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Acknowledgements

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Finally, we would like to thank the many social entrepreneurs and senior social enterprise staff that took time out of busy schedules to take part in this research.

Social Enterprise UK would like to thank the many thousands of people working in social enterprises across the UK, in an exceptionally difficult economic climate. As this report shows, they are doing an incredible job. We would like to dedicate this report to them.

Peter Holbrook
Chief Executive
Social Enterprise UK

With thanks to

hct group

The pictures in this report are of Social Enterprise UK members. The pictures were taken by Richard Lea Hair. We would like to thank Social Enterprise UK members GLL, Sock Mob and HCT group.

Designed by Spencer du Bois.

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Social Enterprise UK
49 - 51 East Road
London
N1 6AH

Telephone: 020 7793 2323
Fax: 020 7793 2326
Email: info@socialenterprise.org.uk

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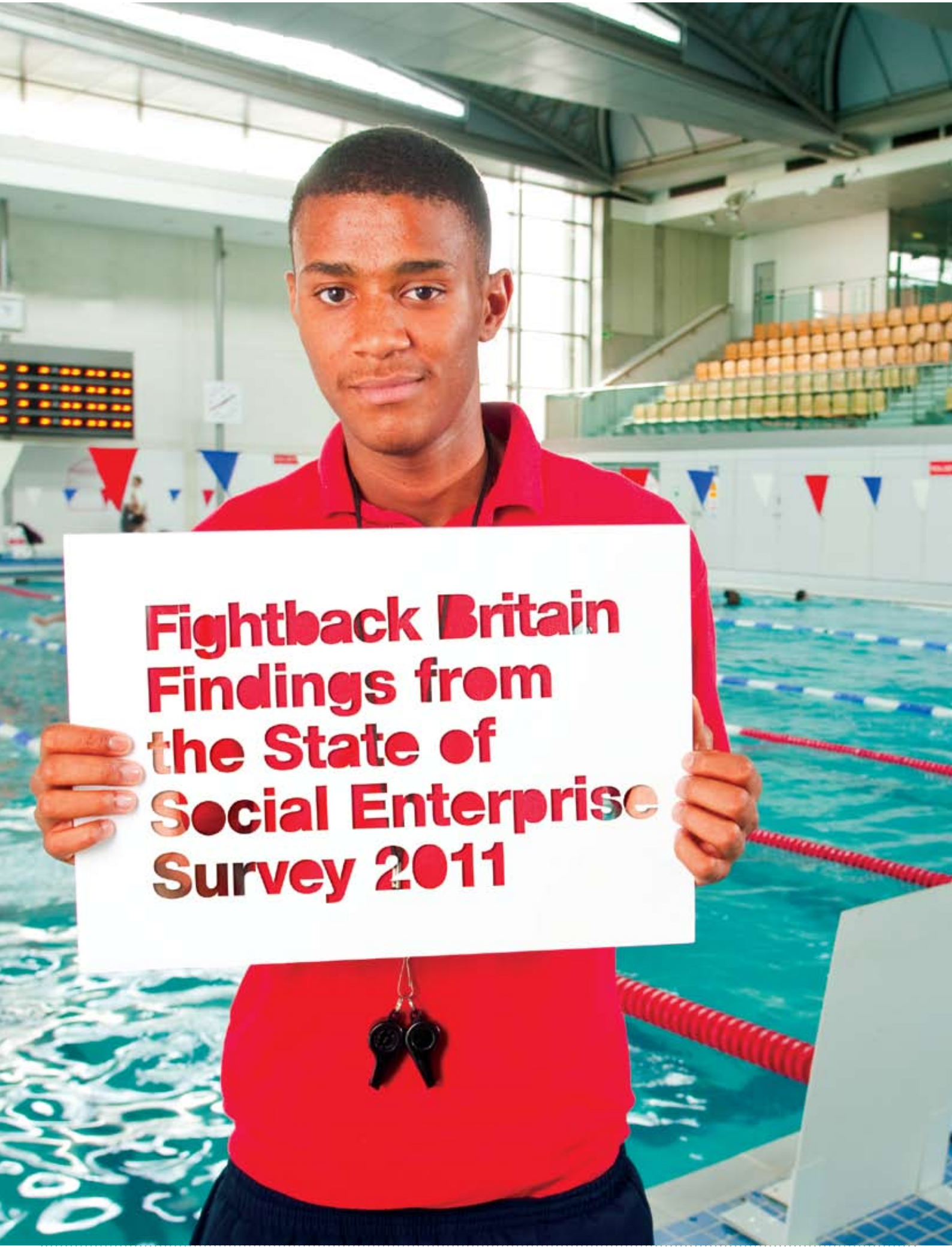
Definition: Social enterprises are businesses with primarily social objectives whose surpluses are principally reinvested for that purpose in the business or in the community, rather than being driven by the need to maximise profit for shareholders and owners.

According to data from the Annual Survey of Small Businesses UK (aggregated data 2005-2007), there are approximately 62,000 social enterprises in the UK with small and medium social enterprises contributing £24 billion GVA (Gross Value Added) to the UK economy.


Fightback Britain
Findings from
the State of
Social Enterprise
Survey 2011

Contents

Foreword from our sponsor

The Co-operative Bank is very pleased to be the sponsor of this survey; the first major analysis of the social enterprise landscape since 2009 – a period during which the sector has enjoyed spectacular growth and which now enjoys an impressively high profile in both economic and political terms.

As part of The Co-operative family of businesses we are very much aligned to social enterprise as we are wholly member- owned, democratically run and we also reinvest a proportion of our profit back into local communities. Being the only UK high street bank with a fully customer-led Ethical Policy reinforces that connection and our own 2011 "Join the Revolution" approach to social responsibility demonstrates our belief that we have a purpose beyond profit. Indeed, in so many respects this Revolution mirrors the aspirations of the social enterprise movement. Check it out here – co-operative.coop/join-the-revolution/our-plan

At The Co-operative Bank, we have seen a 79%[1] increase in new customers since 2009, in the wake of the bank crisis, as more and more consumers decide to do their banking with a trusted and ethical brand. More and more people realise that embracing social responsibility is a key part of their purchasing choice and this will surely favour the continuing growth of social enterprises as well as the numbers choosing to trade with them.

Our hope for the future is that there will be vastly increased cross-trading between mutually and socially owned businesses and maybe that is why 25% of the respondents to this key survey already bank with The Co-operative Bank.

Fundamentally customers want a different way of doing business and that is clearly provided by social enterprise across an ever-growing range of disparate businesses and service providers. That is also why this survey has identified that social enterprise has shown a stronger financial growth compared with the general market and that social entrepreneurs are optimistic about that growth continuing.

The Co-operative Bank is delighted to support both *Fightback Britain* and the wider social enterprise movement.

Paul Martin
Charity & Social Enterprise Team

The **co-operative** bank
good with money

Visit co-operativebank.co.uk/corporate to learn more about banking services for social enterprises

[1] Internal data based on 2010 figures. 79% year on year increase, when comparing 2010 figures with 2009

Executive Summary
Background

Over the past decade interest in the UK's social enterprise sector has grown steadily. Successive governments have watched closely, and promoted social enterprise as a model for public service innovation.

Consumers watched Jamie Oliver set up Fifteen – a successful commercial business that was only founded to improve people's life chances. And the trend among consumers of questioning the ethical implications of their purchases grew. Forward-thinking businesses understood that sustainability and social value will be among the key determinants of success in the future, with those wanting to move beyond traditional Corporate Social Responsibility programmes starting to trade with social enterprises. And the UK's social enterprise movement developed quickly.

The UK's economic woes have hot-housed the need for a business model that delivers sustainable economic growth while fostering social change and innovation. Damage to the reputation of important parts of the UK economy in the wake of the financial crisis, cuts to public services, and concern for how civil society can suffer cuts and continue to care for its most vulnerable members, have brought social enterprise to the fore. And social enterprise has repeatedly been cited as a key vehicle for the Government's dual vision of a Big Society with reformed public services.

Major charities such as Age UK have created social enterprises so they can trade; important public services and assets such as the Audit Commission have started to explore their potential future as social enterprises. And mainstream businesses have made determined efforts to bring social enterprises into their supply chains to maximise their positive social impact, and explore how they can take this further. O2 recently launched a bespoke mobile phone package for social enterprises, saying "This is the age of social enterprise, and O2 UK is welcoming it with open arms."

Delegations from around the world have visited Britain to watch its social enterprises at work, inviting leading social entrepreneurs to share their experience and wisdom on how to replicate the success of the UK's thriving social enterprise movement.

According to Harvard Business School Professor Michael Porter: "Businesses acting as businesses, not as charitable donors, are the most powerful force for addressing the pressing issues we face. The purpose of the corporation must be redefined as creating shared value, not just profit per se. This will drive the next wave of innovation and productivity growth in the global economy. It will also reshape capitalism and its relationship to society."

This report outlines the findings of the UK's only national survey specifically of social enterprises, and examines how the social enterprise sector in 2011 is delivering on its immense promise.

Fightback Britain
A report on the State of Social Enterprise survey 2011

A new breed of businesses

As social enterprise is still in its infancy, much of the data in this report challenges common perceptions of what the social enterprise movement is like, what it is doing and who it trades with. The research has uncovered a picture that surprised its authors and reviewers. It shows an emerging generation of businesses that are concentrated in the UK's most deprived communities and are fighting social problems and building social capital. They work independently of government but are driven by the need for social change. And they are trading more than we'd previously thought with consumers and the private sector.

Social Enterprise UK is very excited about these findings. They are an important indicator that the social enterprise sector can live up to the expectations it has created. The more consumers and businesses engage and trade with social enterprises, the more they can foster real change in business and in society. We are heartened by how many 'ordinary' businesses and ordinary people are 'buying in'. When like-minded businesses and consumers unite to change the status quo by changing who they trade with and who they buy from, they can cause a business revolution.

Social enterprises can lead an economic fightback, especially in our most deprived communities, bringing with them a social recovery.

The authors used data comparisons to examine how social enterprises are faring in relation to mainstream SMEs (Small and Medium-sized Enterprises). In the social enterprise sector there is a very large proportion of start-ups, three times as high as the proportion of start-ups currently seen in the UK's SME sector. The data also shows that the social enterprise sector is outstripping SMEs in growth, confidence and innovation.

Revolution in public services?

After many successes among social enterprises delivering public services in the last few years, there has been a mounting expectation among successive Governments that social enterprise can lead a transformation in the UK's public services. In 2010 the Government stated that the NHS would become the 'largest social enterprise sector in the world'[2]. But while commercial businesses and consumers are trading with the social enterprise sector and giving it buoyancy, our research suggests that uncertainty and the challenges of operating in public service markets are dragging down its confidence. This could mean that the anticipated social enterprise revolution in public services is stopped in its tracks. Social enterprises working in public services are drastically low on confidence. A large proportion of these are planning redundancies or turning away from public service markets.

So while the circumstances are now ripe for social enterprise to deliver real reform in public services, many social enterprises are diversifying away from public service markets to survive and expand, looking increasingly to the private sector and the general public as the future of social innovation. And opportunities opening up in public service markets may be quickly filled by large, private companies who have often been the winners before. This would be a dreadful missed opportunity to create shared value from public services for the communities they serve.

Overall, our survey has revealed that social enterprises:

- Are most likely to start-up and work in Britain's most deprived communities
- Reinvest in the communities where they are based
- Are run by younger people than traditional SMEs, with a high proportion of Black and Minority Ethnic directors, as well as female directors
- Are accountable to their customers and communities, involving them in business decisions
- Are increasingly trading with consumers and with private companies
- Are turning away from public sector markets, in favour of consumers and private companies

In short, a generation of businesses starting up in Britain's most deprived communities is fighting deprivation and social problems, and they expect to become increasingly independent of government.

[2] Equity and Excellence: Liberating the NHS. July 2010, Department of Healthring 2010 figures with 2009

Key findings & statistics

The social enterprise sector is dynamic, attracting entrepreneurs, working in the UK's most deprived communities to tackle the root-causes of deprivation and, as a sector, is both out-pacing and out-innovating comparable SMEs.

The start-up explosion: 14% of all social enterprises are start-ups, less than two years old – more than three times the proportion of start ups among mainstream small businesses.

Rising contribution to the UK economy: Median annual turnover of social enterprises has grown from £175,000 in the 2009 survey to £240,000 in this year's survey[3].

Creating more jobs: Social enterprises employ more people relative to turnover than mainstream small businesses.

Not the 'usual suspects': Women in social enterprise leadership teams are challenging the glass ceiling, with 86% of leadership teams boasting at least one female director, 27% of leadership teams have directors from Black and Minority Ethnic communities and 7% have directors under the age of 24. Only 13% of the Institute of Directors' membership is female and only 1% of its members are 29 years or under[4]. Further, 41% of small businesses have all male directors[5].

Social enterprises are working to address the root causes of deprivation in our communities

Social enterprises are concentrated in our most deprived communities: 39% of all social enterprises work in the 20% of most deprived communities in the UK compared to 13% of standard businesses[6]. The more deprived the community, the more likely you will find a social enterprise working there.

The start-up explosion is happening there too: Around a third of all social enterprise start-ups are in the most deprived communities, where they can have the greatest impact.

Doing it for themselves: Social enterprises are tackling problems and improving their local communities. The proportion of social enterprises reinvesting profits back into the communities where they are earned to further their social or environmental goals stands at 82%.

Bottom up, not top down: Social enterprises are accountable to their communities. 74% of social enterprises actively involve their beneficiaries in decisions about their business – a proportion that rises to nine out of 10 social enterprises in the most deprived communities in the UK.

