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Catalyzing Local Change: Reducing Barriers to Small-Scale Social Entrepreneurship in Pennsylvania

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I. Executive summary

Small businesses face a plethora of obstacles, from limited capital, to market visibility, to scalability. For those built around social missions, these hurdles are even more problematic, as tight constraints leave little room for meaningful contributions to social causes. This brief will cover how small social enterprises encounter challenges in their pursuance of societal improvement, and how these can be mitigated through policy implementations.

II. Overview

Social enterprises, while relatively scarce in the entrepreneurship space, can be powerful drivers of change. Interweaving social causes in their business models, these firms aim to make a profit while simultaneously advancing a given societal goal. Among the most prominent examples of social impact businesses are Warby Parker, with its buy-one-give-one model providing glasses to impoverished individuals; Dave's Killer Bread, which boasts a commitment to hiring formerly-incarcerated workers; and Patagonia, whose profits are donated almost entirely to a conservation-focused nonprofit organization.

While these large corporations have relatively smooth operating structures, the same cannot be said for small businesses with similar missions. For cause-driven founders, insufficient capital is a major underlying concern from which myriad constraints emerge, including poor marketing, accumulating debts, and an inability to effectively expand operations. This is harmful to the businesses as a whole, but it is especially detrimental to the causes they aim to support. Thus, for these enterprises, social impact becomes a balancing act between turning a profit and forwarding a given societal goal. This paper examines key concerns threatening the success of small social enterprises, offering practicable policy solutions that can help these businesses generate profit and sustain community missions simultaneously.

A. Relevance

Social enterprises exist in many forms, but one type that is often underrepresented are those with smaller, regionally centered operations. By honing in on a specific location, these businesses have the opportunity to greatly impact one community, as opposed to larger organizations that can reach various locations, but only marginally so. However, with limited resources, it is often a challenge for small social enterprises to make a meaningful impact while also making enough profit to sustain their functions.

On the whole, small businesses across the U.S. face a plethora of financial constraints. In a 2025 survey conducted by the twelve Federal Reserve Banks, economic organizations indicated that gaining access to capital and covering operating costs were both growing challenges for American small businesses. Inflation, tariffs, economic uncertainty, and federal budget cuts that eliminated contracts and grants for many organizations were all cited in the survey as exacerbating factors. For entrepreneurs that have to manage social impact in addition to profit generation, these issues are twofold. If turning a profit alone is a substantial obstacle, how are they to earn enough to significantly contribute to their cause of choice? Evidently, there are various additional factors that these entrepreneurs must consider. However, such a task can be daunting when little research on small-scale social enterprise operations currently exists.

Still, research centered around larger social impact companies can be helpful in illuminating smaller social entrepreneurs' plights. For instance, the popular shoe brand TOMS gained significant traction from its "buy-one-give-one" model of gifting a pair of shoes to an impoverished individual for each pair customers purchased. In 2021, however, the company abandoned this model for a new method of community impact. Through the "Grassroots Giving" program TOMS implemented in their old model's stead, the company pledged to donate one-third of its profits to nonprofits working for grassroots impact. The shift came after reports that the company was struggling to match the large volume of purchases made, nearly having to declare bankruptcy in 2019. For a company as large and as popular as TOMS to face such major setbacks highlights the general difficulties that come with implementing social impact business models, regardless of the resources a company has. Naturally, local enterprises with tighter budgets and fewer resources feel these issues magnified, and thus need greater support to maintain their activities and impact on a meaningful scale.

III. History

A. Current Stances

The use of the term "social impact" as a descriptor for ethical institutions emerged from a 1969 seminar at Yale University. At this seminar, the term was used in an examination of the morality of business practices at large investing firms. In the following year, "social impact" was again used in the U.S. Environmental Policy Act of 1970, which created a set of specific standards and requirements for businesses to follow known as the Social Impact Assessment (SIA). This SIA requires federal agencies to determine the potential socio-economic impacts–whether intentional or unintentional–their practices could have on communities.

SIAs gained more traction during the 1990s, with numerous organizations internationally crafting their own sets of social impact regulations. This upward trend persisted into the early 2010s, during which time the United Nations disseminated its *Guiding Principles on Business and Human Rights*, creating standards applicable not just to the internal operations of a single organization, but to those of all businesses worldwide. While it is expected that all businesses adhere to these regulations, such does not invariably follow. "Impact washing," for instance, is not an uncommon practice, occurring when representatives of a corporation falsely allege that their company provides some benefit to society or the environment for the sake of winning over investors. Such dishonesty has understandably bred mistrust in consumers, partially engendering the rise of social enterprises–businesses driven by societal missions rather than profit alone.

