpluses are reinvested into the business or used for community benefit. These ventures provide goods and services to the market for the purpose of creating a blended return on investment (both financial and social/environmental). Rather than maximizing shareholder value, the main aim of a social enterprise is to generate revenue to further their social or environmental goals.

Social enterprise has been embraced by many not-for-profit and charitable organizations in the social services sector, but more and more it is seen as a viable option for for-profit businesses to make positive contributions to the environment. For businesses, social enterprise goes beyond corporate social responsibility and views environmental activities as a source of revenue rather than a cost. In these cases, the business aims to create a blended return on investment (see Fig. 1) where there is no trade-off between economic gains and environmental outcomes, but where economic gains are intrinsically linked to environmental benefit.

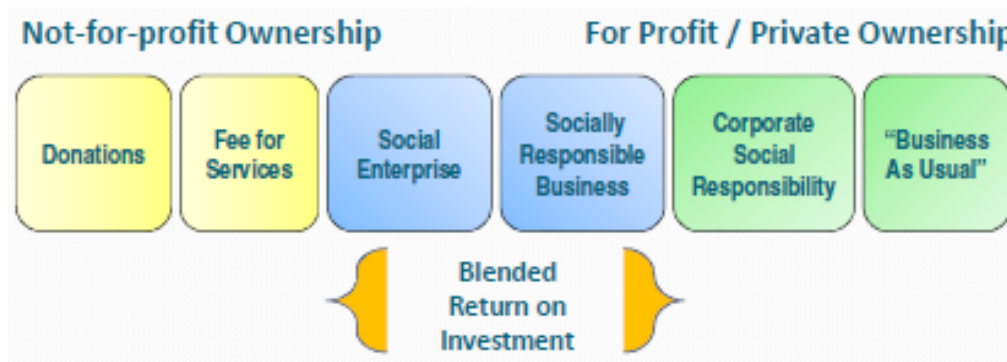


Figure 1

There has been major growth in the adoption of social enterprise practices in recent years. As awareness of what social enterprise is and how it is applied improves, this growth is expected to continue. In the United Kingdom (where there is a unique classification of social enterprise distinct from not-for-profit and charitable organizations), there are approximately 62,000 operating social enterprises, contributing £24 billion and 800,000 jobs to the economy. Industry experts believe that this growth is due to an understanding that some needs (e.g. social and environmental) will never be met by the market on its own, yet at the same time the market provides an opportunity to advance mission-related goals for not-for-profit organizations.

Individuals and communities who have the desire to venture into a business to provide a product or service for the green economy may want to consider non-traditional business models that represent neglected opportunities. The UK Social Enterprise Coalition believes that many green industries offer great promise for aspiring social entrepreneurs, as these potential projects align with many public sector

targets plus the increasingly environmentally aware consumer. Some green industries that may provide social enterprise opportunities include waste collection and recycling services, renewable energy production and green technologies, ecosystem restoration and maintenance, and conservation of the built and natural environment.

## Organizational Structures

There is no special-status for social enterprise in Canada, thus a social enterprise can exist in many forms. The three most common structures found in Canada are: for-profit businesses with a social or environmental purpose, not-for-profit organizations using market-based activities to achieve their mission-related goals, and charitable organizations that engage in revenue generating activities.

**For-profit businesses** can be considered a social enterprise when they are operating the business to achieve an environmental goal, as well as to generate a profit. The advantages of operating a social enterprise as a for-profit business include the ability to earn profits and pay dividends to shareholders, receive investment from private third parties, and not have to worry about the regulations and legislation that can restrict the activities of a not-for-profit organization or charity. The drawbacks are that for-profit businesses are not tax exempt and are not “qualified donees” and thus cannot attract funding from charities.

Another option is for a business to operate a social enterprise separate from the core activities of the business and have it considered a charitable program of the company. In this case, the social enterprise must address a community concern, such as relief of unemployment or poverty, services for people with disabilities, or addressing issues in economically challenged communities. For example, the Canada Revenue Agency (CRA) may allow a training business as a charitable program.