More environmentally sustainable: 88% of social enterprises seek to minimise their environmental impact. This compares well with small businesses[7], 44% of whom say they have taken no action whatsoever.[8]

Social enterprises mainly trade with the general public, not the state

We need to change the way we think about social enterprise: The main discussions in public policy have been around social enterprise delivery of public services – this tells the lesser part of the story. The most common (37%) main source of income for social enterprises is in fact trade with the general public.

The public sector is still important, particularly in deprived areas: Social enterprises working in the UK's most deprived communities are much more likely to have the public sector as their main trading partner – and are much less likely to trade with the general public than other social enterprises. Larger social enterprises are also more likely to have the public sector as a significant trading partner.

[3] Median = the central value in the distribution. The median is used instead of the average as the turnovers of several very large social enterprises distort the 2011 average to £2.02m
[4] 'Who do we think we are' Institute of Directors (IoD) 2006 http://www.iod.com/MainWebSite/Resources/Document/policy_paper_whodowethinkweare.pdf
[5] Baldock, R and Lyon, F (2011) Social Enterprise Activity and Small Businesses: An analysis of the Small Business Surveys. TSRC Briefing Paper www.tsrc.ac.uk
[6] Data prepared by the Third Sector Research Centre based on the BIS Small Business Survey 2010.
[7] (2010) 'The FSB-ICM 'Voice of Small Business' Annual Survey, Report of Key Findings', Federation of Small Businesses
[8] Response to the question: 'Have you changed the way your business operates because of concerns relating to climate change?' in (2010) 'The FSB-ICM 'Voice of Small Business' Annual Survey, Report of Key Findings', Federation of Small Businesses
[9] (2011) ' BIS Small Business Survey 2010', IFF Research, Department for Business Innovation and Skills http://www.bis.gov.uk/assets/biscore/enterprise/docs/b/11-p74-bis-small-business-survey-2010
[10 11] ibid

Not reliant on charitable giving: Donations are the main source of income for less than half of one percent of social enterprises surveyed. Social enterprise and philanthropy are very different concepts.

For economic dynamism, look no further than social enterprise: Social enterprises are outstripping SMEs for growth - 58% of social enterprises grew last year compared to 28% of SMEs[9]. Social enterprises are outstripping SMEs in business confidence, with 57% of social enterprises predicting growth in comparison to 41%[10] of SMEs. Social enterprises are outstripping SMEs in innovation, with 55% of social enterprises launching a new product or service last year, as opposed to 47% of SMEs[11].

The social enterprise revolution in public service delivery can't happen when social enterprises have low confidence in public service markets and are turning away from them.

The social enterprise revolution in public services? The promised social enterprise revolution in public service delivery could be stopped in its tracks. Many social enterprises are turning away from public service markets, diversifying into other areas. Organisations that mainly work with the public sector anticipate they will make half of all the likely redundancies amongst social enterprises over the next 12 months.

Low in business confidence: Social enterprises whose main source of income is from the public sector view the coming years with significant gloom, with markedly lower business confidence than their social enterprise peers in other sectors.

Opportunity slipping away? Of those social enterprises who trade mainly with the public sector and anticipate growth in the future, 64% anticipate that their growth will come from diversification away from working with the public sector.

Access to finance and changes to government procurement can unlock the sector's potential

Procurement reform is desperately needed: Social enterprises working mainly with the public sector cite procurement policy as the second greatest barrier to their sustainability – a greater barrier even than the perennial challenge of cash flow.

An appetite for finance: The single largest barrier to the sustainability of social enterprises is access to finance, with 44% of respondents saying that they are still hampered by the availability and affordability of finance.


SOCIETY
PROFITS

This report presents the findings of the State of Social Enterprise Survey 2011 – the only survey specifically of social enterprises in the UK. It builds on the State of Social Enterprise Survey 2009[12] (the 2009 survey), which aimed to provide a baseline understanding of the sector, and demonstrated:

- the huge diversity in size, industry sector, social/environmental objective and legal form that makes up the world of social enterprise
- that in terms of economic profile, the social enterprise sector had far more in common with the small business sector than with the traditional third sector
- how social enterprises operated in almost every sector of the economy and in every part of the UK
- in trade, that social enterprises were thriving despite the recession – with more than twice as many social enterprises reporting an increase in turnover as traditional SMEs
- that profit reinvestment into communities and broader social impact by social enterprise was happening.

The 2011 survey aims to revisit the scope and scale of social enterprises in the UK economy, examine in greater depth how they seek to address their social or environmental purposes, evaluate how well they are doing as enterprises, explore their role in public sector service delivery and identify those factors that help or hinder them.

1.0 Introduction

[14] Leahy, G., and Villeneuve-Smith, F. (2009) 'The State of Social Enterprise Survey 2009' Social Enterprise Coalition

The State of Social Enterprise Survey 2011 was commissioned by Social Enterprise UK (operating under its previous name of the Social Enterprise Coalition), contracting BMG Research to carry out the survey fieldwork with the objective of gathering robust, policy-rich information from and about social enterprises. A total of 865 responses were gathered both online and via telephone interviews with the person in day-to-day control of the business or the person responsible for the business' finances.

2.0 Method statement

[13] 26% was used to ensure that the data didn't preclude start-up organisations and to allow the dataset to be compared to the BIS Annual Small Business Survey in the future as this uses a 26% benchmark.

Process

The survey team used the relationships and networks available to Social Enterprise UK to identify research targets. The survey sample was drawn from members of Social Enterprise UK, members of related social enterprise networks and those respondents from the original 2009 survey who had agreed to be contacted for further research.

This data collection exercise provided a total potential dataset of 8,111 social enterprises (as compared to the dataset of 5,355 in 2009). The survey team then applied a two-step approach:

- inviting potential respondents to participate in an online survey via e-mail and other online promotion - (210 completed responses). This phase was conducted between the 10th and 27th of January 2011

- telephone interviews of a random sample of potential research targets (655 completed responses). This phase was carried out between the 31st of January and 2nd of March 2011.

As the networks from which data was obtained are very diverse, taking in a wide variety of organisations, legal forms and objectives, a two-step filter was applied. To ensure that the sample better reflected the landscape of social enterprise, organisations were only considered to be in the scope of the survey if they:

- defined their organisation as a social enterprise

- generated 26% or more of their income from trading activities[13].

Sample characteristics

As the process for gathering the target dataset was more extensive for the 2011 survey than the 2009 survey, the researchers have even more confidence that it represents a fair proxy of the views and position of social enterprises in the UK. However, it is important to note that this represents a responding sample of social enterprises rather than population data.

There are, however, some compositional differences to the sample to bear in mind when exploring the results. Registered charities are less strongly represented in this year's sample (26% as opposed to 37%) and Industrial and Provident Societies are more strongly represented (24% as opposed to 12%). Community Interest Companies (CIC) are also less strongly represented (10% as opposed to 17%) as the 2009 survey deliberately over-sampled this group at the request of the CIC regulator. See appendix 1 for the full breakdown of legal forms.

Consequently, where this report compares 2011 results with the 2009 survey, any material difference in response by different legal forms will be noted in the text.


changing
the face of
business

It is important to understand the scale and scope of the social enterprise model and the extent of social enterprises' economic contribution. This section explores the results from the survey that cover how well-established social enterprises are, the proportion of new start-ups, the scale of their turnovers, their geographical reach, their role as employers and the profile of social entrepreneurs themselves.

3.0
The scale of social enterprise

3.1 How old are social enterprises?

The 2009 survey showed that whilst there were a large number of older social enterprises, one third were five years old or fewer. In asking again about how long social enterprises had been trading, the 2011 survey sought to explore whether the pattern of a high proportion of start-ups had continued in the intervening years and whether there was still a cohort of older, better-established social enterprises.

To place these results in context, Figure 1 shows them in comparison to the BIS (Department for Business Innovation and Skills) Small Business Survey 2010[14].

The cohort of well-established social enterprises is still present, with close to half (46%) of organisations surveyed trading for more than ten years. The level of start-ups (2 years old or younger) as a proportion of social enterprises is 14% – more than three times that of small businesses (4%). The level of start-up creation is even more pronounced in London, where one in every five social enterprises is a start-up.

That a seventh of this year's sample had yet to be founded at the time of the 2009 survey arguably shows a sector that is attracting entrepreneurs and entering a phase of rapid growth, particularly when compared to the proportion of start-ups amongst small business.

3.2 How big are social enterprises?

Our survey asked respondents to state their turnover for the most recent (2009/10) financial year. It shows that social enterprises have a very broad range of turnovers, from 6% turning over less than £10,000 to 8% turning over more than £5m per year.

The responses show growth for the sector as a whole[16] since the 2009 survey, with median[17] turnover growing from £175,000 per annum to £240,000 in the 2011 survey. Figure 2 presents the percentage of social enterprises at different levels of turnover, comparing the results of the current 2011 survey with 2009. It demonstrates that over the past two years, there has been a small increase in the proportion of those in the higher turnover bands and a small decrease in the proportion of the lower turnover bands. It also shows that the majority of social enterprises are operating at small business scales.

In addition, turnover is – perhaps unsurprisingly – closely linked to length of operation, with more than half (53%) of those turning over up to £10,000 having been in operation for up to a year, and close to nine in ten (89%) of those turning over more than £1m having been in operation for 6 years or more.

MEDIAN ANNUAL TURNOVER OF SOCIAL ENTERPRISES HAS GROWN FROM £175,000 IN THE 2009 SURVEY TO £240,000 IN THIS YEAR'S SURVEY

[14] (2011) ' BIS Small Business Survey 2010', IFF Research, Department for Business Innovation and Skills http://www.bis.gov.uk/assets/biscore/enterprise/docs/b/11-p74-bis-small-business-survey-2010
[15] 4% of respondents in the FSB survey indicated 'don't know'
[16] As opposed to the experience of individual enterprises. How social enterprises have experienced growth or contraction is set out in Section 5.0.
[17] Median = the central value in the distribution. The median is used instead of the average as the turnovers of several very large social enterprises distort the 2011 average to £2.02m.

Figure 1: 'Approximately how long has your organisation been trading?'

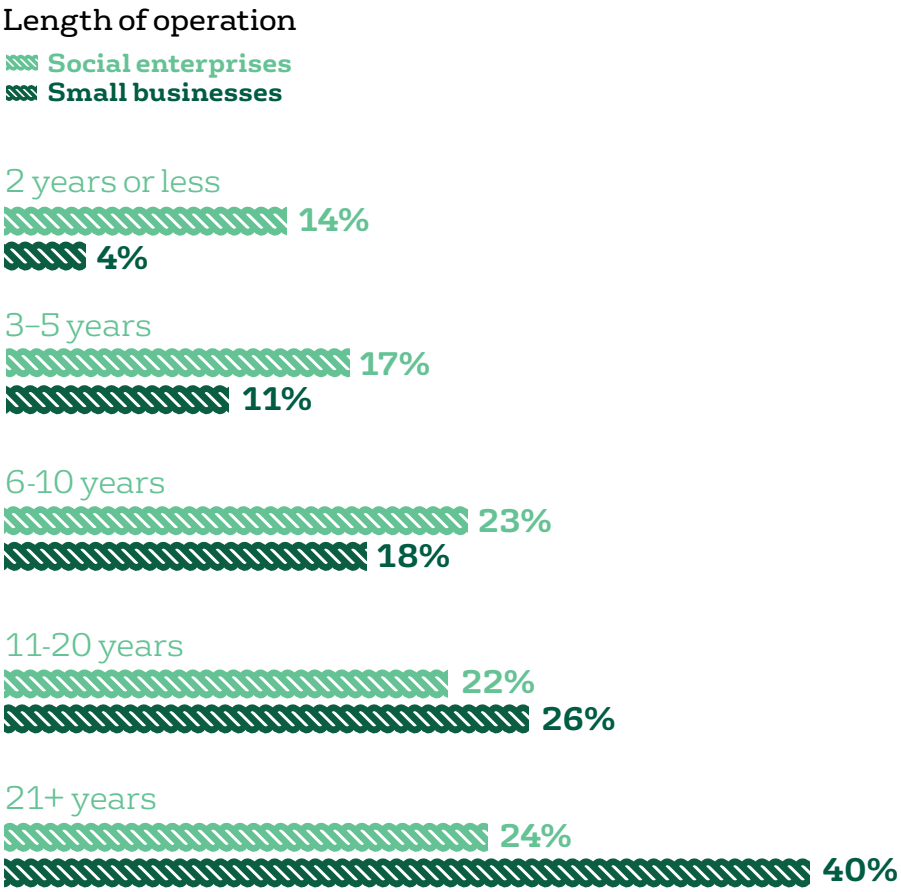
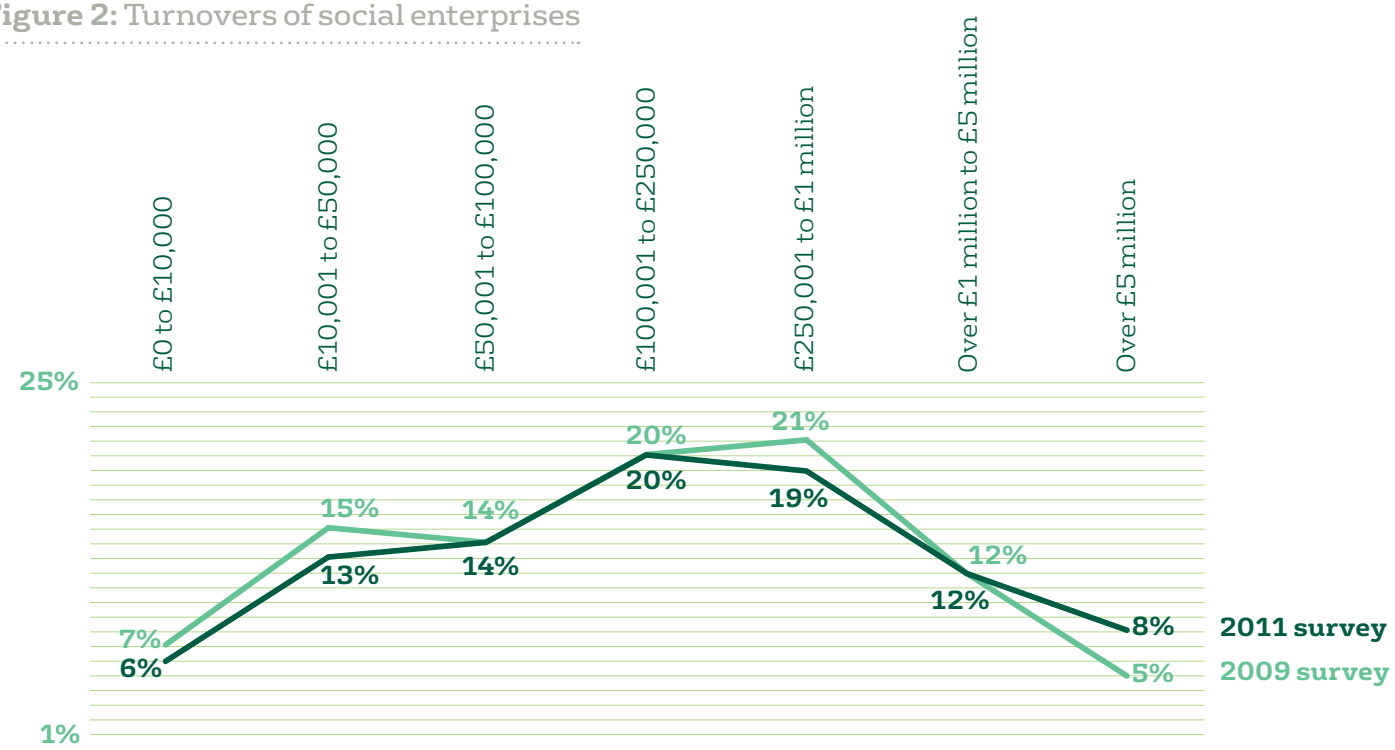


