

SOCIAL ENTERPRISE UK

State
of Social
Enterprise
Survey
2015

Leading THE WORLD in SOCIAL ENTERPRISE



supported by



Santander

ACKNOWLEDGEMENTS

This report was written by Frank Villeneuve-Smith and Nick Temple.

The research was designed by Ben Brown, assisted by Dan Gregory and the wider SEUK team, with support from Lys Coleman. The field work was carried out by BMG Research.

Social Enterprise UK would like to thank Santander for their sponsorship of this report, and particularly, Sheralee Morris and Sharon Squire for their support.

Thanks also to Dai Powell and HCT Group for allowing Frank Villeneuve-Smith the time to work on this report, which is both hugely appreciated and hugely valuable.

We would like to thank the following organisations for sharing their contacts with us to take part in this survey – Co-operatives UK, National Housing Federation, Locality, Social Enterprise East of England, Social Firms UK, and UnLtd – as well as the many organisations who promoted this survey through their networks. Thanks also to our colleagues in Scotland and Wales who have shared their own work and data with us, as we continue to work towards a fuller picture of the whole social enterprise sector in the UK.

Thanks to the whole Social Enterprise UK team involved in producing this report, especially Ben Brown, Melanie Flood, Dan Gregory, James Butler, Peter Holbrook CBE, and Shehan Perera.

And a final thanks to all the social enterprises who gave up their time to respond to this survey.

FOREWORD

Social enterprise is about changing the world through business. Social enterprises exist and trade not to maximise private profit, but to further their social and environmental aims. In short, social enterprise is about business where everyone profits.

There has arguably never been a greater need for social enterprise. The problems we face are complex and inter-connected. The world is at once more global and more local than it has ever been. Business as usual has worsened inequality, rather than improving it.

There is also continuing pressure to do more with less, and social enterprise continues to demonstrate how the resources in communities, in supply chains, in people and in investment can be used most effectively and to make the greatest change.

Policy-makers should pay attention to the compelling and consistent evidence that social enterprise is a leader in employing the most disadvantaged, in fostering diversity in business, and in growing local economies. Social enterprises are also increasingly working with the private sector and exporting internationally, not limited in their ambition and aspiration.

This 2015 survey is the most rigorous and comprehensive we have ever undertaken, and provides the most detailed snapshot of social enterprise at a hugely important time. It includes where social enterprises operate, who and how they employ, and what barriers are preventing them from achieving more. It also continues to build an in-depth understanding of the substantial economic contribution made by social enterprises across the country.

At Social Enterprise UK, we believe a robust evidence base is essential to understand the sector and what is happening on the ground, but also to inform future policies and programmes. It is no small undertaking, and I would like to thank all of those who have made this year's survey possible, particularly our sponsors Santander and the many individuals within social enterprises who gave up their time to respond.

Without their contribution, we would not have been able to produce this research. In partnership, they have produced reliable evidence that allows us all to plan the next steps for social enterprise. There has never been a more important time for the movement to thrive.

Claire Dove OBE DL

Chair of Social Enterprise UK

FOREWORD FROM SANTANDER

Santander is committed to helping small businesses prosper, in order to support local economic growth and ultimately create jobs. Social enterprises are a vital part of the small business sector, and they play a pivotal role in creating thriving, successful local communities.

We are proud members of Social Enterprise UK and with their guidance we are making sure our programmes effectively reach these unique ventures.

Through our Social Enterprise Development Awards we've supported over 400 social ventures across the UK since the scheme was launched in 2012, providing £6.2 million in funding for growth projects. And last year we invested £13 million in the Social and Sustainable Capital Loan Fund, set up to offer specialist financing for charities and social enterprises.

Our flagship partnership with SEUK sees us supporting the Social Enterprise Places initiative which has helped 14 social enterprise communities raise awareness of the local opportunities to buy social, and to strengthen relationships between the private, public and third sector.

We are very pleased to be supporting the State of Social Enterprise Survey, the definitive report into the sector. It is not only a valuable insight into the unique dynamics of the social enterprise sector but it is also an opportunity to showcase the significant contribution social ventures are making in the UK.

Social enterprises are transforming the way business is done and this survey shows a sector that is diverse, innovative and growing. This year's findings demonstrate the continuing strength of the business model: over half of the respondents increased their turnover and 83% attracted new customers.

Social Enterprise UK is a powerful advocate for the sector, supporting social enterprises through their research, campaigning and thought-leadership. This report underlines the importance of that work, raising awareness of the incredible contribution that this small but powerful section of the business community brings to the UK, not just in economic terms but by delivering impactful social change.

Robin Foale

MD, Santander Business Banking



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EXECUTIVE SUMMARY

This report presents the findings of the State of Social Enterprise Survey 2015 – the largest, most rigorous and most representative survey of social enterprises in the UK. Its results are taken from 1,159 telephone and online interviews with senior figures in social enterprises.

Background and context

The UK is viewed as a pioneer of social enterprise and the associated practices of social investment and social value. Government statistics identify around 70,000 social enterprises in the UK, contributing £24 billion to the economy and employing nearly a million people. Since 2005, over 11,000 Community Interest Companies have been founded, and the last five years have seen significant development of social investment to support the growth of this movement.

In an age of public sector austerity, globally networked markets and significant social and environmental problems, social enterprise has a substantial contribution to make – in many areas of business or public service delivery or charitable work, the status quo is no longer an option. Social enterprise has some of the answers: combining a sustainable business model with a clear social purpose, working and employing in the most challenging areas, and demonstrating that this can be done in an accountable, fair and inclusive way.

Our summary of the survey findings

Social enterprise is thriving – it is outperforming its mainstream small and medium-sized enterprise (SME) counterparts in almost every area of business: turnover growth, workforce growth and job creation, innovation, business optimism, start-up rates and diversity in leadership.

The nature of the social enterprise sector is changing: the start-up wave that has been

reported in the 2011 and 2013 surveys continues apace here: almost half of social enterprises are under five years old. This has profound ramifications for those seeking to support, invest in and help grow the impact of these organisations.

Funding and finance remains a key barrier for social enterprises of all sizes: the demand for smaller-scale, simpler, unsecured investment remains constant. Barriers to accessing social investment are more likely to be about navigability, accessibility and confidence than cost of capital or legal structure.

This survey also reveals an increasingly localised and devolved picture, even as common barriers are shared across the whole UK – start-up rates, optimism, workforce growth and the ability to access finance vary regionally and by home nation.

Finally, the public sector remains a key market and source of income for social enterprises – this is particularly the case for those operating in the most deprived communities. The next five years will require joined-up and targeted work from local public and social sector agencies, improved implementation of the Social Value Act, and continued income diversification from social enterprises to maintain such important work.

73% of social enterprises earn more than 75% of their income from trade.

Key findings

A dynamic movement: Close to half (49%) of all social enterprises are five years old or less. 35% are three years old or less – more than three times the proportion of SME start-ups. In terms of new business formation in the UK, social enterprise is where the action is.

At the forefront of economic recovery: The proportion of social enterprises that grew their turnover over the past 12 months is 52%. A greater proportion of social enterprises are growing than mainstream SMEs (40%).

Making a profit, making a difference: 50% of social enterprises reported a profit, with 26% breaking even. Almost all use the majority of those profits to further their social or environmental goals.

Focused where most needed: 31% of social enterprises are working in the top 20% most deprived communities in the UK.

Operating globally: The proportion of social enterprises that export or licence has grown to 14%. For over $\frac{1}{3}$ of these, international trade accounts for between 11% and 50% of income.

It's all about business: 73% of social enterprises earn more than 75% of their income from trade.

Stronger than ever in public services: 27% of social enterprises have the public sector as their main source of income, an increase on 2013 and 2011. 59% of social enterprises do some business with the public sector.

Innovation pioneers: The number of social enterprises introducing a new product or service in the last 12 months has increased to 59%. Among SMEs it has fallen to 38%.

An inclusive and diverse leadership: 40% of social enterprises are led by women; 31% have Black Asian Minority Ethnic directors; 40% have a director with a disability.

Job creators: 41% of social enterprises created jobs in the past 12 months compared to 22% of SMEs.

Not just any jobs: 59% of social enterprises employ at least one person who is disadvantaged in the labour market. For 16% of social enterprises, this group forms at least half of all employees.

Paying fair: The average pay ratio between social enterprise CEO pay and the lowest paid is just 3.6:1 – for FTSE 100 CEOs, this ratio stands at 150:1.

Not getting in on the Act: 49% of social enterprises operating in public sector markets say they're yet to see it arrive in tender documents – there is much to do before the Social Value Act works as intended.

Appropriate funding and finance still key: 44% of social enterprises sought funding or finance in the last 12 months and 39% believe its lack of availability is a barrier to their sustainability. Just 5% of SMEs think access to finance is a barrier.

1.0 INTRODUCTION

This report presents the findings of the State of Social Enterprise Survey 2015 – the largest, most credible and most rigorous survey of social enterprises in the UK. This survey is also the largest undertaken since Social Enterprise UK started this series in 2007.

Social enterprises are businesses that trade to tackle social problems, improving communities, people's life chances, or the environment. They make their money from selling goods and services in the open market, but they reinvest their profits back into the business or the local community.

The 2011 and 2013 surveys revealed an increasingly detailed picture of social enterprises, showing that while the public sector was still an important market, more social enterprises are now trading with the general public and an increasing number operate internationally. Both surveys also showed a growing number of social enterprise start-ups in recent years, and demonstrated that the leadership of social enterprises much more closely reflects the communities they work in than the leadership of mainstream businesses.

This 2015 survey arrives at a time of continuing change and development in the sector. Austerity in the public sector has begun to bite, while the private sector is seeing shoots of growth in some industries, and confidence is mixed elsewhere: reform and transformation are watchwords across all sectors. Finance-wise, the social investment market has continued to see a large number of developments, many of which have, in part, responded to the

detailed picture of real demand from social enterprises in the 2013 survey. The Social Value Act had only just been introduced at the time of the last survey, and we can now begin to assimilate initial evidence of awareness and impact. There is also disparity and variability across different local areas, across rural and urban, even national and international.

This fast-changing landscape provides the context for this 2015 survey, which explores:

Scale and scope: How well established are social enterprises, the proportion of new start-ups and where they are located, the scale of their turnovers, their geographical reach, the types of community in which they work and the economic sectors in which they trade.