**Not-for-profit organization:** It is common practice for social enterprises to be set up as not-for-profit organizations. The organization could set up a for-profit activity within the existing structure, but it may be subject to certain limitations. In this structure, the organization can earn revenues and remain tax exempt, but they are not able to garner investment in the same way as a for-profit business.



**Above the Falls Challenge Course** offers fun, challenging, and innovative activities like climbing, balancing, tight rope walking, and zip-lining as a means to develop effective teamwork, build relationships, and sharpen problem-solving skills. Trained guides accompany groups of students, teams, employees, or friends through the course.

Above the Falls Challenge Course is a 100% environmentally-friendly organization. The course, located at the Falls River Conservation Area in Benmiller Ontario, was installed using environmentally sustainable construction techniques.

### **Organizational Structure:**

Above the Falls Challenge Course is a not-for-profit organization administered by a volunteer Board of Directors that charges a fee for service.

### **Information:**

[www.abovethefalls.com](http://www.abovethefalls.com)

80900 Falls River Line, Benmiller  
Ontario

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**Everdale Organic Farm and Environmental Learning Centre** is a community-based learning centre that strives to help people regain the story of their food, community, farmers, and supper. To accomplish these goals, the Centre offers Farmer Training, School Programs, Workshops, and Events.

The Everdale Organic Farm was established in 1997 and incorporated as a not-for-profit organization in 2000 when a full-season farm internship program was introduced. In 2004 Everdale received charitable status.

As an incorporated not-for-profit with charitable status, Everdale is supported by donations and grants, but also generates income through their Harvest Share Program and sales at local Farmers' Markets. Nearly 400 households participate in the Harvest Share Program to purchase fresh organic produce throughout the season.

Everdale also runs an Organic Farming Certificate (OFC) program, which is a 7-month tuition-based program. Many graduates of the program have gone on to careers in farming, food, and sustainable agriculture.

#### **Information**

[www.everdale.org](http://www.everdale.org)

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The Ontario government recently passed a *Not-For-Profit Corporations Act* that allows not-for-profits to engage in commercial activities where revenues are used by the corporation in support of their not-for-profit purposes. However, the CRA is somewhat vague on the issue of revenue-generating not-for-profit organizations. It is possible that an incorporated not-for-profit could be subject to taxes based on the organization's activities. As such, some not-for-profits may choose to set up a separate not-for-profit or for-profit organization to run the social enterprise. As a general rule of thumb, the CRA suggests that "the carrying on of a trade or business directly attributable to, or connected with, pursuing the non-profit goals and activities of an association will not cause it to be considered to be operated for profit purposes" and thus subject to taxes.

**Charitable organization:** Social enterprises run by charitable organizations are subject to similar regulations as those structured as a not-for-profit. Registered charities are allowed to generate revenue through business activities, such as charging a fee for services. If the revenue generating activity is not a charitable activity then it must be related to the charity's mission to be allowed. The recommended structure by the CRA for charities that undertake unrelated business activities is to set up the social enterprise as a separate organization. A separate for-profit business would be subject to tax, but can deduct up to 75% of its annual revenue as charitable donations.

Outside of Canada some new forms of organizational structures have been developed to address the growth of social enterprises. The UK has created regulations for Community Interest Companies (CIC). The CIC was established to encourage businesses to operate for a social or environmental purpose. CICs may issue shares in order to raise capital, but a regulator sets a cap on the level of dividends that can be paid to shareholders. Under this structure, the social enterprise is subject to fewer regulations than a charity, but do not receive favourable tax treatment.

Another new option for social enterprises in the United States is the low-profit limited liability company (L3C). The L3C structure aims to bridge the gap between for-profit businesses and not-for-profit organizations. An L3C must be established to accomplish a social or environmental purpose, but it is still permitted to earn a profit. L3Cs are structured like a traditional limited liability company, but are able to receive "Program Related Investments" from private foundations, which provide additional possibilities for financing. As the L3C and CIC structures are still new, it is unclear how they will impact the development of social enterprises.