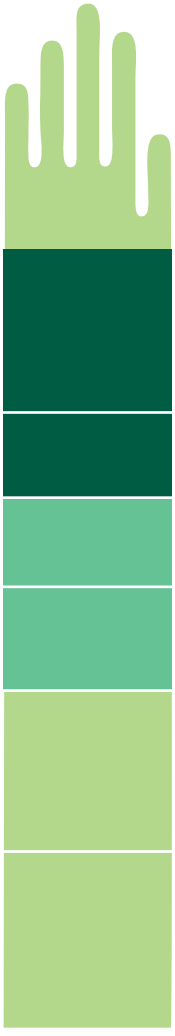
Figure 2: Turnovers of social enterprises



3.3 Local, regional, national or international?

Our survey sought to establish where social enterprises operate. It showed that 85% of organisations had operations in England. It also showed that one in seven operate in Scotland or Wales, one in 10 in Northern Ireland and one in eight (12%) operate internationally. We also sought to determine the reach of social enterprises. As shown in Figure 3, the majority of organisations work very locally, with 20% stating that they work in their neighbourhood, 19% stating they work within one local authority area and 16% saying they work in several local authority areas. This is broadly comparable to the profile of UK small businesses[18] of whom 56% state that they work locally, rather than at a regional level[19].

Figure 3: The reach of social enterprises



% Area of operation

19% Nationally

10% Several regions

16% A region

16% Several local authorities

19% A local authority

20% Neighbourhood/locally

3.4 Social enterprises as employers

The ability to create and sustain employment is central to the economic potential of social enterprises. Our survey asked social enterprises how many people they employed and how many they expect to employ in 12 months' time – as shown in Figure 4 below.

The pattern of employment arguably follows the levels of turnover in the sector, with most operating at small business scales. 51% of our sample employ between 1 and 9 people, 19% employ 10-49 people and 12% more than 50 people. To place this in context, 84% of small businesses employ 1-9 people, 14% 10-49 people and only 2.5% more than 50[20]. This suggests that social enterprises employ more people relative to turnover than mainstream small business and based on section 4's findings on employment practices, we can assume that this is not simply based on social enterprises employing people on low wages.

Over the next 12 months, the overall estimated picture of employment is broadly neutral. A quarter (25%) of the organisations surveyed expect the number employed to fall in the next 12 months compared to a year ago, while a very similar proportion (26%) expect the numbers employed to increase.

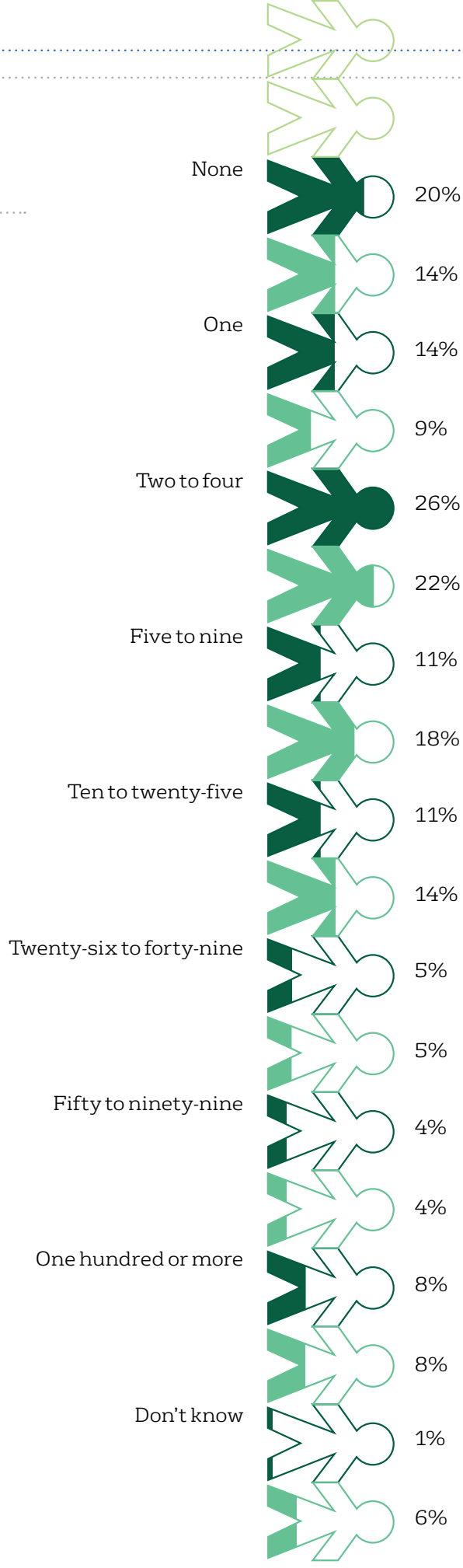
Start-ups have the highest expectations of growth in terms of numbers employed: more than half (53%) of organisations established within the last two years expect numbers to grow, while 43% of those established for 11 years or more expect numbers to stay the same.

Given the economic climate, the survey also asked whether social enterprises had to make redundancies this year or believed they would need to make them next year. 18% report having had to make redundancies in the last 12 months, with 19% believing that they will have to make redundancies next year. This compares with 21% of SMEs[21] who say they employ fewer people now than they did 12 months ago, and 14% who believe they will employ fewer people in twelve months' time.

Figure 4: Profile of social enterprise employment now and in the future

Currently employ

Expect to employ



SOCIAL ENTERPRISES EMPLOY MORE PEOPLE RELATIVE TO TURNOVER THAN MAINSTREAM SMALL BUSINESSES

[18] 2010) 'The FSB-ICM 'Voice of Small Business' Annual Survey, Report of Key Findings', Federation of Small Businesses
[19] The Small Business Survey presents a choice of 'locally' or 'in my region', so a further breakdown is not possible.
[20] (2011) ' BIS Small Business Survey 2010', IFF Research, Department for Business Innovation and Skills http://www.bis.gov.uk/assets/biscore/enterprise/docs/b/11-p74-bis-small-business-survey-2010
[21] (2011) ' BIS Small Business Survey 2010', IFF Research, Department for Business Innovation and Skills http://www.bis.gov.uk/assets/biscore/enterprise/docs/b/11-p74-bis-small-business-survey-2010

Case study: EPIC, Bromsgrove

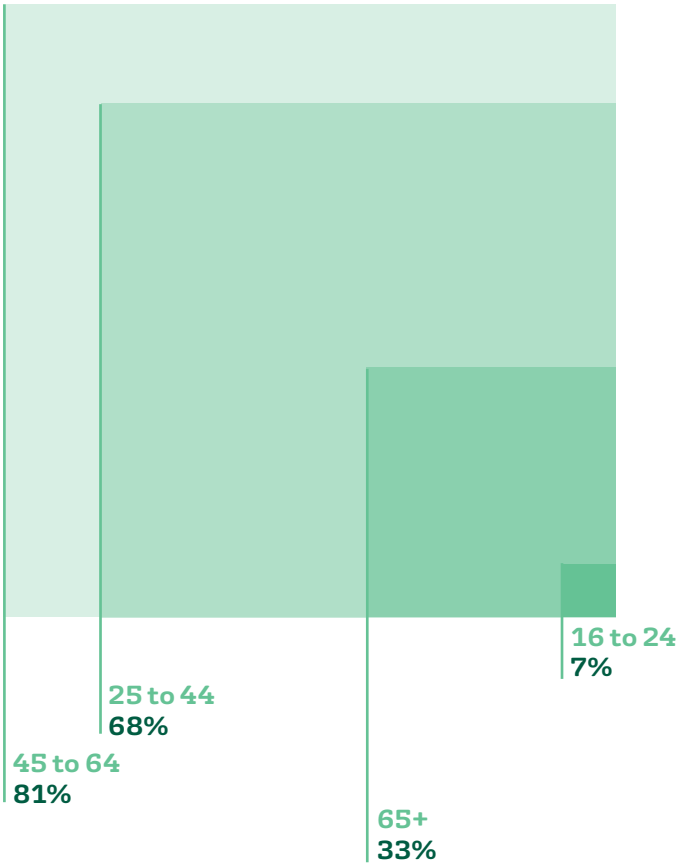
EPIC is a community-based social enterprise that delivers a range of services from alcohol misuse and sexual awareness, to rehabilitation for ex-offenders. EPIC was founded by Debbie Roberts in 2009 who quickly secured a five-year contract with the Local Strategic Partnership to deliver the Areas of Highest Need Programme.

For a young social enterprise, EPIC has grown rapidly in the last couple of years. Its turnover for 2011 is set to increase to more than £200,000 from last year's £120,000. EPIC are optimistic that this figure will rise further with the completion of their latest project – opening a community and internet cafe which will provide training and volunteering opportunities. Much of the work that EPIC does is achieved through co-working, and this latest project is being run in partnership with longstanding partner, the Bromsgrove District Housing Trust (BDHT).

With a successful track record in public service delivery (the majority of EPIC's income is derived from local authority contracts), this social enterprise has been able to expand into mental healthcare and will shortly be providing support to children with disabilities and their families.

Figure 5: Age breakdown of the leadership team

% of social enterprise leadership teams that include directors aged:



JUST 14% OF SOCIAL ENTERPRISES HAVE MALE-ONLY DIRECTORS, COMPARED TO 41% OF MAINSTREAM SMALL BUSINESSES

3.5 Who are the social entrepreneurs?

Social enterprise is a different way of doing business – but who are the people doing it? Our survey has sought to explore the make-up of social enterprise leadership teams and, where comparable data is available, explore any differences between social enterprises and mainstream business.

The survey first asked about the gender breakdown of each respondent organisation's directors, finding out that just 14% of social enterprises had male-only directors. This compares favourably to the 41% of small businesses who have male-only directors[22].

We also asked respondents about the ethnicity of their directors. More than a quarter (27%) of organisations surveyed report having at least one member of the leadership team who is from a BAME background – although there is considerable variation by geography. Larger social enterprises have, in general, more diverse leadership teams. Directors from a BAME background are present in 19% of the smallest social enterprises – those turning over less than £10,000 per year. This rises to 34% of those organisations turning over £1m or more.

As set out in Figure 5, the survey sought to find out the age composition of leadership teams in social enterprises, discovering that 7% of leadership teams include directors between the ages of 16 and 24 and 68% of social enterprises have directors aged between 25 and 44. While there is a lack of directly comparable data, it is worth noting that in 2006 only 1% of the members of the Institute of Directors were aged under 29 with 49% being under 49[23].

While the data is not strictly comparable, it is worth noting that less than half of one percent of the members of the Federation of Small Businesses are under the age of 24; only 21% are under the age of 44.

The survey arguably describes a cohort of social enterprise leaders that much more closely reflects the communities they serve than their equivalents in mainstream business. If this pattern continues over time, social entrepreneurship may be the key for challenging – or at least starting to challenge – the abiding social stereotype of business leadership as the preserve of the older, white male.

Key findings

This section has presented the survey's results on the scale and scope of social enterprise. Key findings include:

The start-up explosion: 14% of all social enterprises are start-ups, less than two years old – more than three times the proportion of start ups among mainstream small business.

Raising its contribution to UK economy: Median annual turnover of social enterprises has grown from £175,000 in the 2009 survey to £240,000 in this year's survey .