Markets and money: How social enterprises are performing as businesses in their chosen markets, where their income comes from, who they are trading with and whether they are growing, profitable and optimistic for the future.

People and purpose: How social enterprises work, who leads and works in them, what difference are they making and their actions as employers.

Barriers and enablers: The factors helping and hindering social enterprises, with a particular focus on finance and public sector markets.

2.0 METHODOLOGY

The State of Social Enterprise Survey 2015 was commissioned by Social Enterprise UK, in association with Santander. BMG Research were contracted to carry out the survey fieldwork with the objective of gathering robust, policy rich information from and about social enterprises. A total of 1,159 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.

2.1 Process

The survey team used the relationships and networks available to Social Enterprise UK to identify sample sources to develop the sample frame and obtain contact data. The sample frame consisted of SEUK members and databases, and members of related social enterprise networks and organisations: specifically Co-operatives UK, Locality, National Housing Federation, Social Firms UK and UnLtd. The sample frame was further enhanced by other relevant organisations contacting their membership and encouraging them to participate in the survey. For the first time in this survey, the sample was also supplemented by contacts from the two most recent Small Business Surveys that had identified their organisation as a social enterprise, and indicated a willingness to be contacted for further research.

This data collection exercise provided a total potential dataset of 15,198 social enterprises (as compared with 9,024 in 2013, and 8,111 in 2011). The survey team then applied a three-step approach:

- telephone interviews of a random sample of potential research targets (802 completed)
- online version of the survey accessed via unique links sent to all remaining contacts with email addresses (196 completed)

- open online version of the survey, promoted and circulated by SEUK and networks (161 completed).

In total, 1,159 interviews were completed, a rise of almost a third on the 2013 total of 878.

As the networks from which data was obtained were very diverse, taking in a wide variety of organisational forms, 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 25% or more of their income from trading activities.

2.2 Sample characteristics

The sample is the largest and most diverse for any State of Social Enterprise Survey, creating confidence that it represents a fair overview and insight into social enterprises in the UK. The only notable change to process has been the inclusion of the Small Business Survey sample contacts. Where differences in the sample frame may have affected any notable changes in comparisons between this survey and findings in 2013 or 2011, this is indicated in the report.

The breakdown of organisational structures of the sample is detailed opposite.

	2015	2013	2011	2009
Company Limited by Guarantee (CLG)	45%	51%	54%	59%
Community Interest Company (CIC)	20%*	17%	10%	17%
Company Limited by Shares (CLS)	16%	12%	12%	7%
Industrial and Provident Society (IPS)	9%**	19%	24%	37%
Sole proprietorship	6%	2%		
Partnership	3%	2%		
Limited Company	1%	1%		
Limited Liability Partnership	1%			
PLC	<0.5%	1%		
Other/Don't know/Not provided	5%	11%		

*Of the CICs, 12% were CIC CLG, 4% CIC CLS and 4% 'unsure'.

**Of the IPS, 5% were Community Benefit Societies, 4% not.

Because of the overlapping nature of some of these areas (CICs can be CLGs and CLSs, for example), the total adds up to more than 100%, as in previous years.

21% of those surveyed are also a registered charity, while 14% identified their enterprise as a social firm and 14% as a co-operative (more than the 9% IPS figure above; the others are likely in the CLS proportion). Also worthy of note from the data above is the growth in sole traders, reflecting wider trends of self-employment and entrepreneurship.

It is also worth noting that the sample for this survey is the least London-centric to date (down from 25% in 2013 to 19%), least South of England-centric (down from 22% in 2013 to 19%) and correspondingly has a higher proportion of home nations, Midlands and North of England representation.

2.3 Reporting

Results have been presented rounded to zero decimal places, which may mean that in the reporting of percentages, some percentages may not add up to exactly 100%. Some questions have

multiple answers (such as organisations having more than one legal structure), so responses in these cases may add up to more than 100%.

Comparisons with findings from other relevant surveys have been made under full acknowledgment that underlying caveats exist, making exact like-for-like comparisons very difficult. The vast majority of social enterprises are small businesses, and we compare the data here to the small and medium enterprises (SMEs) in the Small Business Survey. The number of social enterprises with more than 250 employees in this survey is small enough for the difference to be negligible (c. 1%), so we have used the same set of figures in the report throughout.

This report tries to give regional and local cuts of data where relevant, and where statistically significant. Where there is a risk of distorted figures, we have used median averages not mean averages – this gives a much more accurate picture of the reality of social enterprise. Otherwise, a few large organisations can skew figures like average turnover, or the increase in smaller organisations in the sample can skew figures on growth, because of their steeper trajectory.

3.0 SCALE AND SCOPE

Key findings

Social enterprise is where the action is: The start-up explosion first seen in 2011 was only the beginning. The proportion of social enterprises that are three years' old or less now stands at a remarkable 35% – more than three times the proportion of start-ups compared with SMEs (11%). Close to half (49%) of all social enterprises are five years' old or less. In terms of new business formation in the UK, social enterprise is where the action is.

Smaller, but not shrinking: Although the overall median turnover is lower than in 2013 at £151,000, this is as a result of an increasing population of start-ups. In fact, when the age of the organisation is accounted for, the median turnover has grown for most groups of social enterprise.

Bouncing back: The proportion of social enterprises that grew over the past 12 months stands at 52%, close to the record high of 55% in 2009 and an uplift from 32% in 2013. Only 40% of SMEs reported an increase in turnover. Social enterprise is at the forefront of the economic recovery.

52% of social enterprises increased their turnover in the last 12 months

Developing as exporters: The proportion of social enterprises that export or licence has grown to 14%, with London-based social enterprises leading the way at 23%.

Focused on our most deprived communities: With 31% of social enterprises working in the most deprived communities in the UK, the more deprived the area, the more likely you will be to find a social enterprise working there.

Not just services: Whilst providing services is a mainstay, there are a significant number of social enterprises providing either goods (13%) or a mixture of goods and services (14%) – especially in rural areas.

3.1 Introduction

This section presents survey results that explore the landscape of social enterprise in the UK: how well established social enterprises are, the proportion of new start-ups and where those start-ups are located, the scale of their turnovers, their geographical reach, the types of community in which they work and the economic sectors in which they trade.

3.2 How well established are social enterprises?

The previous three State of Social Enterprise Surveys in 2009, 2011 and 2013 have shown a consistent pattern – a core of well-established social enterprises and a growing proportion of start-up social enterprises. The 2015 survey aimed to establish whether this pattern had continued.

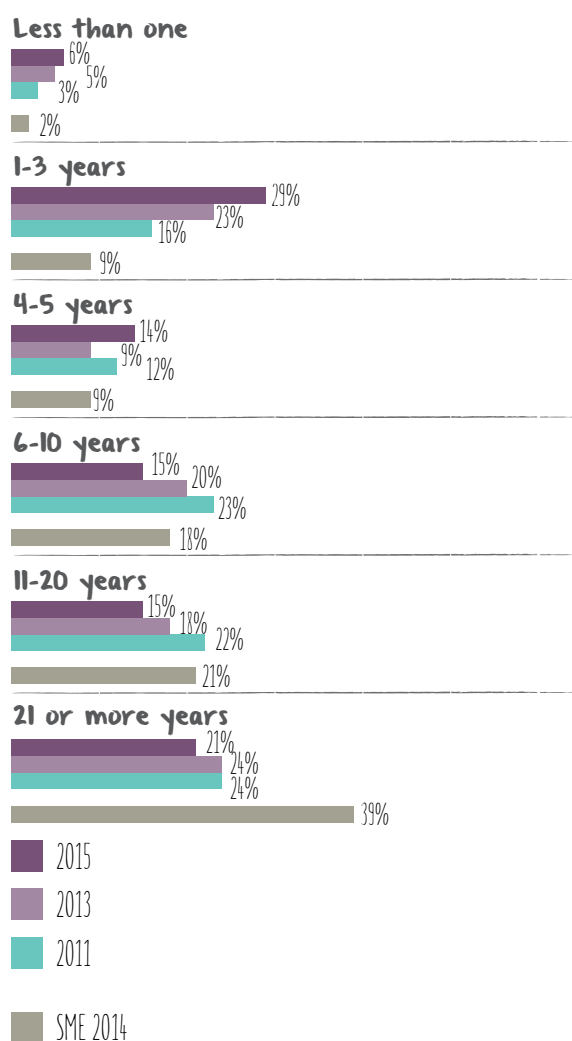
The survey results, presented in Figure 1, show a further dramatic increase in the proportion of start-ups, with 35% of all social enterprises trading for three years or less compared with 29% in the 2013 survey. This is well over three times greater than the proportion of start-up SMEs reported in the most recent Small Business Survey from 2014 (11%).¹

As the proportion of start-up social enterprises has increased, the proportion of established social enterprises has correspondingly decreased. The proportion of those trading for more than 20 years had declined from 24% in 2013 to 21% in 2015, with similar declines in social enterprises aged between 11-20 years and between 6 and 10 years.

There is some evidence to suggest that this change in proportion between younger and older social enterprises is caused by the rate of social enterprise formation, rather than an actual decline in older social enterprises. The proportion of social enterprises that are between four and five years old has increased from 9% in 2013 to 14% in 2015, which would be consistent with the start-ups first highlighted in 2011 and 2013 reaching a level of maturity.²

Close to half (49%) of all social enterprises are aged five years' old or less. This has profound implications for how we think about the sector – not only in terms of the support that the sector will need to grow and develop, but in that it has crossed from 'early adopter' entrepreneurs into a 'mass market' phenomenon in business formation terms – social enterprise is just getting started.