While impact ventures have increased in recent years, they remain overlooked and underestimated. Still accounting for a very small percentage of global enterprises, social impact businesses do not receive sufficient support or recognition from the public sector. As working toward societal goals inevitably introduces additional costs, small business owners especially are discouraged from incorporating a social mission into their business framework. A few states have taken steps to alleviate these burdens by making impact businesses eligible to receive donations from private foundations. However, the effects of this are marginal, as most states–including Pennsylvania–have not elected to implement similar policies. Pennsylvania and thirty-nine other states formally recognize benefit corporations–entities that are legally required to pursue social missions–but as these entities do not receive additional governmental support to aid their missions, this recognition does little to ease the burdens of social entrepreneurs.

IV. Policy Problem

A. Stakeholders

It is given that the primary stakeholders in the issue of financial, material, and social constraints for smaller-scale impact ventures are the social entrepreneurs themselves, as they are the leaders who are forced to navigate these difficulties to produce both profit and tangible social good. However, because of the broader impact that social impact businesses can have on communities–particularly on marginalized and impoverished groups–society at large stands to greatly benefit from the mitigation of these constraints.

A recent study conducted by the Schwab Foundation for Social Entrepreneurship examined more than 470 social impact businesses globally, finding that they had effected direct, meaningful outcomes for more than 891 million people between 1999 and 2024. Such sweeping effects evince the vast potential held within social enterprises to engender significant and lasting change. While it is true that this data reflects the outcomes of larger social impact ventures, smaller, local social ventures can also yield significant social accomplishments. From a global perspective, the results of small social entrepreneurship efforts may appear trivial, but in a local context, these efforts can be transformative. Within a smaller scope, local impact ventures can catalyze societal improvement in a given area on a larger scale. Thus, the communities in which small social enterprises are situated are stakeholders in the issue.

B. Risks of Indifference

Neglecting to acknowledge the potence of small social enterprises and failing to provide adequate support for social entrepreneurs jeopardizes the future of small-scale social entrepreneurship. Already, social ventures are relatively scarce in the entrepreneurship landscape, making up only about 3% of global enterprises. An even smaller percentage accounts for the number of small social ventures. Among all social enterprises, there exists a funding gap of $1.13 trillion. With such immense financial constraints, bankruptcy is a looming threat to all social enterprises, large and small. However, it logically follows that smaller ventures feel this threat much more intensely, as they have smaller budgets and fewer resources to put toward closing funding gaps. Consequently, the current conditions facing small impact businesses serve to discourage aspiring social entrepreneurs, robbing communities of businesses that could potentially catalyze widespread social betterment. If Pennsylvania's legislature disregards these detrimental repercussions and fails to provide small impact enterprises with the means for sustained growth and impact, the already miniscule count of these ventures will assuredly plummet to even lower depths, thereby diminishing societal progress throughout Pennsylvania.

C. Nonpartisan Reasoning

Given the potential economic and societal improvements that social impact businesses can yield, the question of whether or not to support them through policy solutions should not be viewed through a partisan lens. Rather, the issue should be considered and addressed via a nonpartisan approach. The benefits of such an intervention include but are not limited to the following:

1) Economic opportunity and development: Reducing the financial and material constraints on social impact businesses will enable more individuals to establish mission-focused enterprises in their communities with substantially less risk. Thus, it follows that the number of social impact businesses in a given locality will increase as risk decreases. With this rise in social entrepreneurship, more jobs will be opened within communities, facilitating a reduction in local unemployment.

2) Fewer systemic barriers in the economy & society: As many social missions adopted by impact ventures are aimed at improving life for marginalized and impoverished groups, greater support for impact ventures can enhance living standards and increase the opportunities available to members of these underrepresented demographics. In doing so, social enterprises will lower barriers to economic participation, enabling disadvantaged and undervalued individuals to make more extensive contributions to the economy and society.

3) Greater transparency in both the public and private sectors: Lowering financial barriers to social entrepreneurship will almost assuredly facilitate an increase in community-based social enterprises. As such enterprises tend to be established by compassionate, dedicated leaders, they will set regional precedents around ethical practices, forcing other local businesses to either follow suit or risk their customer base. Such precedents will increase transparency, reduce price gouging, and limit other potential sources of dishonesty among businesses in a given locality. As this new direction gains force, it very well could reshape business practices throughout the entirety of Pennsylvania.