Creating more jobs: Social enterprises employ more people relative to turnover than mainstream small businesses.

Not the 'usual suspects': Women in social enterprise leadership teams are challenging the glass ceiling, with 86% of leadership teams boasting at least one female director. As 27% of leadership teams have directors from BAME communities and 7% have directors under the age of 24, social enterprises are making a promising start at "changing the face of British business".

WOMEN IN SOCIAL ENTERPRISE LEADERSHIP TEAMS ARE CHALLENGING THE GLASS CEILING, WITH 86% OF LEADERSHIP TEAMS BOASTING AT LEAST ONE FEMALE DIRECTOR

[22] (2010) 'The FSB-ICM 'Voice of Small Business' Annual Survey, Report of Key Findings', Federation of Small Businesses
[23] 'Who do we think we are' Institute of Directors (IoD) http://www.iod.com/MainWebSite/Resources/Document/policy_paper_whodowethinkweare.pdf


creating
social and
environmental
value

Social enterprises do not exist to create shareholder value: they exist to create social or environmental value. They create that value through trading activities and generating wealth in their communities and, like any other business, they seek to make a profit. The differences come in why they trade, how they work and what they do with that profit – for social enterprises, social impact is what success looks like.

This section explores the social impact of social enterprises – the communities where they work, their stated social objectives and how they set out to achieve them.

4.0
Social enterprises and social impact

4.1 Where social enterprises work

The 2009 survey set out the basic geography of social enterprises showing that they operated across the respective nations of the UK and that they operated in both urban and rural areas. This tells us very little about where social enterprises actually work.

The 2011 survey has been able to collect location data for most respondents and match that with the Index of Multiple Deprivation (IMD) rankings[24]. This has allowed the research team to look at social enterprises on the basis of how deprived the community where they work is. The distribution of social enterprises based on the relative deprivation of their communities is presented in Figure 6.

For ease of interpretation, this ranking is presented in bands. Band 1 represents the most deprived 20% - or fifth - of all communities in the UK, Band 2 represents the next most deprived fifth and so on. Band 5 represents the least deprived fifth of communities.

The data clearly demonstrates that social enterprises have their greatest concentration in the areas of the greatest deprivation, with 39% of social enterprises working in the most deprived communities in the UK. Social enterprise start ups also broadly follow this trend, with the majority of social entrepreneurs establishing their new businesses where they can have the most impact. This is a stark difference from standard businesses, where only 13% are concentrated in the areas of greatest deprivation[25].

4.2 What social enterprises are trying to achieve

Our survey sought to explore the difference social enterprises are trying to make, asking organisations about their main social and environmental objectives. There were a very wide range of responses, with social enterprises suggesting 25 main types of objective, the 'top ten' of which are presented in Figure 7 below. Social enterprises also have more than one social or environmental objective, with respondents stating an average of 2.4 objectives each.

The 'top ten' aims and objectives change depending on where social enterprises are, with respondents working in Band 1 – the most deprived communities – having different priorities from those in Band 5 – the least deprived.

Creating employment opportunities is the most common objective for social enterprises in the most deprived communities, cited by 30% of respondents in Band 1 as opposed to 13% of respondents in Band 5, where it was ranked 6th. Social enterprises in the most deprived communities cited addressing social exclusion (21%), financial exclusion (17%) and promoting education and literacy (24%) as objectives twice as frequently as social enterprises in the least deprived areas (10%, 9% and 12% respectively).

For the least deprived communities, priorities change, with respondents working in Band 5 more likely to cite affordable housing (15%) as an objective and protecting the environment (19%). Interestingly, creating ethical and fair products (including fair trade) is the 5th most common objective in bands 3 and 4 (12% and 15% of respondents respectively), but is not in the top ten most cited objectives in any other bands.

When we consider that the most commonly cited objective across all respondents is 'improving a particular community' (25%), it is unsurprising that the broader objectives of social enterprises change to reflect the needs of the communities they exist to serve. In the most deprived communities for example, where the greatest concentration of social enterprises is to be found– we see our respondents actively seeking to address the causes of deprivation – in particular employment, health, inclusion and education.

[24] The IMD is a detailed set of statistics on poverty. It combines a wide variety of indicators, including income, employment, health, deprivation and disability, education skills and training, barriers to housing and services, crime and the living environment.
[25] Baldock, R and Lyon, F (2011) Social Enterprise Activity and Small Businesses: An analysis of the Small Business Surveys. TSRC Briefing Paper www.tsrc.ac.uk

Figure 6: Where social enterprises work: by level of deprivation

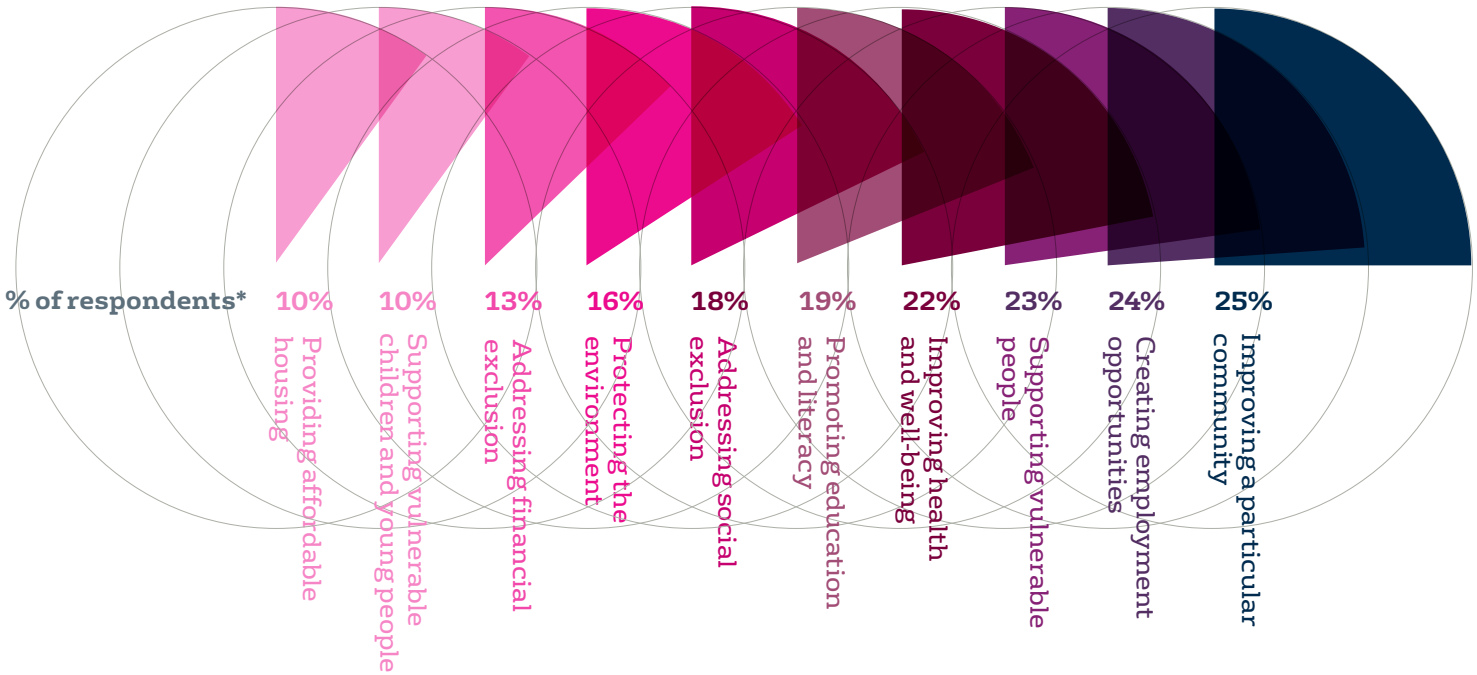
Band	1	2	3	4	5
Proportion of social enterprises	39%	24%	17%	11%	9%
Proportion of start up social enterprises	32%	27%	10%	13%	10%
Proportion of small businesses	13%	18%	23%	24%	23%

Most deprived — Least deprived

Figure 7: the objectives of social enterprise

Social enterprise objectives (top 10)

* Respondents could indicate more than one objective



SOCIAL ENTERPRISES ARE CONCENTRATED IN OUR MOST DEPRIVED COMMUNITIES: 39% OF ALL SOCIAL ENTERPRISES WORK IN THE 20% MOST DEPRIVED COMMUNITIES IN THE UK

4.3 Social enterprises and local impact

The section above sought to address what social enterprises aimed to achieve, but through what means?

One of the key approaches used by social enterprises is the reinvestment of profit. 82% of our survey respondents stated that they reinvest the surplus or profit from contracts or trading to further their social or environmental goals locally. This figure is consistently high according to deprivation. It does however, vary according to turnover – from 64% of those social enterprises with a turnover up to £10,000, to 92% of those with a turnover of over £1m.

Our survey also sought to establish in what other ways social enterprises made an impact locally, particularly in light of the importance of creating employment opportunities to social enterprise goals. The survey asked respondents the extent to which they pursued particular strategies to maximise their impact, as shown in Figure 8 below.

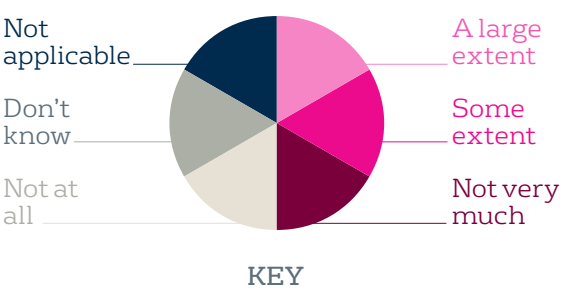
The first two questions sought to explore the extent to which social enterprises are actively seeking to intervene in the labour market to the advantage of the communities they serve – reflecting the focus on creating employment opportunities held by many social enterprises. A clear majority (66%) agreed that they actively recruited staff locally to a large extent. When those who actively recruit locally to some extent are included, this figure jumps to 81% or four out of every five social enterprises.

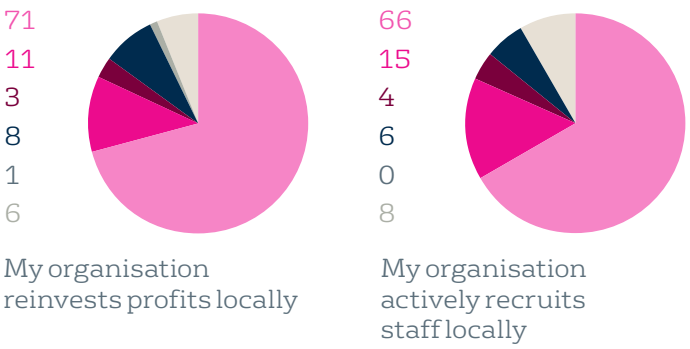
The survey also asked whether respondents actively employed people who were disadvantaged in the labour market – people with disabilities, people who are long-term unemployed, offenders and others. A quarter of our sample agreed that they did this to a large extent, a figure that jumps to 56% when those who do this to some extent are included. Social enterprises in Band 1 – the most deprived communities – are the most likely to recruit those disadvantaged in the labour market, with close to a third (31%) stating that they did this to a large extent.

The survey also sought to uncover the extent to which social enterprises include beneficiaries in their decision-making, as this type of inclusion can make organisations much more responsive to the needs of their communities. The results show that 74% of social enterprises use this approach to a greater or lesser extent – a figure that rises to 91% for social enterprises operating in Band 1 – the most deprived communities.

Finally the survey also sought to uncover to what extent social enterprises take active measures to minimise their environmental impact and monitor social impact. It found that 88% of social enterprises act to minimise their environmental impact, which compares very favourably to small businesses[26] – 44% of whom say they have taken no action whatsoever[27]. Alongside this 74% of social enterprises monitor their social impact in some form with 35% reporting they do this to a large extent.

Figure 8: Social enterprise approaches to social impact (as a %)





[26] (2010) 'The FSB-ICM 'Voice of Small Business' Annual Survey, Report of Key Findings', Federation of Small Businesses
[27] Response to the question: 'Have you changed the way your business operates because of concerns relating to climate change?' in (2010) 'The FSB-ICM 'Voice of Small Business' Annual Survey, Report of Key Findings', Federation of Small Businesses

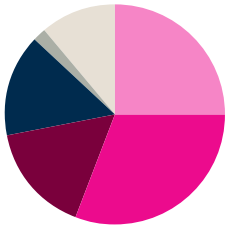
SOCIAL ENTERPRISES ARE PROACTIVELY TACKLING ISSUES IN THEIR COMMUNITIES. 82% OF SOCIAL ENTERPRISES REINVEST PROFITS BACK INTO THE COMMUNITIES WHERE THEY ARE EARNED TO FURTHER THEIR SOCIAL OR ENVIRONMENTAL GOALS

Case study: Museum of East Anglian Life (MEAL), East Anglia

MEAL was set up as a trust in 1984 to celebrate the rural history of East Anglia and hosts a number of family, community and social events (such as a beer festival and blues festival). The social enterprise arm of MEAL developed when, in 2006, the new director realised that the unique assets of the museum could be used to improve the local community. This social mission became embedded in the operations and ethos of the museum: **'we're not just existing to exist or make money; we're existing to improve the social capital of the community'.**

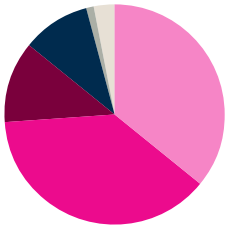
MEAL runs Work Based Learning (WBL) courses aimed at disadvantaged people in the community and supports volunteers who are recruited locally. MEAL works in partnership with a raft of local businesses and community groups. In the past it has partnered with a local business to help produce floral displays for Stowmarket and hosted a team-building day for HSBC bank, who funded the build of a restroom cabin for MEAL volunteers.