Figure 1: Length of operation



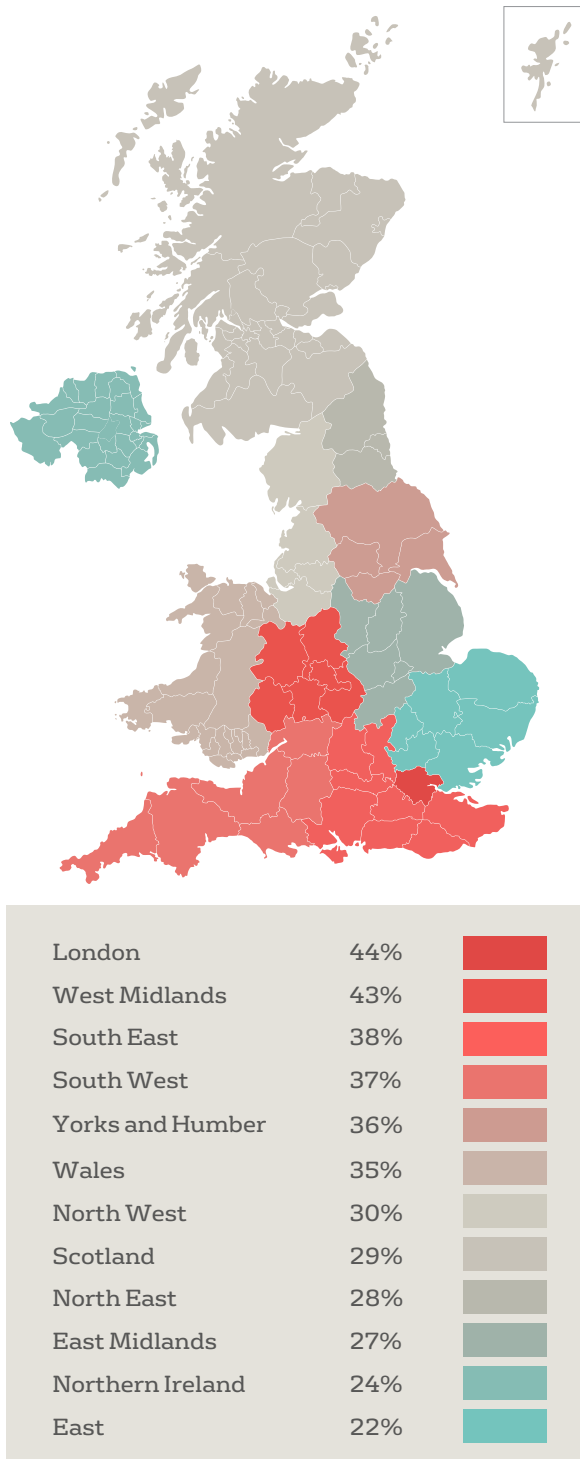
¹ BMG Research (2015) 'Small Business Survey 2014: SME Employers' Department for Business Innovation and Skills, March 2015

² There is also considerable evidence linking the age of social enterprises with profitability, see page 27

Where are the start-up hotspots?

The survey data reveals that the proportion of start-up social enterprises is not uniform across the UK, although even those regions and home nations with the lower concentrations of start-ups still have twice the proportion of start-ups compared with SMEs.

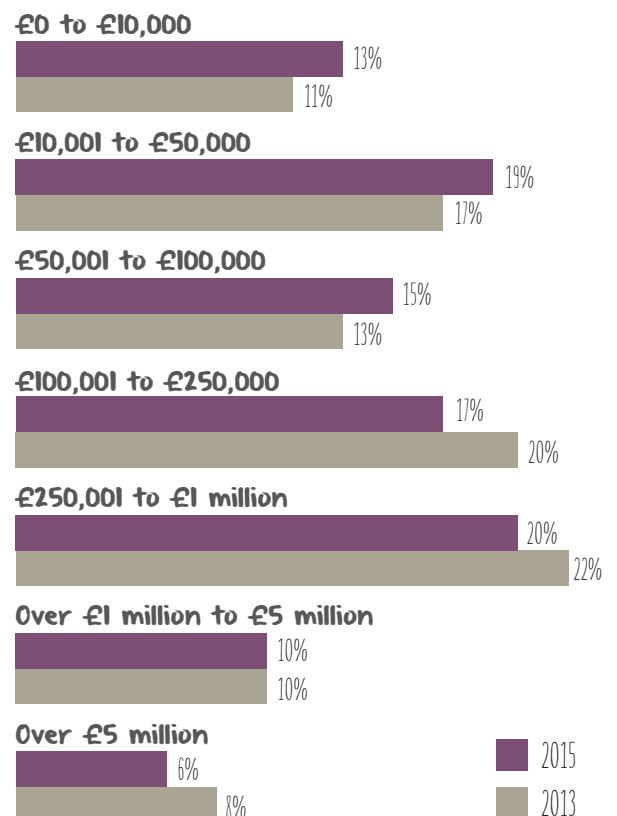
Figure 2: Percentage of social enterprises that are three years old or less by region and home nation



3.3 How big are social enterprises?

To gain an idea of the scale of social enterprises, respondents were asked to state their turnover for the most recent financial year. It shows that social enterprises have a very wide range of reported turnover, from the 13% turning over less than £10,000 to the 6% turning over more than £5 million per year. It shows that there is a consistent cohort of social enterprises operating at scale, but the majority are operating at small or micro business levels. The numbers in Figure 3 are consistent with the growing proportion of smaller, start-up social enterprises.

Figure 3: Turnover of social enterprises

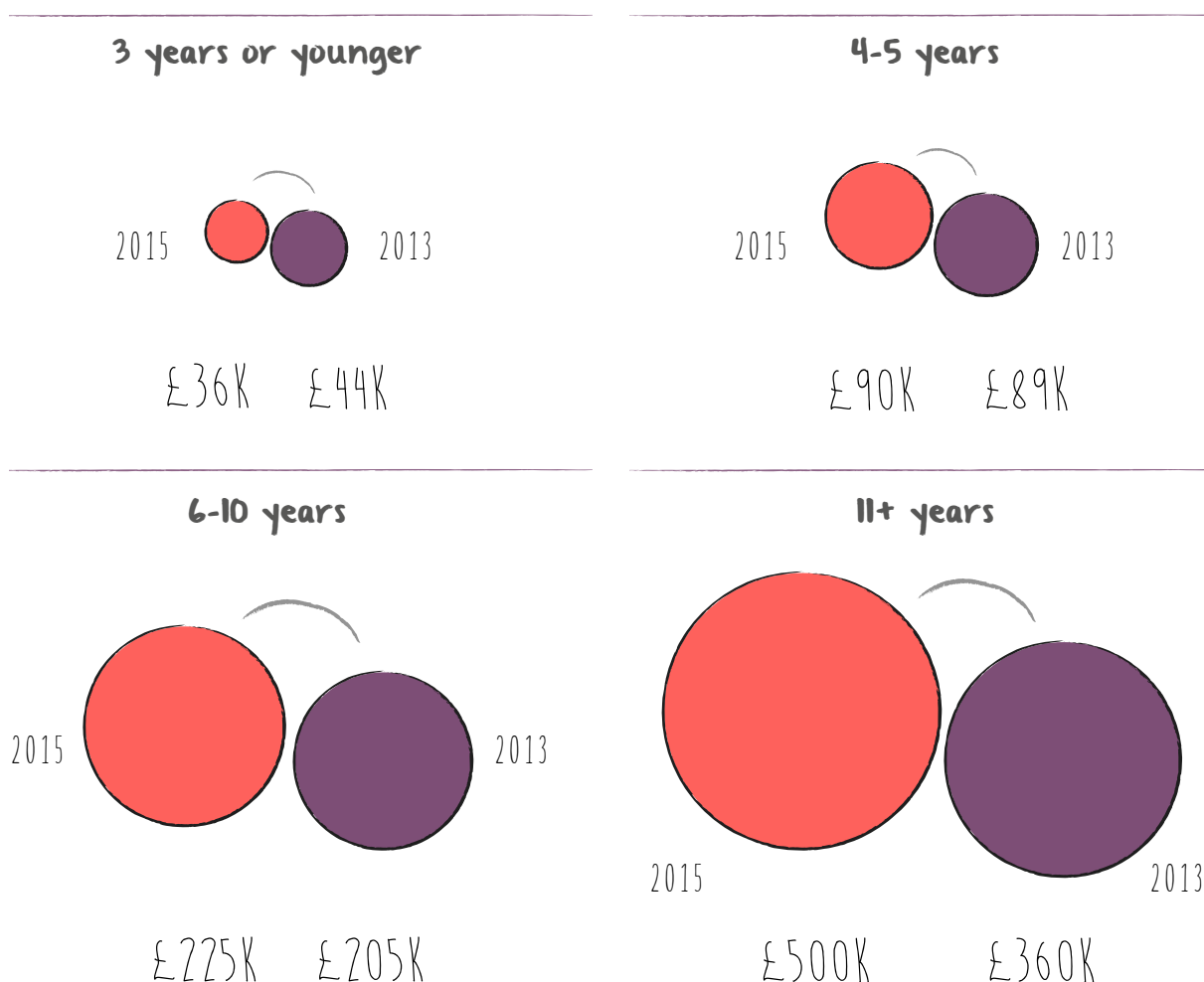


The overall median³ turnover of social enterprises has decreased since the 2013 survey, from £187,000 in 2013 to £151,000 in 2015. As shown in Figure 4, there is a clear link between the age of an organisation and its median turnover – the median turnover of start-ups is £36,000, whilst the median turnover of established social enterprises over 11 years old is £500,000. Consequently, the growing proportion of start-ups could explain the drop in median overall turnover. This explanation is made more likely when 2015 data is compared to 2013. This shows that in all age-bands barring that of start-

ups, the median turnover has, in fact, increased – and that the high proportion of start-ups arguably masks a success story of older social enterprises increasing their scale.

Interestingly, there is little difference between the median turnover of social enterprises in London and Northern regions (£180,000 and £182,000 respectively). There is, however, significant difference in scale between the urban and rural: the median turnover of social enterprises in urban areas is £180,000, while for rural it is £110,000.