## Key Success Factors

There are several factors that are crucial for investors and financial institutions to consider when evaluating a social enterprise. A well-organized management team will help to ensure that the business operations are run effectively. For social enterprises that develop out of a not-for-profit or charitable organization, it is important that there is someone involved with entrepreneurial experience. The organization must also have a well-defined social or environmental mission and an appropriate balance between the mission-related outcomes and the economic effectiveness of the business activities (see Figure 2). As well, strong community support is required by social enterprises. The level of volunteer activity is one way to measure community support.



Figure 2

Since a social enterprise engages in market-based activities it is important to have a well-developed business plan. However, the purpose of a social enterprise differs from a profit-maximizing business and therefore traditional financial statements are not always an adequate means to evaluate the organization. Traditional financial statements have difficulty presenting intangible assets, such as human and social capital, and do not always represent the fair value of assets (e.g. improved water quality or increased ecosystem resiliency). For a social enterprise's business plan, alternative measures of success and the achievement of social and environmental objectives are needed.

One way to adapt a business plan for an environmentally-focused social enterprise is to add an Environmental Balance Sheet. This document presents information on the organization's progress towards achieving its environmental objectives. Some pieces of information that would be included on the environmental balance sheet include terms of funding that would not appear in the notes to regular financial statements, the nature of any government or private contributions, and the amount of volunteer activity. A reclassification of revenues also needs to be included in the income statement for a social enterprise. Since some social enterprises can receive grants and/or donations, recurring revenues – those obtained from business activities, operating grants, and recurring support campaigns – should

be distinguished from exceptional, or one-time grants and revenues not obtained directly from regular operations.

In addition to adjusting the financial statements, a social enterprise's business plan should include a section on Environmental Outcomes. This section clearly discloses the environmental goals the organization aims to achieve and how these goals relate to the mission. An effective social enterprise is likely to have strong synergies between the mission, environmental goals, and its business activities. It is also important to state environmental outcomes that are quantifiable, measured against a target, and can be evaluated over time. The benefits of the environmental objectives should be clear and a method of evaluation outlined.

## **Labour Market**

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Since social enterprise projects are often conceptualized and developed by not-for-profits or voluntary organizations an understanding of the constraints of these organizations is helpful. Determining the full extent of the social enterprise workforce is complicated because the not-for-profit and voluntary sector does not have comprehensive labour market research data on paid employment. The HR Council for the Voluntary & Non-Profit Sector has produced several reports which seek to fill this gap. A Statistics Canada National Survey of Nonprofit and Voluntary organizations conducted in 2003 estimates there are roughly 1.2 million workers employed in the sector.

According to one report released by the HR Council for the Voluntary & Non-Profit Sector, while there are educational programs with a direct path to employment, such as volunteer management, fundraising, and social work, these paths can occur in private, for-profit businesses and/or public or quasi-public institutions in areas like health care, education, social services, and the environment. Each of these potential employers has specific industry issues and workforce requirements, making it more difficult to make job-specific recommendations.

The HR Council report states that this sector is in the very early stages of building a body of knowledge about paid employment and in 2007-2008 conducted 1,570 employer surveys and 2,873 employee surveys across Canada. Survey results indicate that more than half of the employers surveyed had existed for 28 years or more, with religious organizations reporting an average age of 70 years. In terms of employees, 66% are women and seven out of ten not-for-profit employees have completed post-secondary education. Although 91.7% of employers stated that overall, the skills of their current employees "mostly" or "fully" met the needs of their organization, skill gaps do exist. Employers are primarily concerned about computer and time management skills. A key constraint for employers; however, is the budget required for training and development is often very small or nonexistent.

Many social enterprises seek to advance the employment situation of marginalized populations by enhancing workforce participation and the skills necessary to be successful in a work situation. Marginalized populations given an opportunity to participate in the paid workforce also offer benefits to the local community by a decrease in reliance on government services and through their consumption of goods and services in their local economy. However, by its very nature, social enterprise must continuously juggle multiple bottom lines, financial and social, as well as its core mission. Many social enterprises value what is best for the individual, which may conflict with what is best for the company. Leaders in social enterprise must find a way to balance this issue.