25
31
16
15
2
11



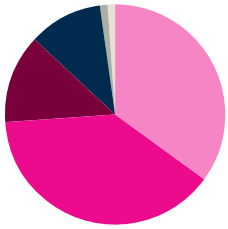
My organisation employs people that are disadvantaged in the labour market

36
38
12
10
1
3



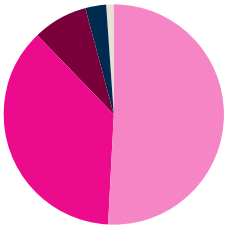
My beneficiaries are actively involved in decision-making

35
39
13
11
1
1



My organisation monitors its social impact

51
37
8
3
0
1



My organisation actively aims to minimise its environmental impact

Case study: Neuro Muscular Centre (NMC), Cheshire

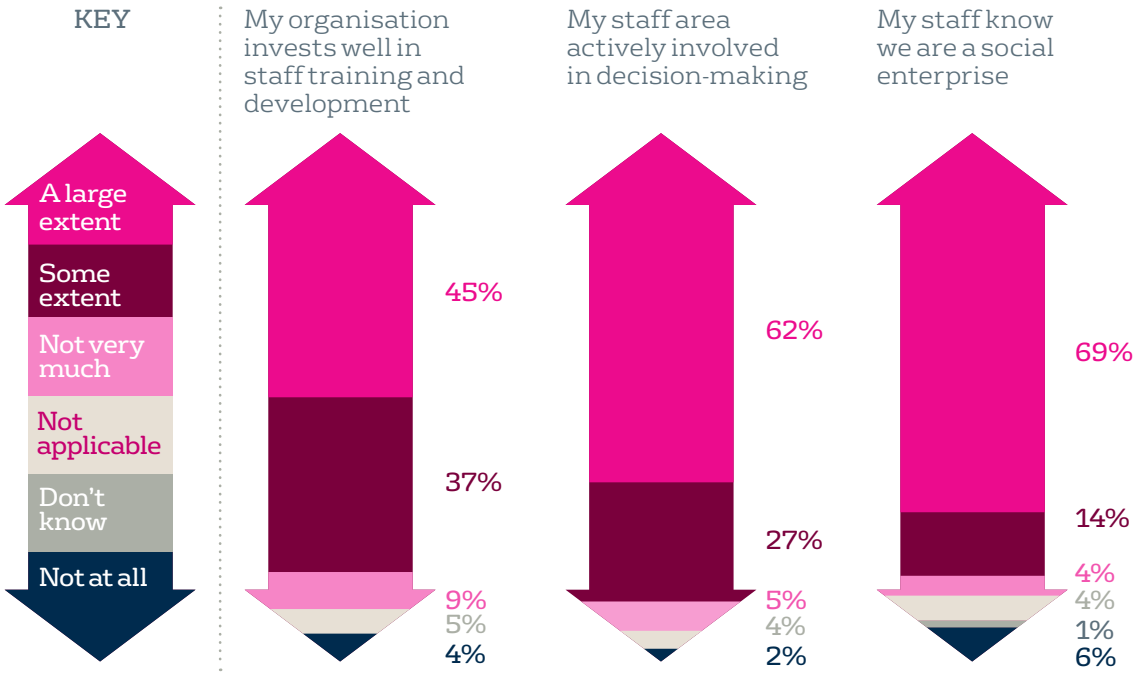
NMC was established in 1990 when a group of families and a physiotherapist came together to set up an initiative to help fund physiotherapy and a sense of community for those with Muscular Dystrophy (MD). The members of the group all had MD or worked with those affected by the condition.

Today, NMC is registered as a charity and combines the provision of training and employment opportunities (through its graphic design centre – a Company Limited by Guarantee), with its physiotherapy centre, both of which are tailored to people with MD.

There is a real sense of community at NMC – employment and inclusion outcomes are key and the majority of the senior management team have Muscular Dystrophy, as well as those on their management committee. The warm and supportive environment enables people with MD to live as 'mainstream' a life as possible and is cited by employees as one of the elements they enjoy most about working for the NMC.

NMC undertakes local outreach and educational work in schools, and promotes their services to small businesses, social enterprises and third sector organisations. The enterprise runs independently and sustainably with diverse income streams – including NHS contracts and income from the graphic design business, which have kept them thriving through the recession.

Figure 9: social enterprises as places to work



4.4 Social enterprises as places to work

As organisations with social motivations at their core it is important to determine how social enterprises behave as employers, how they engage their employees in their businesses, and how they invest in their staff. Our survey sought to explore social enterprises' employment practices, with the results set out in figure 9.

Our survey shows that 82% of all respondents believe, to a greater or lesser extent, that their social enterprise invests well in staff training and development. While not directly comparable it is important to note that only 59% of SMEs say they have provided any professional development for their staff at all in the last 12 months including on-the-job training[28].

Social enterprises are participatory and inclusive businesses, with 62% of respondents stating that they include staff in decision-making to a large extent. This pattern of engagement is remarkably consistent at different scales of social enterprise, until organisations begin to cross the £1m turnover threshold – where 47% said that staff are involved to a large extent. However, these organisations do seek to maintain staff engagement, with 94% of respondents with a turnover greater than £1m stating that they actively involve staff in decision-making to some extent.

While there is no comparable data available on staff engagement in mainstream business, this begins to build a picture of the type of businesses social enterprises are, demonstrating how much they value their staff in the key decisions they make.

Key findings

This section has sought to explore how social enterprises are making an impact in our communities – where they are working and what they are doing as they trade for people and planet. Key findings include:

Social enterprises are concentrated in our most deprived communities: 39% of all social enterprises work in the 20% most deprived communities in the UK. The more deprived the community, the more likely you will find a social enterprise working there.

The start-up explosion is happening there too: Around a third of all social enterprise start-ups are in the most deprived communities, as social entrepreneurs are going where they can have the greatest impact.

Doing it for themselves: Social enterprises are proactively tackling issues in their communities. 82% of social enterprises reinvest profits back into the communities where they are earned to further their social or environmental goals.

Bottom up, not top down: Social enterprises are accountable to their communities and the people they serve. 74% of social enterprises actively involve their beneficiaries in decisions about the business – a proportion that rises to nine out of 10 social enterprises in the most deprived communities in the UK.

More environmentally sustainable: 88% of social enterprises seek to minimise their environmental impact. 44% of small businesses say they have taken no action whatsoever[29].

88% OF SOCIAL ENTERPRISES SEEK TO MINIMISE THEIR ENVIRONMENTAL IMPACT

[28] (2011) ' BIS Small Business Survey 2010', IFF Research, Department for Business Innovation and Skills http://www.bis.gov.uk/assets/biscore/enterprise/docs/b/11-p74-bis-small-business-survey-2010

[29] Response to the question: 'Have you changed the way your business operates because of concerns relating to climate change?' in (2010) 'The FSB-ICM 'Voice of Small Business' Annual Survey, Report of Key Findings', Federation of Small Businesses


unlocking
potential,
creating
sustainable
businesses

As social enterprises work to tackle a broad range of social and environmental issues, mainly in the UK's most deprived communities, it is easy to confuse or conflate them with the third sector. But social enterprises are businesses competing in the marketplace against all sorts of other businesses. They seek to win new business and new customers, to deliver their products and services to a high quality and to sustain their operations through trade.

This section explores social enterprises in their markets, asking where their income comes from, who they are trading with and whether they are growing, profitable and optimistic for the future.

5.0
Social enterprises in their markets

5.1 Where do social enterprises get their income?

If trading activity is what sets social enterprise apart from traditional third sector or charity organisations – even if they arguably share similar values and objectives – then the proportion of a social enterprise's income that comes through trade is an important measure. This year's survey only considered organisations that generated over 25% of their income through trade to be in scope for the exercise.

The survey shows that 7 out of 10 respondents are earning at least 76% of their income through trade, with only 16% of organisations in the lowest category allowed for inclusion in the survey.

Why not 100% through trade? While almost all social enterprises earn almost all their revenue through trade, many still seek other forms of income. It can be contended that this is because alternative income is sometimes available and, like any enterprise[30], they will behave in an economically rational manner. Also many start-ups need funding to get off the ground and turn to readily available sources.

5.2 Who do social enterprises trade with?

In order to establish the dynamic of social enterprises in their marketplaces more fully, respondents were asked to identify their sources of income – highlighting both their main (or only) source of income and also any other sources of income that they had received in the past 12 months. The findings are set out in Figure 11.

The public policy discourse on social enterprise has been dominated by the potential of social enterprises in the delivery of public service and their role as contractors to the state. Our survey results clearly show that social enterprises have a far broader role to play in the UK economy.

70% OF SOCIAL ENTERPRISES EARN 76% OF THEIR INCOME THROUGH TRADE

The most common principal trading partner with social enterprise is consumers, with 37% of social enterprises naming them as their main source of income. A total of 66% of social enterprises gained a proportion of their income from this source. This pattern of trade remains the case for all scales of social enterprise. Indeed, a social enterprise turning over less than £100k per year is more likely to have private sector businesses than the public sector as their main source of income, as fig 12 shows.

This does not mean that trade with the public sector is not important – far from it. Half of all social enterprises trade with the public sector (compared to 30%[31] of small business) and for 18% of social enterprises, it is their principal trading partner. The relationship grows markedly more important for larger social enterprises, where 28% of organisations with turnovers between £250k and £1m have the public sector as their main trading partner.

In the 2009 survey 39% of respondents reported they received more than 50% of their income from the state with 10% claiming a combination of state and non-state income and 51% reporting more than 50%income coming from non-state sources.

The data on main source of income shows three further points of interest – the first is the very broad range of trading partners, which shows that social enterprise is a real mixed economy. The second is the diversity of income for individual enterprises – with social enterprises having on average three sources of income. The third area of note is that the number of social enterprises that list donations as their main source of income is very small – less than half of one percent.

[30] By way of example the most recent BIS Small Business Survey 2010, published in April 2011 shows that 9% of SME's sought a government grant
[31] (2011) ' BIS Small Business Survey 2010', IFF Research, Department for Business Innovation and Skills http://www.bis.gov.uk/assets/biscore/enterprise/docs/b/11-p74-bis-small-business-survey-2010

Figure 10: Proportion of income earned through trade

Figure 11: Sources of income for social enterprises

Source of income	Has income from	Main source of income
Earned income from trading with general public	66%	37%
Earned income from trading with public sector	50%	18%
Earned income from trading with private sector	44%	13%
Earned income from trading with third sector organisations	39%	5%
Grants or core funding from public sector bodies	38%	9%
Other grants or core funding	29%	4%
Earned income from trading with other social enterprises	29%	3%
Donations	21%	1%
Other	11%	6%

Figure 12: Main source of income by turnover

%	Total %	£0-£10k	£10k-£50k	£50k-£100k	£100k-£250k	£250k-£1m	Over £1m
Earned income from trading with the general public	37	51	31	40	36	31	46
Earned income from trading with the public sector	18	11	11	13	18	28	24
Earned income from trading with the private sector	13	13	16	16	12	10	13
Grants or core funding from public sector bodies	9	11	7	3	10	13	6
Earned income from trading with third sector organisations (e.g. charities, voluntary groups)	5	2	9	7	5	4	2
Other grants or core funding (e.g. foundations, trusts, Big Lottery)	4	2	6	5	5	4	1
Earned income from trading with other social enterprises	3	5	4	6	5	2	1
Donations	<0.5	2	1	1	0	0	1
Other	6	2	10	4	4	5	4
Don't know	4	2	5	5	3	3	2

A closer look at the data shows how levels of deprivation influence sources of income, as shown in Figure 13. Social enterprises operating in Band 1, the most deprived communities, are considerably more likely to have the public sector as their main customer. The likelihood of having trade with the general public as the main source of income broadly increases as deprivation declines – perhaps unsurprisingly when one considers the relative spending power of consumers at different levels of deprivation.

5.3 Social enterprise growth

Section 3.2 described how turnover in the social enterprise sector had grown in aggregate since the 2009 survey, but what were the individual experiences of social enterprises in our sample? Our survey asked respondents for turnover figures for the most recent financial year and the one just before. The results show that turnover growth has been sustained in the sector since the 2009 survey, with 58% of social enterprises providing data showing growth in turnover and 20% showing a decrease.

This compares very favourably to the performance of SME growth[32] during the period, as shown in Figure 14. Social enterprises are more than twice as likely to report growth as SMEs – showing that social enterprises have been real engines of growth in their communities over the period.

The growth performance of social enterprises is encouraging, but how is it being achieved? Our survey asked respondents what actions they had taken during the past 12 months to go for growth or diversification. Close to nine in ten (89%) had taken specific actions on growth or diversification in the past 12 months as shown by the results presented in Figure 15.

Understandably for organisations that make their living through trade, the most common action for growth was to attract new customers or clients, with 78% of respondents trying this approach. The next most common course of action was the introduction of new products or services, with 55% of social enterprises taking this route.

Interestingly, the BIS small business survey uses the percentage of organisations introducing either new or improved products and services over the past 12 months as a principal indicator of innovation. 47%[33] of their respondents have done so, making social enterprises more innovative by that measure.

These figures will in part be a result of the higher proportion of start up enterprises in our sample but even when these are taken into account our figures show an optimistic and dynamic social enterprise sector.