Figure 4: Median turnover of social enterprises by their age



³ Median = the central value in the distribution. The median is used instead of the mean average as the turnovers of several very large social enterprises can distort the result

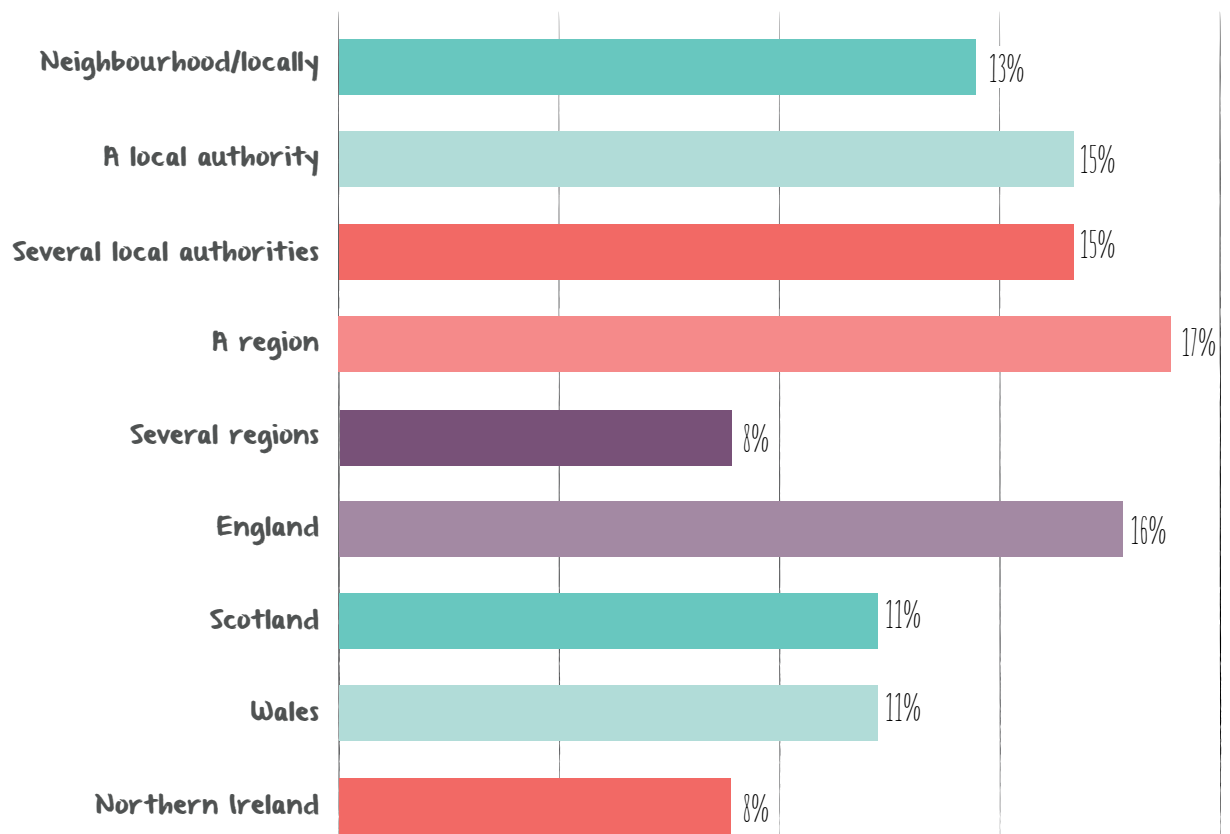
3.4 Are social enterprises growing?

The findings show that 52% of social enterprises grew compared to last year – a significant improvement on the 2013 survey (32%) – and a return to levels of growth not seen since the 2009

survey (55%). Of the remainder 28% stayed the same, and 19% saw a decrease. This reinforces the evidence for growth set out in earlier sections. The proportion of social enterprises reporting growth is significantly greater than the proportion of SMEs (40%).⁴

Figure 5: Area of operation

Multiple responses allowed



⁴ BMG Research (2015) 'Small Business Survey 2014: SME Employers' Department for Business Innovation and Skills, March 2015

Case Study

ADVANT-AGE

in brief

advant~age is a national social enterprise dedicated to enabling charities to help vulnerable people, their families, and carers and supporters obtain access to safe and reputable products and services, while at the same time generating valuable unrestricted income for the charity and minimising reputational risk.

What sector does your business operate in?

We work with charities and non- profits to help them provide:

- insurance
- financial advice
- energy
- telecare
- mobility products
- flowers and gift experiences.

How do you generate income?

1. advant~age sources reputable products and puts everything in place for charities to be able to signpost to them.
2. Charities agree to promote these products.
3. The charities and advant~age share the commissions generated.



What sector/area does your organisation support?

Our customers are the charities that we support, so they can continue to deliver their vital services to those they support.

Our partners' support includes the following groups:

- older people
- carers
- people with disabilities
- people with mental health conditions
- ex-offenders
- disadvantaged youth
- stroke survivors.

Where do you work?

We operate nationally.

What is your social mission?

To enable charities to help vulnerable people, their families and carers, to obtain access to quality products and services whilst generating valuable unrestricted income for the charity. Products range from insurance policies and financial advice to large one-off purchases such as stair-lifts and funeral plans.

We also help charities to signpost supporters to products and services they can purchase to support the charity further at no extra cost to themselves. Our role includes performing rigorous due diligence and quality control on our suppliers.

Customers can then be confident they will receive a high quality service at a fair price. Charities can feel confident in signposting to providers, knowing that their reputations are protected.



What's the back story?

advant~age is owned by Age Concern Birmingham, Age Concern Liverpool & Sefton and Age Concern Slough & Berkshire East. advant~age was set up in 2011 to enable shareholder charities (and other Age Concern organisations) to generate more sustainable trading income.

advant~age flourished as a social enterprise in 2012/13 when its partnership was opened up to all non-profits. Membership has now grown to 38 charity partners.

Our development has been a massive learning curve for all involved, as despite some commercial trading experience as individual organisations, none of the founding shareholders had undertaken anything of this scale or nature.

To counter this, we started with core products only. Through rigorous selection processes we ensured that the founding charities could refer with confidence. In four years of trading we have developed and expanded according to our charity partners' needs, whilst maintaining tight quality controls.

Through this model, advant~age has kept its core costs and infrastructure extremely lean to ensure that the majority of income generated is paid out to the charities that it supports.

Although only a central team of two, through our corporate partners we have access to multiple marketing, IT, finance and advisor teams that actively work to support the advant~age network of charity resellers.

What prompted you to join Social Enterprise UK?

To be formally recognised as a social enterprise and to access support that being part of a national network brings, particularly around promotion.

How has being a member of Social Enterprise UK benefitted your organisation?

- The opportunity to enter the SEUK awards and the publicity this brought.
- Exhibiting at the SEUK Fit for the Future event in October 2014.
- The sharing and retweeting of our social media.
- Being listed on the Buy Social Directory.
- Using the 'We are a social enterprise' and 'Buy Social' badges on our materials and websites.



advant~age has been trading for just over four years and has:

- sold over **8,000** products meaning that over **£3,000,000** has been spent via advant~age
- allowing advant~age to distributed **£275,000** to charity reseller partners.

Our most memorable moments have been:

- successfully being part of the Big Issue Invest Corporate Social Venturing programme
- being shortlisted as a finalist in the SEUK 2014 awards in the Buy Social - Market Builder category
- hitting the **£250,000** goal of monies paid out to charities
- partnering with our first national charity, Mind.

www.advant-age.co.uk



There were some regional variations in reported turnover growth, with social enterprises in the East Midlands (59%) and London (57%) most likely to report growth. The North East saw the greatest proportion of social enterprises reporting a decrease in turnover (29%) although 51% of social enterprises there did report an increase.

3.5 The reach of social enterprises

Figure 5 (see page 15) demonstrates the reach and diversity of social enterprises, with around 28% operating at neighbourhood or local level, a further 40% operating across several localities or regions, and significant proportions operating across whole countries, be that England, Northern Ireland, Scotland or Wales.

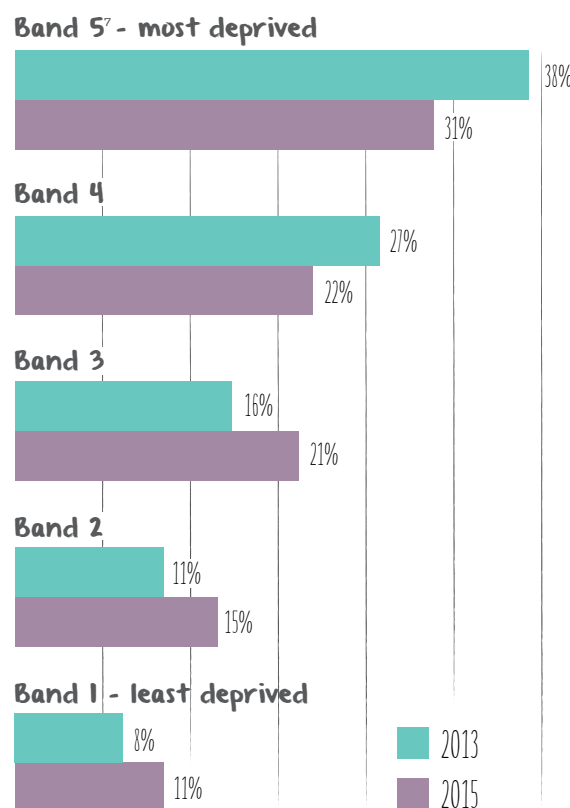
The survey also revealed social enterprises catching up with the 19% of SMEs⁵ that export. The number of organisations that export goods or services (or license their product) outside the UK grew from 11% in 2013 to 14% in 2015, with close to a quarter (23%) of London-based social enterprises exporting. For those that export, the most common trading partners were in Europe/ the EU (74% of those that exported), Asia-Pacific (36%) and North America (34%).

Interestingly, while for a majority of exporters (55%) international trade only accounts for 10% or less of their income, for others, it is more significant: 35% of exporters say that it accounts for between 11% and 50% of their total turnover.

3.6 Social enterprises on the frontline

The survey collected location data for most respondents and matched that with the Index of Multiple Deprivation (IMD) rankings,⁶ enabling an understanding of the communities where social enterprises are working.

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



As set out in Figure 6, the data clearly demonstrates that social enterprises have their greatest concentration in the areas of the greatest deprivation, with 31% of social enterprises working in the most deprived communities in the UK. In simple terms, the more deprived the area, the more likely you will be to find a social enterprise working there. This is most pronounced in the North of England and London, where 46% and 35% of social enterprises respectively work in the most deprived fifth of communities.

However, a comparison with the 2013 data shows that this association is weakening slightly, with

⁵ BMG Research (2015) 'Small Business Survey 2014: SME Employers' Department for Business Innovation and Skills, March 2015

⁶ The IMD is a detailed set of statistics on poverty published by the Department for Communities and Local Government. It combines a wide variety of indications, including income, employment, health, deprivation and disability, education skills and training, barriers to housing and services, crime and the living environment.

⁷ For ease of interpretation, the different levels of deprivation are presented in five bands: from the most deprived 20% of all communities in the UK (band 5) to the least deprived 20% of communities in the UK (band 1).

the proportion of social enterprises located in the most deprived communities dropping from 38% in 2013. This trend may continue as only 28% of social enterprises less than three years old work in the areas of highest deprivation.

