

# Social Enterprise

**“Social enterprises are businesses driven by a social or environmental purpose. There are 62,000 of them in the UK, contributing over £24bn to the economy, employing approximately 800,000 people”** Social Enterprise Coalition website, April 2011

Social enterprises have **no legal identity or definition**. It is a **concept** that has become increasingly popular over the last decade and a model that is encouraged by the government.

## So, what makes a social enterprise?

Whilst there is no single definition of a social enterprise, some key traits have been identified for what a social enterprise consists of, which include:

- It has a **social or environmental purpose** (it exists in order to tackle some kind of disadvantage or cause)
- Any **surplus is reinvested** towards achieving their purpose (their social purpose is at the heart of what they do)
- It **earns its own income** through trading activities (as with businesses, they compete to deliver goods and services)
- It **is not privately owned** (unlike private businesses which are driven to make profit for their shareholders or owners, a social enterprise incorporates economic, social and environmental aims)

The government defines social enterprise as: “a business 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” (Social enterprise, a strategy for success, DTI 2001). The government encourages social enterprise because it is a way of encouraging sustainable growth in the economy as well as meeting social and environmental priorities.

## What makes them so good?

**“For many social enterprises, being sustainable – in every sense of the word – enables them to become more independent and reduce any dependency on public grants.”** The Social Enterprise Ambassadors

Whatever they do, social enterprises do it differently from a conventional business because they are driven by their social and/or environmental purpose and they are focused on the community they serve.

# Factsheet 1c

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For voluntary and community groups, a social enterprise is also a good model for diversifying income and earning money (either through trade or by winning contracts to deliver public services)

## So, what legal structure would you have?

In theory, any organisation that trades for a social or environmental purpose can claim to be a 'social enterprise', because it is a 'concept' rather than a 'legal form' in itself. This has caused much confusion among charities and businesses.

However, a new legal vehicle was set up in 2005 in the form of a **Community Interest Company (CIC)**. CICs were set up to address the lack of legal status for non-charitable social enterprises across the UK. CICs vary in size and operate in many industries, including health and social care, renewable energy, retail, recycling, sport, housing and education.

Fundamentally CICs are normal businesses or companies. They are commonly established as companies limited by guarantee (CLG), but sometimes as companies limited by shares (CLS). However, they have some unique and important **additional features** to safeguard their social mission. Limited companies are regulated by Companies House but CICs also have their own **CIC regulator**.

However, many **Industrial and Provident Societies** (including co-operative societies) perform functions of a social enterprise. They are registered and regulated by the Financial Services Authority (FSA). Since there are no set rules, you should think carefully about what legal structure is most appropriate for your aims and objectives. Making the right choice of legal structure for a social enterprise is crucial and you should seek advice on it, because it may affect the **support and funding** that you have access to in the future.

**The Big Issue, Jamie Oliver's restaurant Fifteen, and the fair-trade chocolate company Divine Chocolate are all well-known examples of social enterprises**

## What about registered charities?

Whilst some charities claim to be a social enterprise and are often thought of as the best means for achieving social purposes, they are not the best vehicle for a social enterprise.

Whilst charities can trade to pursue their social aims (and public benefit) few are hugely successful at generating income in this way. This might be because many serve to address issues of inequality and work on a voluntary basis

where the primary aim is to offer support to those that need it. Charities have added tax benefits and schemes such as Gift Aid, to ensure that their focus is socially and environmentally driven (rather than by profit).

## Key Words

**Social Enterprise** – A business that is driven by a social or environmental purpose, reinvesting any profits back into that purpose or the community

**Community Interest Companies (CIC)** – A common legal structure for social enterprises

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CICs work slightly differently and have some **key advantages over charities**, including:

- Greater Flexibility in terms of activities
- No trustees and no trustee control
- Directors who can be paid a salary, although this is regulated (basic charity law means that charities have to have volunteer trustee boards)
- Light touch regulation, but no tax incentives (they are less heavily regulated than charities)
- Fewer reporting requirements and administration – (A charitable company has to complete the Charities SORP, for example)

Since directors of a CIC can be paid a salary, its founders can retain strategic control of the enterprise by sitting on the board as paid directors. Since there is also less bureaucracy and fewer regulations, CICs may also be in a better position to win public sector contracts, since their social purpose gives them preference over commercial companies. As their social purpose is protected, CICs are also increasingly successful in attracting the kind of grant-funding traditionally restricted to charities, though the more traditional grant-givers may still be more inclined to support charities than CICs.

## What are the other additional features of a social enterprise?

The following are also taken from the CIC regulator guidance on their website:

- An asset lock, which is inexpensive and easy to set up
- Statutory provisions that prevent the members of the CIC removing the asset lock by special resolution
- Regulation to ensure the CIC maintains its asset lock and provides benefit to the community it was set up to serve
- Checks and balances provided by CIC legislation
- A community benefit report open to public scrutiny
- Transparency of directors' remuneration and use of assets
- Legal protection from demutualisation and windfall profits being paid to directors and members

## Could you use it to earn your own salary?

A CIC has a **"lock" on its assets** which prevents profits from being distributed to its members or shareholders other than in certain limited circumstances. It also means that all assets must be used for the community purpose or, if they are sold, open market value must be obtained for them and the proceeds used for the community purpose. In addition, if the CIC is wound up, its assets must be transferred to another, similarly asset-locked body. Although Directors may be paid, the profit-lock ensures that a reasonable portion of the profits are reinvested in the enterprise (which is already the case with charitable organisations)

## How would I start up?

There are range of investment opportunities available to help set up and grow a social enterprise (including commercial finance such as loans and equity), and new types of finance (such as patient capital, social venture capital and venture philanthropy). Some grant funding to assist

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with setting up may also be available. However, once up and running, a social enterprise should be able to sustain itself principally if not exclusively through trading activities. If it relies on traditional grant funding, or public donations to fund its activities, it is not a social enterprise. Start by doing your research and using the links below to find out more about how it works, then seek further guidance and support from a local support organisation or network.

## How could I make it work?

To be successful, social enterprises need two key things. Firstly it needs **something to sell** (either directly to consumers, or under contract for example to a local authority). Secondly it needs **a market** with enough demand and buying power for the social enterprise to generate a sustainable level of income and trade.

You might have an excellent idea for a social enterprise, but finding something that can generate a profit whilst also meeting your social or environmental aims, can be a difficult task. The first things a social enterprise needs is a very strong business case including a well researched idea and a clear understanding of the potential market, some good advice, and support to help you on your way.

A new Social Enterprise Mark has now been introduced to certify particular businesses that have proven social and environmental outcomes to their work.

## Where to go next:

- To find out more about social enterprises visit the Social Enterprise Coalition - [www.socialenterprise.org.uk](http://www.socialenterprise.org.uk)
- To find out more about the CIC regulator, including further guidance and a factsheet on the 'benefits of a CIC, visit their website - [www.cicregulator.gov.uk/](http://www.cicregulator.gov.uk/)
- To find out more about Industrial and Providence Societies, visit - [www.uk.coop/](http://www.uk.coop/)
- Together Works is a consortium of local social enterprises in Manchester, they produce a useful newsletter publication but you can also join their network to find out about other useful resources [www.togetherworks.org.uk/](http://www.togetherworks.org.uk/)
- For more on the Social Enterprise Mark, visit [www.socialenterprisemark.org.uk/](http://www.socialenterprisemark.org.uk/)

For any further information, guidance and support, please visit **[www.gmvss.net](http://www.gmvss.net)**

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