5.4 Social enterprise profitability

A key measure of success for social enterprises is whether they can be profitable – as profit reinvestment is one of the main paths to achieving their social impact. The survey asked respondents to identify whether their social enterprise had made a profit, a loss or had broken even in the last financial year.

As shown in figure 16, Just over half (53%) of all organisations surveyed report having made a profit in the last financial year, 23% report having made a loss, and a fifth (19%) report having broken even[34]. These figures compare negatively to the 2009 survey, where 66% of social enterprises made a profit and 18% reported making a loss. It is worth noting that the figures for social enterprises making a loss are almost identical to those for mainstream small businesses (24%)[35].

The results show that social enterprises with a turnover of more than £1m reap the benefits of scale, with 68% of these organisations showing a profit. Organisations with turnovers of less than £10,000 are most likely to show a loss (36%) – the only group more likely to make a loss than a profit. This is arguably because of the high number of start-ups in this segment – only 32% of organisations less than 2 years old reported a profit.

[32] [33] (2011) ' BIS Small Business Survey 2010', IFF Research, Department for Business Innovation and Skills http://www.bis.gov.uk/assets/biscore/enterprise/docs/b/11-p74-bis-small-business-survey-2010

[34] It is important to note that some social enterprises report that they are exactly breaking-even. An exact break-even would suggest that these organisations are actively managing trading surpluses, reinvesting them into either their social impact or into the business. For certain social enterprises, this is a known core component of either their governance structure or their business model. It is also important to note that the BIS Small Business Survey only records profit or loss- not break even.

[35] (2011) ' BIS Small Business Survey 2010', IFF Research, Department for Business Innovation and Skills http://www.bis.gov.uk/assets/biscore/enterprise/docs/b/11-p74-bis-small-business-survey-2010

Figure 13: Main sources of income by levels of deprivation

Band	1	2	3	4	5
Main source of income is public sector	24%	18%	14%	13%	18%
Main source of income is general public	31%	39%	36%	48%	46%

Most deprived — Least deprived

Figure 14: Social enterprise and SME turnover growth over time

Turnover is:	Feb. 2009 SME Business barometer	State of social enterprise 2009	April 2011 Small Business Survey	State of social enterprise 2011
Higher than 12 months ago	28%	56%	28%	58%
The same as 12 months ago	26%	24%	34%	23%
Lower than 12 months ago	43%	20%	34%	20%

Figure 15: Social enterprise actions for growth (multiple responses allowed)

Figure 16: Answers to 'Did you make a profit?' by turnover

	All	£0 - £10,000	£10,001 - £50,000	£50,001 - £100,000	£100,001 - £250,000	£250,001- £1 million	Over £1 million
Yes	53%	20%	51%	47%	51%	60%	68%
No	23%	36%	21%	23%	27%	22%	18%
Broke even	19%	27%	26%	26%	22%	16%	13%
Don't know	5%	16%	2%	4%	1%	2%	1%

Figure 17: business confidence – social enterprises' belief in turnover growth over 2-3 years

	Increase	Decrease	Stay the same	Don't make a profit	Don't Know
All	57%	14%	22%	1%	6%
£0-£10,000	73%	4%	18%	2%	4%
£10,001-£50,000	63%	6%	22%	3%	6%
£50,001-£100,000	58%	9%	30%	0%	2%
£100,001-£250,000	60%	17%	17%	1%	5%
£250,001-£1 million	53%	21%	19%	1%	7%
Over £1 million	53%	19%	22%	1%	5%

58% OF SOCIAL ENTERPRISES GREW LAST YEAR COMPARED WITH 28% OF SMES

SMALLER SOCIAL ENTERPRISES ARE BY FAR THE MOST CONFIDENT OF GROWTH, WITH 73% PREDICTING AN INCREASE IN TURNOVER

Case study: The National Community Wood Recycling Project (NCWRP), Brighton

The Brighton and Hove Wood Recycling Project was set up in 1998 when founder Richard Mehmed discovered a gap in the market for wood recycling. This environmental enterprise grew to become an award-winning social enterprise that is recognised for offering job creation opportunities for people from disadvantaged backgrounds. The enterprise trades with the general public and businesses, from salvaging and recycling wood from construction sites to selling bespoke furniture.

In 2003, the National Community Wood Recycling Project (NCWRP) was established to franchise the original model across the UK. Today this national franchise network encompasses a series of other wood recycling enterprises in more than 20 locations in Britain.

The integrity of the NCWRP brand is maintained by a set of principles – openness, inclusiveness and integrity – creating a self-policing policy based on trust, and premised on the logic that such an ethos would attract entrepreneurs who share these principles and a commitment to social and environmental change.

5.5 Optimism and business confidence

Business optimism is an important barometer of the health of a sector with direct implications for investment and employment. We asked our survey respondents whether they believed that their turnover would increase, decrease or stay the same over the next 2-3 years. The results are presented in Figure 17.

The results show that, on balance, social enterprises are optimistic that their turnover will increase over the next 2-3 years – more than four times as many social enterprises predict growth as contraction. This is a stronger result than the 2009 survey, where 48% of social enterprises were confident of growth and considerably stronger than the view of SMEs[36], where 41% of businesses believe they will see growth[37].

Smaller social enterprises are by far the most confident of growth, with 73% predicting an increase in turnover. Larger social enterprises are still confident, but a greater proportion expect a decrease, with a fifth of social enterprises currently turning over between £250k and £1m expecting turnover to fall.

Key findings

This section has aimed to get 'under the hood' of the economic engine of social enterprise – how they trade in their marketplaces. It has explored who their customers are, whether they are growing and profitable, and how they are performing in comparison to SMEs.

We need to change the way we think about social enterprise: The main discussions in public policy have been around social enterprise delivering public services – this tells the lesser part of the story. The most common main source of income for social enterprises is in fact trade with the general public.

The public sector is still important, particularly in deprived areas: Social enterprises working in the UK's most deprived communities are much more likely to have the public sector as their main trading partner – and much less likely to trade with the general public than other social enterprises. Larger social enterprises are also more likely to have the public sector as a significant trading partner.

No tin-rattling here: Donations are the main source of income for less than half of one percent of social enterprises. Traditional donor-based philanthropy is largely absent from the social enterprise landscape.

For economic dynamism, look no further than social enterprise: Social enterprises are outstripping SMEs for growth - 58% of social enterprises grew last year compared with 28% of SMEs. Social enterprises are outstripping SMEs in business confidence, with 57% of social enterprises predicting growth in comparison to 41% of SMEs. Social enterprises are outstripping SMEs in innovation, with 55% of social enterprises launching a new product or service last year, as opposed to 47% of SMEs.

55% OF SOCIAL ENTERPRISES LAUNCHED A NEW PRODUCT OR SERVICE LAST YEAR

[36] (2011) ' BIS Small Business Survey 2010', IFF Research, Department for Business Innovation and Skills http://www.bis.gov.uk/assets/biscore/enterprise/docs/b/11-p74-bis-small-business-survey-2010
[37] The figures in both the 2009 survey and the SME business Barometer both relate to predicted turnover in 12 months, so caution should be exercised in this comparison.


making the
public sector
pound go
further

In the previous section, the key finding was that the most frequent main customer for social enterprises was the general public, rather than the public sector. That this seems counter-intuitive is probably due to the role foreseen for social enterprises by policy makers and communicated to the public at large: to unleash the capability of social enterprises for innovation, community and staff engagement in the delivery of public services.

For their part, many social enterprises stand ready to do exactly this – working with the public sector remains a key activity for many. This is particularly true for organisations in deprived communities, where the social enterprise approach can make the public sector pound go a great deal further by employing local people and providing local solutions to local problems.

The 2011 survey has provided the opportunity to explore whether the much-anticipated social enterprise revolution in public services delivery has, in fact, occurred. This section presents the experiences of those social enterprises whose main source of income is from the public sector, exploring whether their experiences differ from the rest of the sector.

6.0
Social enterprises and the state

6.1 Effect of public spending cuts on financial health

Our survey asked respondents: have public sector cuts positively or negatively affected your organisation's financial health? The results, broken down by the organisation's main source of income, are set out in Figure 18.

The table shows that, rather than experiencing opportunity, social enterprises are being negatively affected by cuts in public spending. 72% of social enterprises whose main customer is the public sector state that cuts have had a negative impact on their financial health.

It is interesting to note that respondents whose main customer is not the public sector also state that they have been affected. There are two potential factors that may explain this result. First, that although only 18% of social enterprises cite the public sector as their main source of income, 50% of social enterprises do business with it. It is also important to note that 39% of organisations receive some income from trading with each other, illustrating the multiplier effects public sector cuts can have on the wider social enterprise and civil society sectors. Finally, as social enterprises mostly operate in areas of high deprivation where the state plays a larger part in the economy, it may also be that they are being hit by negative multiplier effects more broadly.

6.2 Social enterprise confidence and the state

Section 5.5 presented a sector that, as a whole, bristled with business confidence. How confident are social enterprises whose main trading partner is the public sector that their income will increase? 51% of these organisations believed that they would see their organisation grow – however, 27% predicted a decrease in their turnover.

Figure 19 presents the business confidence of social enterprises operating in different markets on balance – the difference between those who predict an increase and those who predict a decrease, giving an indication of the net levels of optimism about growth.

Figure 19 shows low business confidence among social enterprises whose main trading relationships are with the public sector when compared to all others.

That some of these social enterprises predict growth while others predict contraction does not show that social enterprises are simply having different experiences of trade with the public sector. Of those social enterprises working with the public sector who predict growth, 64% believe that this growth will come from diversification into different markets. By comparison, growth through diversification into different markets is a strategy favoured by just 30% of social enterprises trading with the third sector and 35% of those trading with the private sector.

64% BELIEVE THAT THIS GROWTH WILL COME FROM DIVERSIFICATION INTO DIFFERENT MARKETS

[38] The net confidence of the sector as a whole is as follows: 57% of respondents predict they will grow, minus 14% of respondents who predict they will contract, giving a net confidence of +43.

Figure 18: The impact of public spending cuts

Have public sector cuts positively or negatively affected your organisation's financial health?

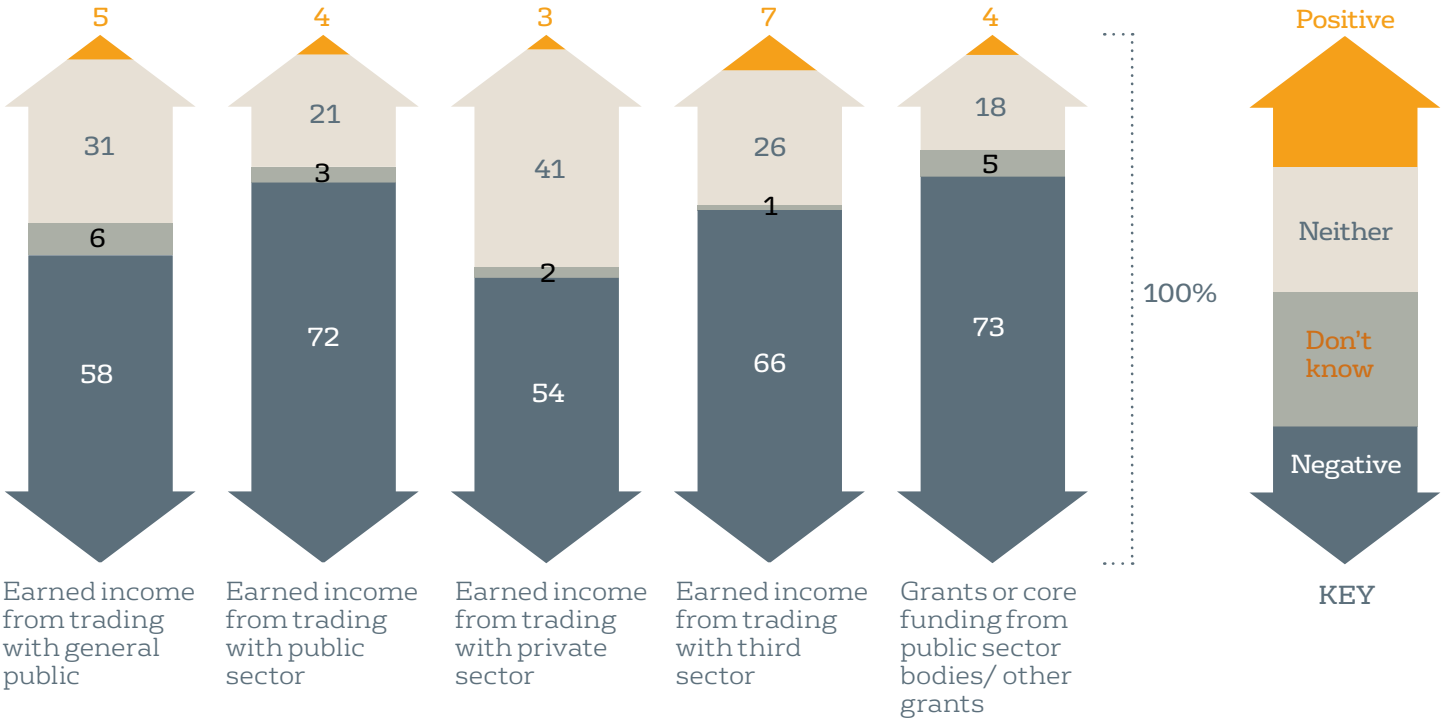


Figure 19: net business confidence of social enterprises, by main source of income