3.7 What sectors do social enterprises operate in?

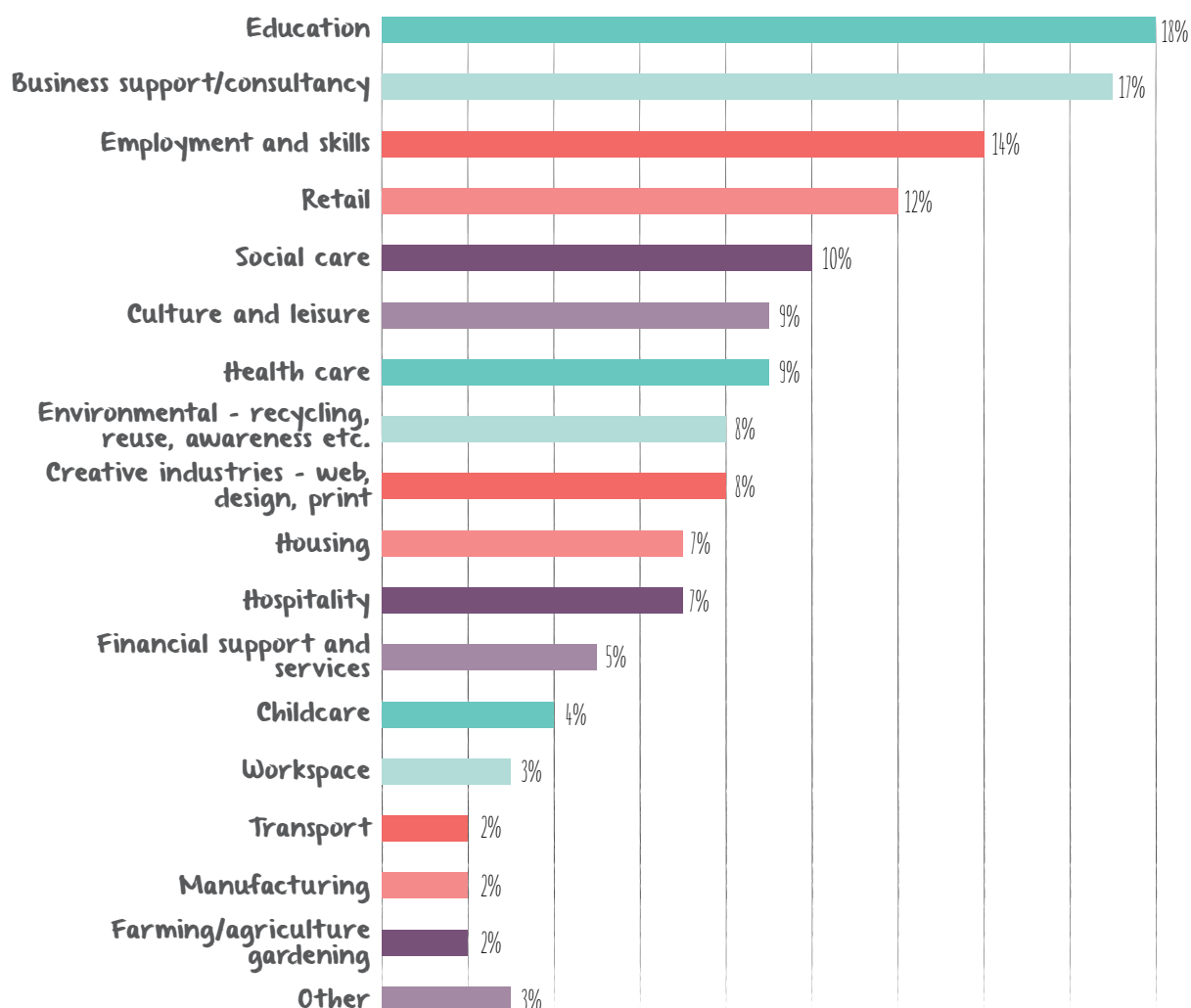
The survey has shown social enterprises in a huge range of industries – from automotive assembly to public houses, from medical diagnostics to manufacturing beehives, from software developers to structural engineers⁸. As presented in Figure 7, the data does show social enterprises concentrated in certain industries – particularly service industries – in education (18%), business support/consultancy (17%), employment and skills (14%), retail (12%), social care (10%), culture and leisure (9%), health care (9%), environmental - recycling, reuse, awareness etc. (8%), creative industries - web, design, print (8%), housing (7%), hospitality (7%), financial support and services (5%), childcare (4%), workspace (3%), transport (2%), manufacturing (2%), farming/agriculture gardening (2%), and other (3%).

Larger organisations (250+ employees) are more often focused on the larger scale delivery of public services such as housing (33%), social care (26%) and healthcare (22%). However, start-ups are also more likely to have entered certain public service markets when compared to the longest-established social enterprises – such as healthcare (11% compared to 5%) and education (23% compared to 13%).

Whilst services are a mainstay of social enterprise trade (72%), there is a significant minority (13%) that mainly supply goods – with a further 14% supplying an even mix of goods and services. One fifth (20%) of all rural social enterprises mainly supply goods – rising to 37% when a mix of goods and services is included.

Figure 7: Social enterprises – Principal trading activity

Respondents could select more than one activity



⁸ Social enterprises can now be found in almost every industry.

Case Study

THE PHONE CO-OP LTD

in brief

The Phone Co-op is the only UK telecoms co-operative. Its primary aim is to put people first in everything. Whether that is the customer, colleagues, members community or our planet.

What sector does your business operate in?

Telecommunications – residential and business

How do you generate income?

Income is generated by the sales of telecoms services. The Phone Co-op also gets interest receivable from its investments.

What sector/area does your organisation support?

Co-operative societies and independents, social enterprises, renewable and solar energy, local communities, e.g. pubs, football clubs, leisure, student housing, farming, energy.

Where do you work?

Chipping Norton, Manchester

What is your social mission?

The Phone Co-op is a consumer co-operative. This means it is 100% owned by its customers, who can influence how it runs. By electing directors and attending the AGM, all members can have an equal say in the decisions they make. Because it is a co-operative, members also participate in its business success and have a share of profits.



At The Phone Co-op, people come first. It is committed to offering the best possible service to all customers and operates with honesty, openness and a sense of social responsibility; caring for colleagues, customers, communities and our planet. It believes that the principles of co-operation can drive business success while delivering mutual benefits contributing towards a more sustainable and fairer world. Its success over the 17 years since it started trading shows that this vision can be made a reality.

How do you fund your social mission?

The Phone Co-op funds its social mission through member share investment which is agreed upon by the members.

What is your ethical policy?

The Phone Co-op's Ethical Policy ensures that it conducts its business according to the values and principles of the co-operative movement. It regularly reviews its business practices and respond to the views of their members, customers and employees. The Ethical Policy Committee appraises these views and other relevant issues, and, if necessary, amends the policy to keep it up to date.

It is committed to follow environmental best practice in all activities where this is practical. Specifically it is committed to offsetting all of its carbon dioxide emissions and those of its telecoms suppliers through the purchase of CO2 offsets. All electricity is purchased from renewable energy sources and only recycled paper and stationery are used. Fairtrade is supported through all food and drink items bought for office colleagues, where possible, and using a co-operative is a consistent aim. 90% of its business miles are on public transport and bicycles are offered to all colleagues for daily use travelling to and from work.



What's the back story?

Set up in 1998 to provide telecommunications services to charities, third sector organisations and fellow co-operatives by allowing them to purchase collectively, The Phone Co-op has steadily grown for the last 17 years. It now operates nationwide, employing 62 people, and

providing fixed and mobile telecommunications services to over 25,000 business and residential customers. It has consolidated as one of the fastest-growing and most successful co-operatives in the UK, which

What prompted you to join Social Enterprise UK?

The Phone Co-op was happy to join Social Enterprise UK because like-minded values and principles are the priority with an overarching message that, when combined, show an unbeatable strength. Joining with other enterprises can begin the alignment that is needed with different organisations that follow the same direction and Social Enterprise UK is an ideal step towards this.

How has being a member of Social Enterprise UK benefitted your organisation?

The Phone Co-op is a certified social enterprise with Social Enterprise UK. This means that The Phone Co-op has proved it is genuine against independently-assessed criteria for social enterprise. This provides assurance that profits/surpluses are used to improve the lives of people and the planet, rather than pay dividends to shareholders.

www.thephone.coop

"WE ARE DEMONSTRATING THAT A DIFFERENT WAY OF DOING BUSINESS, WITH VALUES THAT PUT PEOPLE, RATHER THAN PROFIT FOR INVESTORS, AT THE HEART OF THINGS, CAN SUCCEED IN AN INDUSTRY WHICH OFTEN HAS A POOR REPUTATION FOR ITS SALES PRACTICES AND CUSTOMER SERVICE".

is particularly impressive when looking at the telecoms industry as a whole.

Because it is a co-operative, The Phone Co-op puts customers and their values first. It aims to conduct all business dealings in a fair and just way, promoting the wellbeing of people and communities, and minimising its impact on the environment. Vivian Woodell, founder and CEO of The Phone Co-op says:

"BECAUSE IT IS A CO-OPERATIVE, THE PHONE CO-OP PUTS CUSTOMERS AND THEIR VALUES FIRST"



4.0 MARKETS AND MONEY

Key findings

It's all about business: Social enterprises earn their money through trade, competing in the marketplace – they are markedly different to more traditional charities and third sector organisations. 73% of social enterprises earn more than 75% of their income from trade.

The people's business: The most common main customer for social enterprises is the general public: for 30% it is the primary source of income.

Stronger than ever in public services: The proportion of social enterprises whose main source of income is doing business with the public sector has increased for three reports in a row, now standing at 27%. 59% of social enterprises do some business with the public sector.

Traditional third sector under pressure: Social enterprises whose main source of income is the third sector are now down to 7%, reflecting tough times for traditional charities. Inter-social enterprise trade has maintained its gains from 2013.

Still out-innovating the private sector: The number of social enterprises introducing a new product or service in the last 12 months has increased to 59%. Among SMEs it has fallen to 38%.

Making a profit, making a difference: Our survey found that 50% of social enterprises reported a profit, with 26% breaking even. Almost all use the majority of those profits to further their social or environmental goals.