V. Tried Policy

In 2018, the U.S. Congress passed the Social Impact Partnerships to Pay for Results Act (SIPPRA), with the aim of supporting mission-oriented partnerships between state or local governments and private organizations. The legislation set aside 100 million federal dollars, overseen by the Department of the Treasury, to be allocated toward a number of research-backed social projects. This allocation follows a pay-for-success (PFS) model, whereby the government supports partner projects that are able to demonstrate proof of their impact. Several benefits are offered by this program, which provides monies to local as well as statewide efforts, and utilizes the PFS model as a verification mechanism to ensure that funds are directed toward successful projects. At the same time, this legislation is held back by its PFS model, as more ambitious projects that require external funding are often unable to demonstrate sufficient impact in their applications, and partner projects are usually undertaken with larger private organizations rather than small businesses.

In addition to this program, several states have established a new legal framework known as the "Low-Profit Limited Liability Company" (L3C) for entities whose work resembles both a for-profit business and a nonprofit organization. This business structure builds off of the Limited Liability Company (LLC) structure, which is often utilized by small businesses because of its legal protections and slighter tax obligations. By enabling L3Cs to be recipients of Program-Related Investments (PRIs)–payments made by a private foundation as a means of meeting IRS requisites for a tax-exempt status–governments open up stronger sources of funding for L3Cs and their social goals. Nevertheless, since the L3C framework has only been established in ten states currently, none of which are Pennsylvania, its effects are not widespread. Most small social enterprises still must rely predominantly on their modest operations to sustain their functions, while also generating a profit from that same source. Moreover, due to the limited scope of L3C structures, IRS guidelines for PRIs are ambiguous, making private foundations uncertain whether or not their donations will qualify them for tax exemption. A broader adoption of L3C frameworks across the United States may help to rectify this problem, as the IRS would have greater incentive to clarify the regulations surrounding donations if the structure grew more prevalent.

VI. Policy Options

Adoption of the Low-Profit Limited Liability Company Framework

To aid small social enterprises, the state of Pennsylvania should join the ten states that have passed legislation to allow the creation of Low-Profit Limited Liability Companies. This business structure provides unique support for small-scale businesses with social missions, permitting them to attract donors via Program-Related Investments, as well as enjoy the same legal protections and limited tax burdens given to small businesses lacking societal aims who file as Limited Liability Companies. In setting up this legal framework, Pennsylvania will mitigate the financial constraints facing small impact ventures, as external funding, incentivized by tax deductions, will be available.

Implementation can be modeled after the methods utilized in states such as Maine, Michigan, and Rhode Island, where L3Cs have been established.

Establishment of Pennsylvania Small Business Agency & Social Enterprise Bureau

To support small businesses, Pennsylvania has established the Office of Small Business Advocate (OSBA), which represents small businesses in disputes regarding utilities, and Small Business Development Centers (SBDCs), which offer free consulting and training services to entrepreneurs. While beneficial, the impact of these resources is limited, as they only cover particular aspects of entrepreneurship. Moreover, these resources are of even less import to social entrepreneurs, as there is no specialized support for impact ventures.

Thus, to provide more comprehensive support for Pennsylvanian small businesses, a statewide agency for small businesses should be established, with a subcommittee dedicated to social enterprises. The agency should be modeled after the federal Small Business Administration, which aids small businesses in obtaining capital, recovering from disasters, and acquiring contracts. Its subdivision on social entrepreneurship should offer services tailored to businesses with social aims, helping founders to connect with donors, providing resources for tracking impact metrics, and guiding entrepreneurs through the legal and ethical nuances of balancing profit generation with a broader societal mission.

Small Business Social Mission Grant

To further support small social enterprises, Pennsylvania should offer grants for entrepreneurs working to start or grow impact ventures. The grant should be fashioned after Pennsylvania's Small Business Advantage Grant (SBAG), which reimburses small businesses for the expenses associated with purchasing energy-saving equipment or implementing environmentally conscious operations. Similarly, a small business mission grant could reimburse the additional costs that come with advancing a given social goal. To apply for the grant, businesses should be able to demonstrate that they are already dedicated to a social cause. Requiring proof of this in the grant application would serve as a verification mechanism, ensuring that funds are being directed only to businesses that are truly committed to a cause and will indeed use the monies for their intended purpose.

VII. Conclusions

The challenges facing small social impact businesses lie in the inadequate resources and capital available to social entrepreneurs. By minimizing these hurdles, Pennsylvania can foster economic development through job creation, reduce systemic barriers in society and the economy, and promote higher levels of accountability from businesses statewide. To achieve this, the state should establish a legal framework for Low-Profit Limited Liability Companies (L3Cs), create a small business state agency with a subcommittee dedicated to the support of social enterprises, and set up a grant system for small ventures working to advance social missions. In implementing these policy solutions, social entrepreneurship will flourish, and with it, societal improvements will abound.

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