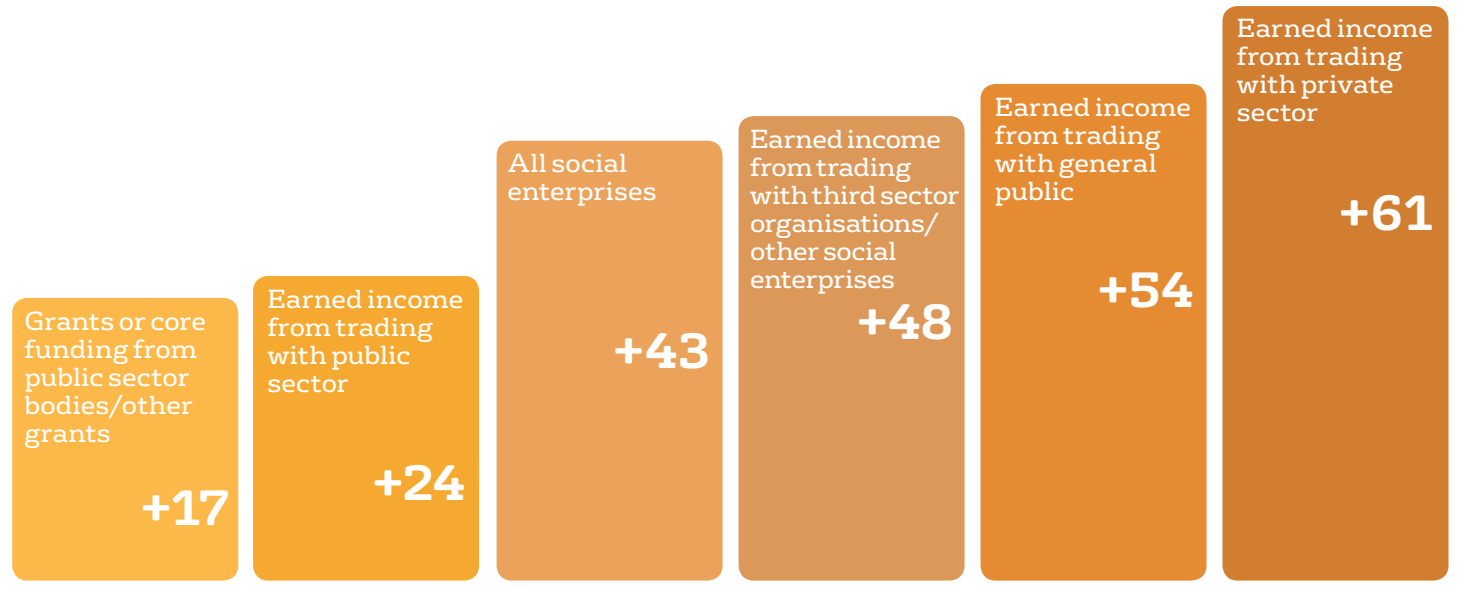


Figure 20: planned redundancies in social enterprises over the next 12 months, by main source of income (as a %)

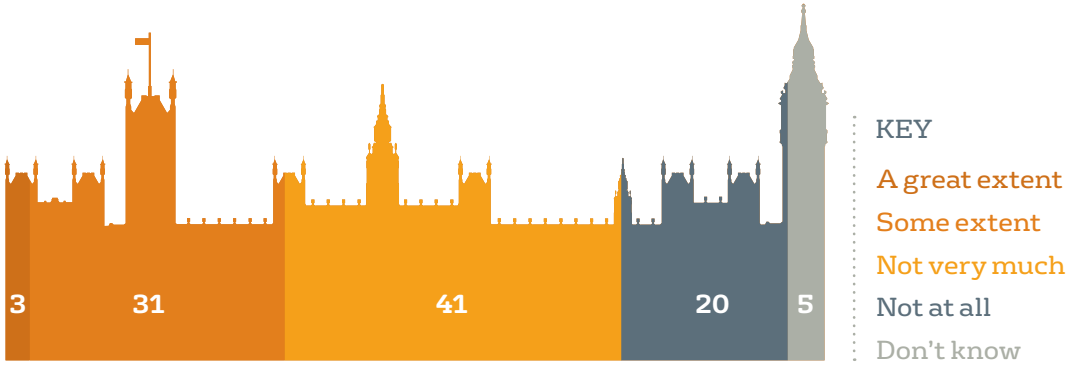
Case study: Inspire Leisure, Littlehampton

Inspire is a leisure trust with social aims to bring culture, sport and the arts to a diverse range of people, while reinvesting profits to further community programmes for those otherwise unable to afford or access such facilities. Inspire transferred from being a council-run leisure service to a stand-alone social enterprise in 2002. It incorporated as an Industrial and Provident Society and obtained charitable status.

The district council is its biggest partner, and other partners are the town council, schools and numerous sports and community groups. In total, Inspire gets 1.3 million customer visits a year and has an annual turnover of £4.5m.

Paying customers who use the leisure facilities make up 76% of the organisation's income, with the remaining coming from an ongoing five-year funding arrangement with the council. Action has been taken to modernise facilities, installing interactive equipment and improved services for disabled customers. Inspire has succeeded in delivering value for money for the local authority, providing much-needed services to the community by becoming entrepreneurial.

Figure 21: The extent to which social enterprises believe that the government takes account of their views (as a %)



6.3 Redundancies and the state

Section 3.4 set out the broader risks of redundancies in the sector, with approximately one in five organisations planning to cut staff. With business confidence markedly lower for social enterprises whose main source of income is the public sector, what practical effect will that have in terms of employment? Figure 20 presents a breakdown of those planned layoffs by main source of income.

Figure 20 shows that organisations whose main source of income is from the public sector anticipate that they will account for half of all redundancies amongst all social enterprises in the next 12 months. As a consequence of the noted distribution of social enterprises, these cuts will be felt disproportionately by the most disadvantaged communities – 24% of all anticipated redundancies will fall within band 1 – the most disadvantaged communities in the UK, with just 9% anticipated to fall in the least deprived.

Taken together with the collapse in business confidence set out in section 6.2 above, it is clear that public sector markets are or look likely to become increasingly difficult places for social enterprise.

6.4 Is the government listening?

The environment contains both risks and opportunities for social enterprise. Our survey sought to uncover the sector's views on whether they could turn to public policy-makers for support. The survey asked the extent to which respondents believed that the government takes account of the views of social enterprises.

The results are presented in Figure 21, showing that on balance, 61% of social enterprises feel that their views are not taken into account by government.

Key findings

This section has sought to explore the relationship between social enterprises and the state in light of the role foreseen for social enterprises by policy makers in the delivery of public services. Key findings include:

A gulf between rhetoric and reality: The social enterprise revolution in public service delivery could fail to materialise without action to encourage social enterprises' belief that they can succeed in public service markets. Organisations that mainly work with the public sector anticipate they will make half of all the likely redundancies amongst social enterprises over the next 12 months.

Low business confidence: Social enterprises whose main source of income is from the public sector view the coming years with significant gloom, with markedly lower business confidence than their social enterprise peers in other sectors.

A missed opportunity?: Of those social enterprises who trade mainly with the public sector and anticipate growth in the future, 64% anticipate that their growth will come from diversification away from working with the public sector.

61% OF SOCIAL ENTERPRISES FEEL THAT THEIR VIEWS ARE NOT TAKEN INTO ACCOUNT BY GOVERNMENT


GIELGUD
social
business
for social
change

The preceding sections of this report have identified that social enterprise is rapidly growing its contribution to the UK economy, attracting entrepreneurs, working in the UK's most deprived communities to tackle the root causes of deprivation and is both out-pacing and out-innovating comparable SMEs.

This section aims to explore the barriers and enablers to social enterprise – both in terms of encouraging start-ups and supporting the sustainability of existing enterprises. Many of these issues are directly influenced by measures introduced by policy-makers and are the arena in which government can make its most active contribution to the success of the sector.

7.0
Social enterprise barriers and enablers

7.1 Barriers at start-up

Our survey asked those respondents who were involved in the organisation when it started up to describe the barriers they experienced. The ten most common barriers are presented in Figure 22.

The first four barriers arguably read like the worry-sheet of any new business start-up, with 45% of respondents citing the availability or affordability of start-up finance, 22% raising the perennial business issue of cash-flow and 19% reflecting on their skill set when they had just got started.

Many of the remaining barriers are plainly specific to social enterprise. 15% of respondents say that awareness among customers of social enterprise was an issue – which is increasingly serious for start-ups in Scotland, Northern Ireland and Wales with 27% of organisations flagging it as a barrier. This lack of understanding also hampered start-ups in their search for finance, with 9% of respondents identifying cultural understanding with banks as an issue.

Market entry in general and procurement practice in particular were singled out as barriers by 12% and 11% of respondents respectively. The number of respondents who saw public sector procurement as a barrier jumps to one in five among social enterprises who have the public sector as their main customer.

7.2 Barriers to sustainability

The next question in the survey sought to explore what is currently holding organisations back – we asked what the three most significant barriers were to the organisation's sustainability and/or growth. For many organisations, the issues that hampered them at start up are issues still, with results shown in figure 23.

Access to finance and cash flow problems still dominate the concerns of social enterprise – 44% of respondents are still hampered by the availability and affordability of finance. Where finance is available, 45% of respondents identified it as the most important enabler for their growth.

This hunger for investment marks a real difference between social enterprises and SMEs. SMEs rank the availability of finance as only their sixth greatest obstacle to success after the state of the economy, cashflow, taxation, competition and regulation[39].

For those social enterprises whose main source of income is trade with the public sector, public sector commissioning and procurement is the second most cited barrier to their sustainability (25%) beating even cash flow into third place. This issue is directly in the power of policy-makers to resolve and addressing it could be the single most important step to unlocking the potential of the sector.

SOCIAL ENTERPRISES WORKING MAINLY WITH THE PUBLIC SECTOR CITE PROCUREMENT POLICY AS THE SECOND GREATEST BARRIER TO THEIR SUSTAINABILITY

[39] (2011) 'BIS Small Business Survey 2010', IFF Research, Department for Business Innovation and Skills http://www.bis.gov.uk/assets/biscore/enterprise/docs/b/11-p74-bis-small-business-survey-2010

Case study: Pants to Poverty, London

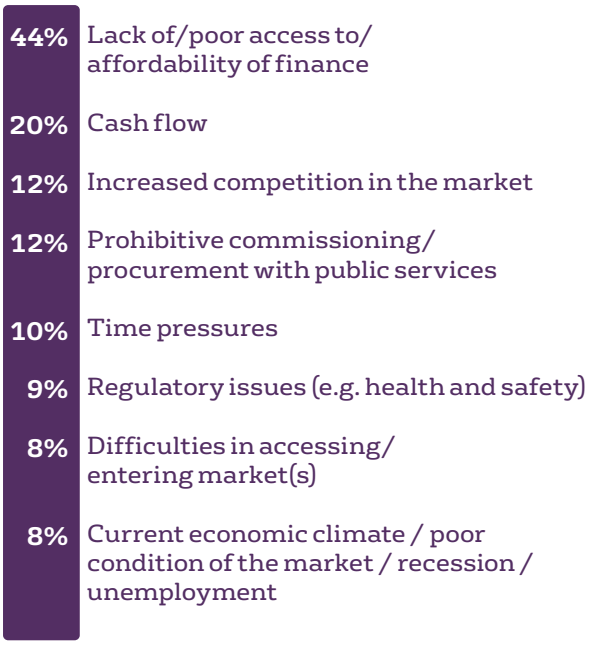
Pants to Poverty came about as part of the 'Make Poverty History' campaign. Founder Ben Ramsden sold pants to highlight that poverty was linked to how the UK does business, particularly with developing countries. Five years later, Pants to Poverty, the social enterprise was born.

Pants to Poverty operates as a company limited by shares and works with one main 5,000-strong farmer co-operative group based in Vidarbha, India, to whom it pays a fair trade premium for cotton. In partnership with the farmer groups, Pants to Poverty is setting up a child labour-free cotton seed programme. It has also set up a charity – the Pi Foundation – which helps channel money back into a raft of projects working with vulnerable groups.

To fund its international expansion and continual growth, Pants to Poverty has spent the last year working with Coutts Bank to develop and launch its 'Pants Bond' – a new financial instrument. This bond, with the interest payable in products, aims to provide the working capital necessary to drive the business forward.

Figure 22: Top 10 barriers experienced on start-up

Figure 23: Barriers to sustainability and growth



7.3 Finance sought – by type

As access to finance is seen as central to both start-ups and social enterprise sustainability, the survey aimed to explore the proportion of social enterprises who had sought funding, what types of finance respondents were looking for and how successful they were.

Our survey shows that 47% of all social enterprises have sought external finance over the past year, from a very wide variety of sources. This proportion rises from 33% of those with a turnover of up to £10,000 to more than half (52%) of those with a turnover of £250,000 or more.

As shown in Figure 24, the most common type of finance applied for was a development grant, sought by 61% of those looking for finance who achieved, coincidentally a 61% success rate in obtaining one.

Loans were the most common form of finance (25% applied for) followed by overdrafts (7% applied for, but with a lower success rate of 43%)

Whilst very few social enterprises sought to issue equity as a means of fundraising (4%) it is worth marking as a significant milestone for the sector. In the 2009 survey, no respondents indicated that they had sought and raised finance in this way, so this represents a new avenue for certain social enterprises.

Interestingly, twice as many organisations in our survey sought equity funding as sought lottery funding.

Those who had applied for finance were asked how much their organisation wanted to raise – the median amount sought is close to £100,000. Around one in six (16%) were unsuccessful in raising any finance, with not all organisations raising the full amount they had sought, with a median amount raised of £60,000.