50% of social enterprises reported a profit in the last year, with 26% breaking even

4.1 Introduction

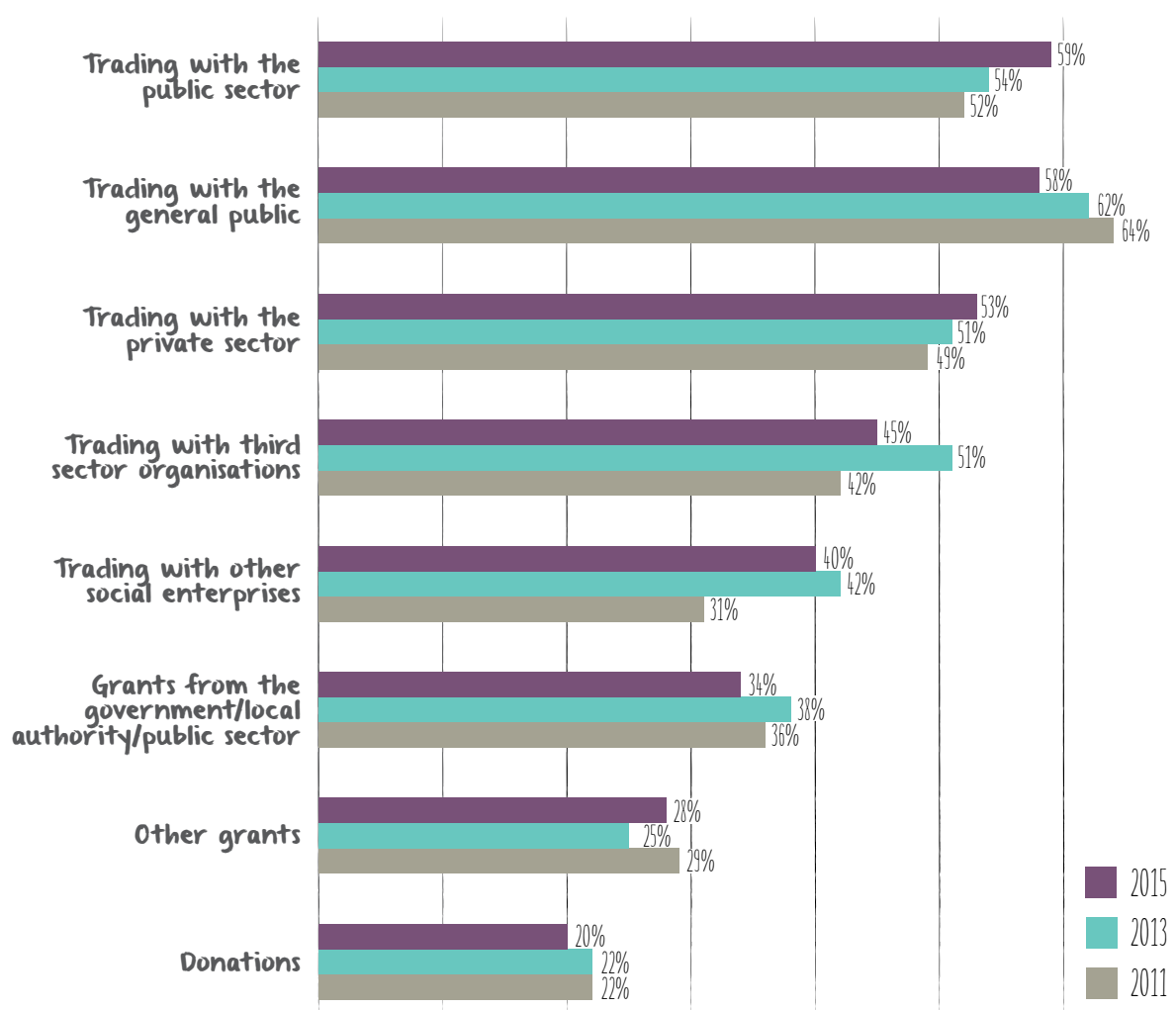
Social enterprises are driven by their values; they exist to pursue an explicit social or environmental mission – much like a traditional charity. But it is here that the similarity ends. Social enterprises earn their money through trade in the marketplace, just like commercial enterprises. The path to being a sustainable social enterprise is to be a successful enterprise.

This section sets out how social enterprises are performing as businesses in their chosen markets. It presents the findings from our survey that explore where their income comes from, with whom they are trading, their strategies for growth and whether they are growing, profitable and optimistic for the future.

Figure 8: Proportion of income earned through trade



Figure 9: All sources of income for social enterprises (multiple response)



4.2 Proportion from trade:

The survey asked respondents what proportion of their income was earned through trade (as opposed to grants, donations or other income sources). The data, set out in Figure 8, shows that 73% of respondents earn between 76% and 100% of their income through trade – a figure consistent with the 2013 survey.

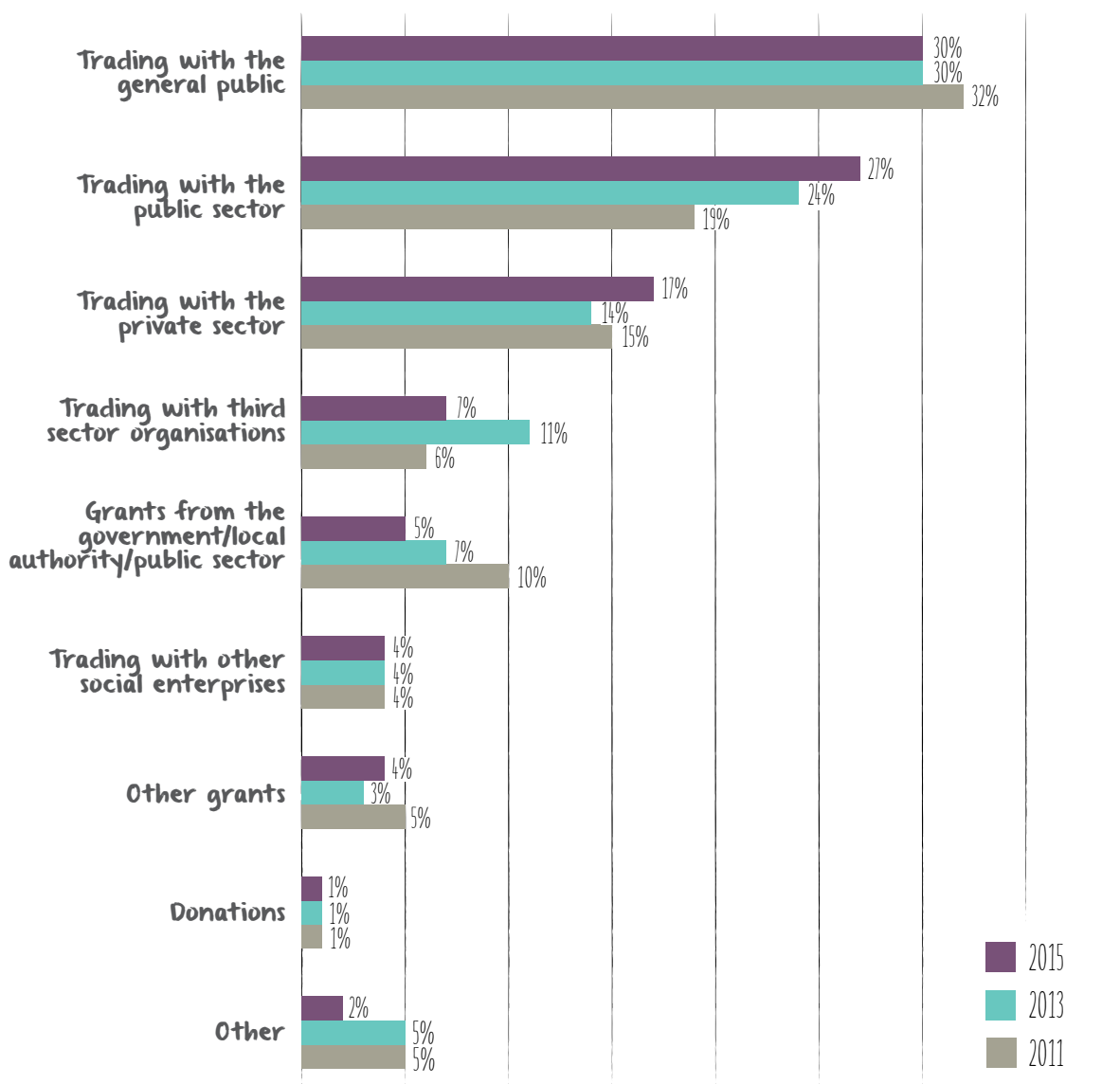
The result demonstrates the critical difference between social enterprise and the traditional charities with which they are sometimes confused and conflated – even if they share similar values and objectives.

4.3 Who do social enterprises trade with?

If social enterprises earn their money through trade, then who do they trade with? We asked respondents to identify both main (or only) source of income and also any other sources of income that they had received over the past 12 months.

As set out in Figures 9 and 10, the survey reveals a wide range of income sources. The data shows that social enterprises have diversified income streams, rarely restricting themselves to one type of customer – three quarters of all social enterprises (75%) pursue more than one source of income.

Figure 10: Main or primary source of income for social enterprises



Trade with the general public: The most common main source of income for social enterprises remains trade with the general public, for 30% of social enterprises. This represents a smaller proportion than before, declining from 32% in 2013 and 37% in 2011.

Trading with the general public as the main source of income broadly increases as deprivation decreases, with 22% of social enterprises in the most deprived communities earning income in this way, rising to 32% of respondents in the least deprived. This may relate to the greater spending power of individual consumers in more economically affluent areas.

Trade with the public sector: The proportion of social enterprises whose main source of income is trade with the public sector has grown strongly to 27%, continuing a trend that has seen this proportion grow from 18% in 2011. In both the North of England and the Midlands, the public sector is now the most significant trading partner for social enterprises, with 32% and 30% of respondents respectively stating that the public sector was the main source of income.

In addition, the proportion of social enterprises that do some trade with the public sector has risen to 59%, overtaking trade with the general public (58%) as the most commonly cited trading partner overall. This is significantly different to the pattern of trade found in SMEs, where 25% do some business with the public sector.