## Social and Environmental Considerations

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Social and environmental outcomes are at the core of a social enterprise's business activities. For a social enterprise with an environmental purpose, benefiting the environment is their reason for being and as such, those benefits need to be measured. Evaluating the environmental impacts of a social enterprise can be used to confirm that the organization is achieving its mission-related goals, adjust and improve strategic plans, improve the day-to-day operations, and build and maintain the support of the community.

In order to demonstrate the value of the organization's environmental impact, the first step is to determine what information is useful and how the information will be used. Evaluation of mission-related performance may differ from business performance, for example. Some examples of areas for environmental performance include Water, Waste, Energy, Air Quality, and Climate Change Mitigation. Once the organization has identified which environmental areas best demonstrate achievement of their mission or business goals, they can select metrics to evaluate performance in those areas and begin to demonstrate the value of their activities.

The final two steps in the process are to determine a value for the environmental impact of an organization's activities. Step 2 is to quantify the benefits of an activity. For example, take an activity that aims to reduce energy use. A resource unit for quantifying energy use is kWh. So if the installation of a solar hot water heater on a home reduces energy consumption by 1000 kWh per year, and the organization installed 50 heaters, then the total impact is a reduction of energy use of 50,000 kWh per year.

Step 3 in the process is to determine a valuation of the quantified benefit. In the example above, an average price for electricity is \$0.06/kWh. In that case, the 50,000 kWh reduction in energy use can be valued at \$3000 per year. For solar collectors with a life expectancy of 25 years, that could result in a full-life value of \$75,000.

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Demonstrating the Value of Environmental Benefits	
<b>Step One</b>	Select information that is measureable and useful in evaluating the achievement of mission-related goals
<b>Step Two</b>	Quantify the environmental benefits of each activity using the information gathered in Step One
<b>Step Three</b>	Calculate the value of the quantified environmental benefit

The following table<sup>1</sup> provides some example metrics for evaluating the environmental performance of a social enterprise.

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<sup>1</sup> Table data obtained from Center for Neighborhood Technology, *The Value of Green Infrastructure* (2010).

Area	Activity	Quantification Unit	Valuation
Air Quality	Green Roof design and installation	Uptake of NO <sub>2</sub> particle pollutants/ sq. ft.	NO <sub>2</sub> = \$3.34/lb
Climate Change Mitigation	Tree planting	Net CO <sub>2</sub> benefit per tree	Carbon Price: \$0.007/lb CO <sub>2</sub>
Energy	Reduced energy use	Reduction in kWh of electricity use	Electricity price: \$0.06/kWh
Water	Rain water harvesting	Reduced stormwater runoff	Avoided stormwater treatment costs: \$0.00009/gallon

## Industry Outlook

The social enterprise sector is one of the fastest growing areas of activity and innovation in North America. The combination of innovative ways that not-for-profits and charities are achieving their social and environmental missions and businesses that are adopting a triple-bottom line approach has begun to blur the lines between business and not-for-profit organizations. This has created the conditions for social enterprises to grow. These organizations are concerned with creating value that is shared between shareholders and communities, and there are numerous opportunities in the green economy for social enterprises to thrive. Some other examples of green social enterprises from around the world include:

- Market gardens and community shared agriculture ([Reroot Organic CSA](#), Harriston ON)
- Bike and car sharing ([Recycle Cycles Community Bike Shop](#), Kitchener ON)
- Small-scale renewable energy production ([Countryside Energy Co-op](#), Milverton ON)
- Waste diversion and recycling ([Wearable Collections](#), New York USA)
- Manufacturing and sales of green and organic products ([Mapleton's Organics](#), Moorefield ON)
- Environmentally-friendly building materials ([Serious Materials](#), California USA)
- Local projects for environmental restoration and resilience

Social enterprises can address social and environmental issues while stimulating economic revitalization and the building of natural, social, and cultural capital. Each of the above examples provides an example of how social enterprises can contribute to the development of sustainable communities.

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