44% OF RESPONDENTS ARE STILL HAMPERED BY THE AVAILABILITY AND AFFORDABILITY OF FUNDING

7.4 Finance sought by source

Social enterprises approached a variety of different sources of finance, as presented in Figure 25. The clear majority of these sources were either government or third sector in nature – perhaps demonstrating that social enterprises are still some distance away from frequently accessing mainstream sources of finance.

There are marked contrasts when one compares the patterns of funding sought by SMEs[40], where only 14% of finance sought was from government sources. Where funding was sought, SMEs were much more likely to approach high street banks for loans (40%) or overdrafts (35%).

Start-ups are more likely than others to have applied to specialist lenders (29%), and the likelihood of applying to a high street bank increases with the age of social enterprises, from 9% of start-ups to 21% of those who have been in operation for 11 years or more.

Key findings

This section has sought to explore the main barriers to and enablers for unlocking the potential of social enterprises – with a particular focus on finance.

Procurement reform is key: Social enterprises working mainly with the public sector cite procurement policy as the second greatest barrier to their sustainability – a greater barrier even than the perennial challenge of cash flow. Decisive action on procurement reform will do more to rescue the government's social enterprise agenda than any other action.

An appetite for finance: The single largest barrier to the sustainability of social enterprises is access to finance, with 44% of respondents saying that they are still hampered by the availability and affordability of funding

Weak access to mainstream sources of funding: Social enterprises are much more dependent on government sources of investment (32%) than SMEs (14%). Start-ups are three times as likely to approach a specialist social enterprise lender as a high street bank.

[40] (2011) 'BIS Small Business Survey 2010', IFF Research, Department for Business Innovation and Skills http://www.bis.gov.uk/assets/biscore/enterprise/docs/b/11-p74-bis-small-business-survey-2010

Figure 24: type of finance applied for

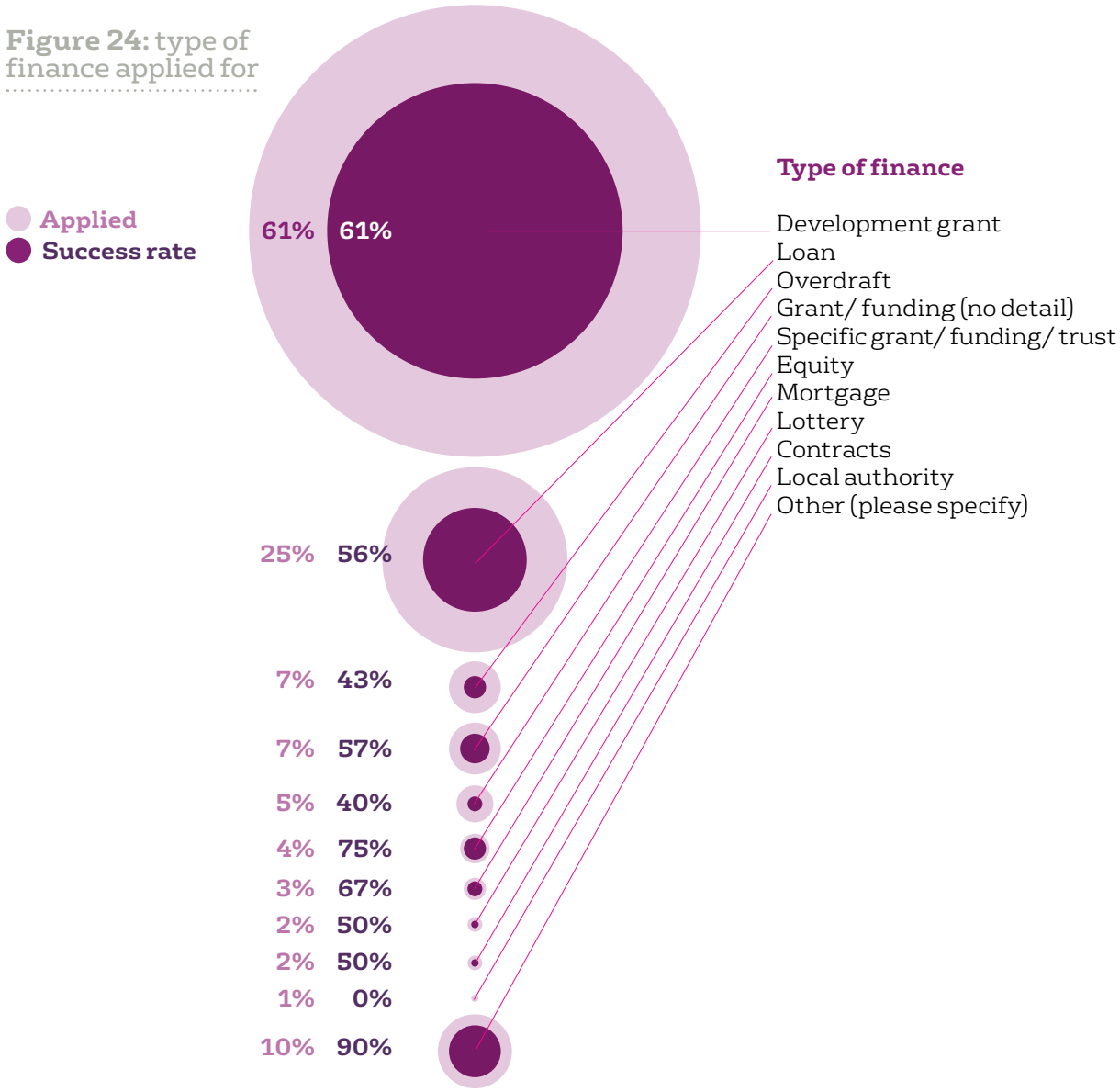
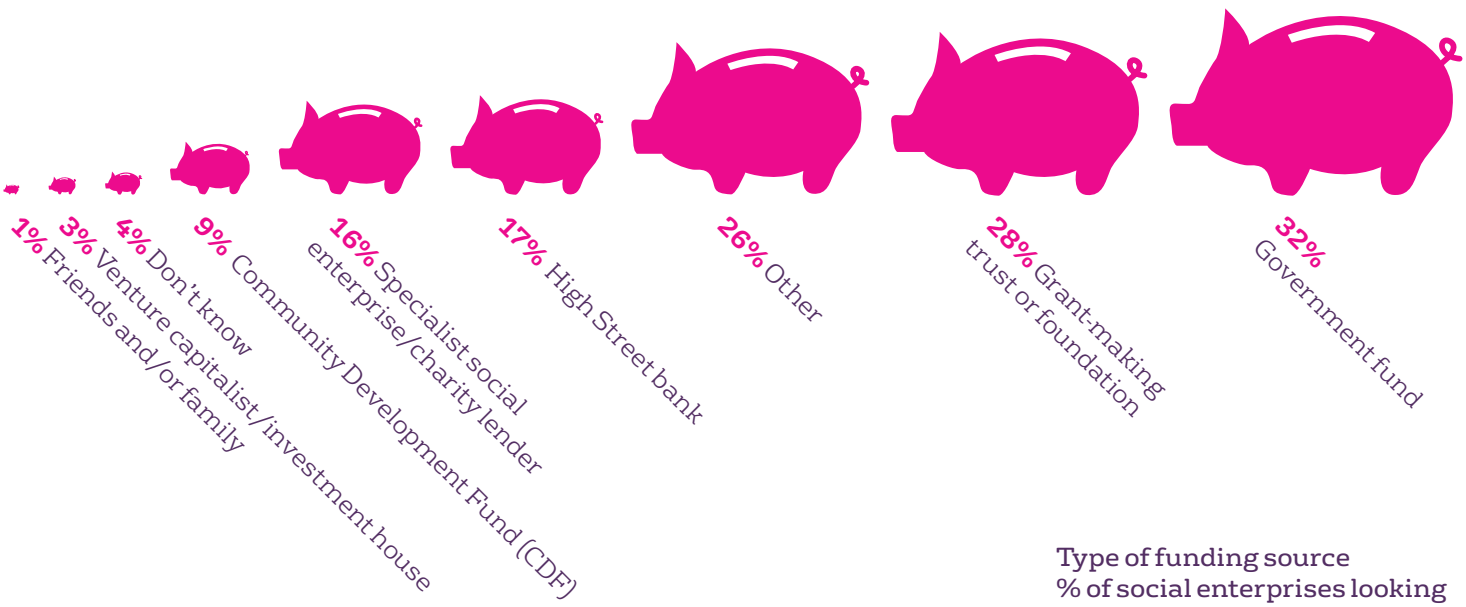


Figure 25: Who social enterprises approached for funds



Type of funding source
% of social enterprises looking for finance who applied

Doing good business

Healthcare is one of the fastest growing sectors for social enterprise in the UK and The Co-operative Bank is helping new customer, NAViGO, to achieve its goals. Formed in April 2011, from within the NHS, NAViGO is a social enterprise providing health and care services free at the point of use to people in North East Lincolnshire.

Simon Beeton, Financial Director at NAViGO, explains; "Our objective is to support the most vulnerable residents in our community. Having a social goal is central to what we do, but we must not lose sight of the fact that we are a business. We need to make a profit so that we can reinvest it if we are to keep making a positive impact on the lives of the people here."

When NAViGO was in the process of setting up, they were clear that they wanted a financial provider that shared their values and The Co-operative Bank immediately stood out. "It was the Co-operative Bank's ethical stance, which proved critical to our decision. We're committed to running our business responsibly and investing in our community and The Co-operative Bank shares our values."

With a very tight deadline in place the bank was able to set up a business current account within days. Neil Cartwright, a Relationship Manager and Adam Burke, a Senior Corporate Adviser from the bank's specialist Charity Team, arranged facilities, including Visa Purchasing cards, online banking, Post Office banking and an encashment service so that NAViGO could complete its day-to-day banking transactions.

"The bank's sector-specific knowledge and experience was invaluable. As a business starting with a £22 million turnover we needed to know we were in expert hands, says Simon. "Both Neil and Adam were incredibly helpful. I trust them and feel confident that they will always deliver."

Following Simon's recommendation, the bank has since won another social enterprise customer. "It makes all the difference having a bank that understands what we're about. As we become more sophisticated and the business settles down I will be looking for greater input from the bank, in terms of investment advice, to ensure we're getting the best return on our surplus funds. And I'm sure they won't let me down."

To learn more about banking services for social enterprises call our Charity & Social Enterprise Team 0207 977 2121 or visit co-operativebank.co.uk/corporate

"THE CO-OPERATIVE BANK'S ETHICAL STANCE WHICH PROVED CRITICAL TO OUR DECISION. WE'RE COMMITTED TO RUNNING OUR BUSINESS RESPONSIBLY AND INVESTING IN OUR COMMUNITY AND THE CO-OPERATIVE BANK SHARES OUR VALUES."

Simon Beeton,
NAViGO


out-pacing and
out-innovating
mainstream
businesses


business
for good

This report has presented the findings of the State of Social Enterprise Survey 2011 – the largest survey specifically of social enterprises in the UK. It has aimed to: explore the landscape of social enterprise; understand the scope and scale of the sector within the UK economy; examine in greater depth how social enterprises seek to address their social or environmental purposes; evaluate how well they are doing as enterprises; explore their role in public sector service delivery and identify those factors that help or hinder them.

8.0 Conclusion

The results have shown the dynamism of the sector, showing the increase in its economic contribution and its attractiveness to entrepreneurs. Even more encouraging is who those entrepreneurs are, as social enterprise increasingly attracts women, members of Black and Minority Ethnic communities and young people to their leadership teams.

The survey has also allowed us for the first time to profile social enterprises by the level of deprivation in their communities. The results show that social enterprises are concentrated in areas of high deprivation, and that their objectives change with the specific needs of those communities. Their impact is driven by high levels of profit reinvestment and directed by beneficiaries rather than the state or traditional philanthropic bodies.

Arguably, the greatest surprise in the results has been the discovery that social enterprises trade mainly with the general public, not the public sector. That this seems counter-intuitive is likely due to the role foreseen for social enterprises in the delivery and reform of public services. The results mean that those commentating on and supporting the sector may have to change the way they think about how it works. The survey also set out results showing the energy in the sector, with growth, optimism and innovation all outstripping that traditional engine of British economic growth – the SME.

If the greatest surprise was trade with the general public, the greatest disappointment has been trade with the public sector. The oft-heralded social enterprise revolution in public service delivery may be stopped in its tracks by cuts and procurement problems remain. The survey shows social enterprises that mainly trade with the public sector have seen a collapse in their business confidence and an increase in their plans for redundancies. Policy makers should consider how they can unlock the potential of social enterprises in these areas, starting with decisive reform of procurement policy.

The survey also showed that social enterprises were just as finance-hungry as in the 2009 survey, seeking their funding through an even wider set of sources – that now includes equity.

While many in the social enterprise sector are wary of hyperbole, with the notable exception of those working mainly with the public sector, this survey has found evidence that social enterprises across the UK are living up to recent hype – a sector that is growing, attracting entrepreneurs, working in the UK's most deprived communities to tackle the root causes of deprivation and both out-pacing and out-innovating mainstream businesses.

A full copy of the questionnaire that was used in our survey is available online. Please visit www.socialenterprise.org.uk

Appendix 1: Legal forms of the social enterprises surveyed

	2009	2011
Company limited by guarantee (CLG)	59%	54%
Registered Charity	37%	26%
Industrial and Provident Society (IPS)	12%	24%
Company limited by shares (CLS)	7%	12%
Community Interest Company (CIC)	17%	10%
Limited Liability Partnership	2%	3%
Other	1%	7%
Don't know	2%	2%


businesses
that are
changing
the world

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