Trade with the public sector as a social enterprise's main source of income is directly related to the size of the social enterprise. The

largest social enterprises, those with turnovers of over £5m, are nearly three times more likely (49%) than the smallest social enterprises, with turnovers of less than £10,000 (17%), to cite the public sector as their main source of income.

These figures should also be tempered with some caution: the increasing focus on public sector trade could make social enterprises more vulnerable to reductions in public spending. This is a particular concern because social enterprises whose main source of income is trade with the public sector are concentrated in our most deprived communities (30%, with 22% in the least deprived).

Trade with the private sector: The proportion of social enterprises whose main source of income is trade with the private sector has grown in significance since 2013, rising from 13% to 17%. There has also been a continuing increase in the proportion of social enterprises who earned some income from this source, from 51% in 2013 to 53% in 2015.

Opportunities for trade with the private sector have been attracting start-ups, with 20% of organisations three years old or less citing this as their main source of income – a greater proportion than for any older group of social enterprises. Private sector trade is also more concentrated in the least deprived communities (21%) than the most deprived (14%).

Trading with third sector and other social enterprises: The 2013 survey found an emerging trade pattern between social enterprises and the third sector – and amongst social enterprises themselves. The proportion of social enterprises whose main customer is the third sector has fallen from 10% in 2013 to 7% in 2015. In addition, the proportion of social enterprises that earn some income from third sector trade has fallen back from 51% in 2013 to 45% in 2015 which, whilst diminished, is still significant. The figures are perhaps unsurprising considering that the third sector has faced significant funding challenges over the period, including an overall decline in total income.⁹

Inter-social enterprise trade has remained relatively stable, with 40% of all social enterprises trading with other social enterprises to some

59% of social enterprises do some trade with the public sector

extent. This is rarely a main source of income (4%), but it arguably shows that the idea of the 'sound pound' set out in 2013 is alive and well: social enterprises are making ethical choices in their own supply chains, maximising social impact by buying social.

Grants and donations: 34% of respondents received a grant or core funding from public sector bodies and 28% received some other form of grant funding. However, grants from public sector bodies were the main source of funding for only 5% of respondents – down from 7% in 2013 and 10% in 2011, reflecting the growing pressure on non-statutory budgets in local government.

As would be expected, donations play an even smaller role in the economic life of social enterprises. Whilst 20% of social enterprises received a donation or donations over the past 12 months (after all, 21% of our sample are registered charities), the proportion for whom this was their main source of income was a small fraction of one per cent.

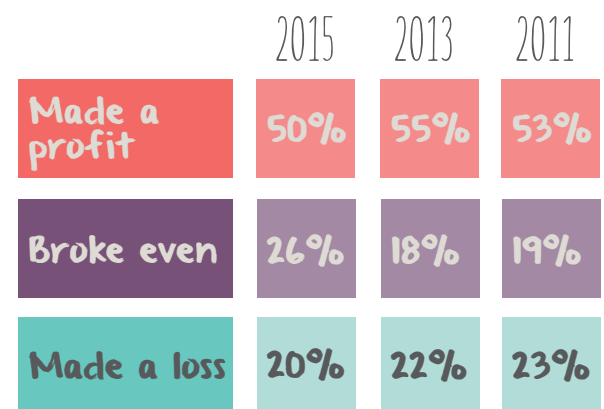
4.4 Are social enterprises profitable?

Our survey asked social enterprises whether they had made a profit, had made a loss, or had broken even. The results are presented for the last three surveys in Figure 11.

Although the proportion of those making a profit has dropped slightly, so has the proportion of those making a loss. The drop may be in part explained by the increase in the proportion of start-ups, who have found it harder to make a profit (42%, with 30% reporting break-even and 22% a loss). Similarly, there is an apparent correlation between profitability and turnover – 84% of respondents with a turnover greater than £5m reported a profit, reducing to 34% of organisations with a turnover less than £10,000.

Public sector trade has also proved fruitful, with 57% of respondents whose main source of income is the public sector making a profit, better than any other trading partner. They were also the least likely (18%) to report a loss. Whether this continues as public sector spending pressures continue, and margins are squeezed, will be an important area to track.

Figure 11: Social enterprises making a profit



Not all respondents answer this question, hence percentages do not add up to 100% each year.

Reinvesting profit for good: For a 'normal' business, discussions of profitability would stop here. Social enterprises are not normal businesses. A key part of the social enterprise business model is the reinvestment of profit to further the social or environmental mission of the organisation – trading for social good. This survey demonstrates again that this is a reality in social enterprise, not a concept. Almost all (94%) of organisations surveyed report using the majority of their surplus or profit – either in total or from contracts or trade – to further their social or environmental goals.

4.5 Growth and innovation

As shown in Section 3, a majority of respondents have reported turnover growth over the past 12 months. The survey also sought to establish what steps social enterprises had taken to secure growth, asking what actions they had taken during the past year, and what they had planned for the year ahead. Almost all respondents (93%) had taken specific actions on growth or diversification in the past 12 months, as shown by the results presented in Figure 12.

The cohort of organisations that have been trading for three years or less were more likely to diversify into new markets (49%) than social enterprises in operation for more than 11 years (35%). Start-ups were also more likely than older social enterprises to expand geographically (45% compared to 29%) and to develop new products or services (64% compared to 51%).

Case Study

CITY HEALTH CARE PARTNERSHIP CIC

in brief

City Health Care Partnership CIC is an independent "for better profit" co-owned business providing a wide range of health and care services to over a half a million local people in Hull, the East Riding of Yorkshire and Knowsley, Merseyside. They employ approximately 1500 people.

What sector does your business operate in?

Health and care.

How do you generate income?

We are commissioned to provide health and care services in Hull, the East Riding of Yorkshire, North and North East Lincolnshire, Knowsley, St Helens and Wigan. We also have a contingency and risk business, Tangerine; a property company, City Ventures and run City Health Pharmacy and Brocklehurst Chemists. All our profit is reinvested back into our staff, services and community.

What sector/area does your organisation support?

We primarily support those who use our services and who have health and care needs such as primary care, integrated community care for adults, urgent care, dental services, public health, carers and children's services. We also support local community and voluntary groups who are helping to improve the health and wellbeing of people in the areas where we provide services through our Foundation charity. Our social investment strategy looks at the bigger picture in relation to corporate social responsibility and the organisation's economic, environmental and social impacts.



Where do you work?

Hull, the East Riding of Yorkshire, North and North East Lincolnshire, Knowsley, St Helens and Wigan.

What is your social mission?

To grow a socially-responsible commercial business that contributes to the wider wellbeing of the communities in which we provide services, from which the high quality and safe services delivered are personally responsive, caring and inclusive of all and where people love to work.

What's the back story?

City Health Care Partnership (CHCP) CIC was the first Right to Request co-owned Community Interest Company to spin out from the re-organisation of the NHS in 2010 and our first priority was to be a good health care provider; our choice of co-owned social enterprise as a business model grew out of this. Making a positive social impact on our staff and on the communities in which we work means we can build on our work as a health and social care provider, benefiting the whole community as well as the people who use our services.

"WE'RE SO GRATEFUL FOR THE MONEY BECAUSE IT'S ALLOWED US TO CARRY ON. WE LOVE IT; I WOULDN'T HAVE THE CONFIDENCE TO COMMUNICATE THE WAY I CAN WITHOUT THIS GROUP."



Any surplus income from our businesses is reinvested into our colleagues, our services and our communities through our charity, City Health Care Partnership Foundation. We have distributed over £230,000 in small grants and staff sponsorship since 2010 and our social return on investment is £36 for every £1 spent. This has increased by £2.48 over the past year. One recipient said, “We’re so grateful for the money

because it’s allowed us to carry on. We love it; I wouldn’t have the confidence to communicate the way I can without this group.”

What prompted you to join Social Enterprise UK?

Being a social enterprise is who we are and we felt it was important to be part of a national body that exists to support social enterprises, so that we can both enjoy the benefits of that support and extend help and advice to other organisations who might need it.



Over 1,000 of our 1,500 colleagues have chosen to buy a £1 share in CHCP CIC and we had a fantastic time celebrating our mutual status on last year’s Employee Ownership Day, when many of our shareholders took part in creating a collaborative artwork that now hangs in our Business Support Centre. Colleagues are encouraged to take an active part in the company, from having a voice in our Shareholder Forum, being part of a People’s Panel to choose the winners of our annual staff awards and working with our partners through the Community Partnership Forum to being supported to raise money for charity via our staff sponsorship scheme.

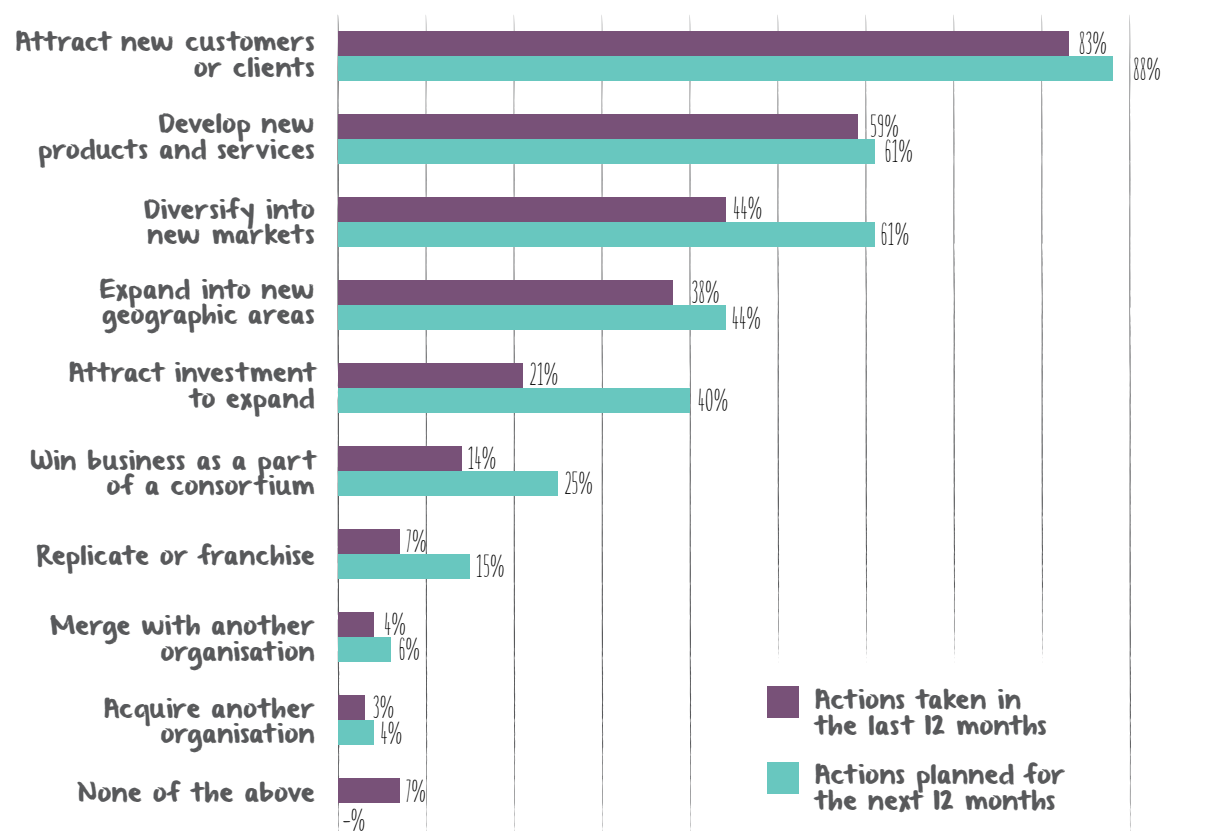
Although we started in Hull, our expansion across the Pennines shows that our ethos and business model have been recognised as a blueprint for success, and that social businesses can not only compete and win, we can grow and prosper.

How has being a member of Social Enterprise UK benefitted your organisation?

It’s given us the opportunity to influence policy and thinking at a national level and to be part of a supportive, innovative organisation with access to a pool of knowledge and expertise.

www.chcpic.org.uk

Figure 12: Social enterprises and growth: actions over the last year / plans for the year ahead



It is also notable that those who have sought to win new customers (83%) make up almost four times the proportion of those who have tried to attract investment (21%) in the last 12 months; though 40% have plans to attract investment to grow and expand in the year ahead.

Overall, franchising, mergers and acquisitions appear not to have a significant role; however, for larger organisations with more than 250 employees, the situation changes – 15% of larger respondents have franchised or replicated over the last 12 months compared to 7% of all social enterprises, and 15% of these larger social enterprises have grown through merger – close to four times the rate of all social enterprises (4%). In short, scale matters for these approaches.

Plans for the future: As shown in Figure 12, each action for growth over the past 12 months is mirrored or exceeded by plans for growth over the coming year. In addition, 69% of respondents also indicated that they would seek to increase sales with existing customers in the year ahead.

Innovating in products and services: The Small Business Survey 2014 uses the percentage of organisations introducing either new or improved products and services over the past 12 months as the principal indicator of innovation.¹⁰ As with each survey in this series, social enterprises continue to out-innovate comparable SMEs by a significant margin. The proportion of social enterprises introducing a new product or service was 59% in 2015 – up from 56% in 2013, whereas innovation in SMEs is down to 38% in 2014¹¹ from 43% in 2013.

Marketing social enterprise: The survey asked social enterprises the extent to which they used their social enterprise status in their marketing. In 2015, eight out of 10 (80%) report that they use their status in this way to a greater (39%) or lesser (40%) extent. Only 5% of organisations do not use their status at all. This continues the increase in recent years: in 2011, only 53% reported using their social enterprise status in this way. Organisations established in the last five years are more likely than average (84%) to use

¹⁰ BMG Research (2015) 'Small Business Survey 2014: SME Employers' Department for Business Innovation and Skills

¹¹ BMG Research (2015) 'Small Business Survey 2014: SME Employers' Department for Business Innovation and Skills

their social enterprise status in marketing to at least some extent. Taken together, this arguably demonstrates a sector increasingly confident in the social enterprise brand.

4.6 Business optimism

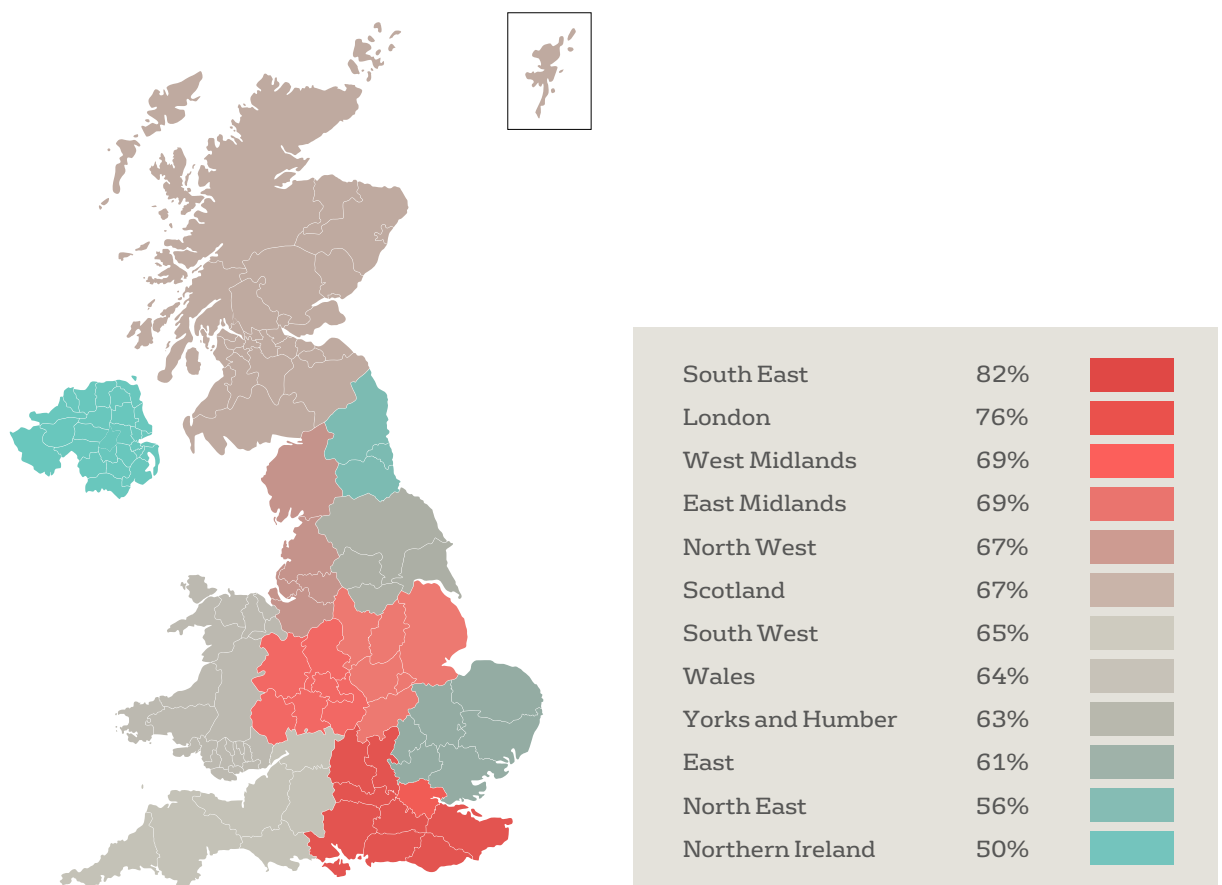
Business optimism is an important barometer of the health of a sector with direct implications for investment and employment. We asked whether the social enterprises believed that their turnover would increase, decrease or stay the same over the next 12 months.

More than two-thirds of all respondents (68%) are anticipating an increase in turnover. Just 9% expect their turnover to decrease, with the remainder (21%) anticipating no change. This is a marked improvement of business confidence from 2013 (63%) and 2011 (57%). It is also considerably greater than the levels of business confidence reported by SMEs (51%).¹²

Where an increase is expected, a third (32%) believe it will increase by up to 10%, more than two in five believe it will increase by between 11% and 50% (43%), and a quarter (23%) that it will increase by more than 50%, including one in twelve (8%) who believe it will increase by more than 100%. Younger organisations expect swifter growth, as they tend to be on a steeper trajectory.

The data reveals that levels of optimism are not uniform across the UK. As shown in Figure 13, the greatest concentration of social enterprises predicting growth is in the South East (82%) and in London (76%), and organisations within the 20% least deprived areas in the country are more likely than elsewhere to predict an increase in turnover (78%). Optimism is lowest in Northern Ireland (50%) and in the North East (56%), though these still compare favourably with SME counterparts.

Figure 13: Business optimism by region and nation: percentage of social enterprises that anticipate an increase in turnover over the next 12 months



12 BMG Research (2015) 'Small Business Survey 2014: SME Employers' Department for Business Innovation and Skills

Social Enterprise in

SCOTLAND

The Social Enterprise in Scotland: Census 2015 was released in September 2015, researched and produced by Social Value Lab. It was funded by a wide range of partners,¹ and additionally endorsed and guided by all the main Scottish social enterprise agencies.²

Social Value Lab identified more than 5,000 social enterprises in Scotland, one operating for every 1,000 people in the country. The research estimated a combined income of £3.63 billion, net worth of £3.86 billion, Gross Value Added (GVA) to the Scottish economy of £1.68 billion, and employment of over 112,000 people.³

Headline findings are shown on the facing page.

There is much here that is consistent with the wider UK picture in this report: a sector delivering a strong economic performance, a high proportion of start-ups, operating where needed most, representative and diverse, an important contributor to employment, and optimistic about future growth. As elsewhere, finance is the main barrier, along with time pressures and capacity.

There are some differences with the broader UK picture, although comparisons are made with caution due to some differences of approach and sampling. The overall levels of trading appear lower: across the UK, 89% of social enterprises earn 50% or more of their income from trading; in Scotland, this figure is 54%. This may correspond in part to higher levels of available grants, greater grant-reliance or transitions to a more sustainable model – for example, 50% of Scottish social enterprises cite declining grant funding as an issue, which falls to 25% for the whole of the UK.

Scotland is notably stronger in terms of female leadership – 60% of social enterprises are led by

a woman, compared with 40% across the UK.

The pay ratio of 1:2.5 is even lower than that of the UK (1:3.6), and there is a clear emphasis for many on bringing local people into employment, particularly those disadvantaged from the labour market. Scottish social enterprise is a beacon of fairness and equality.

Generally, Scottish social enterprises are more likely to be rural, twice as likely to be working in a single community, and smaller than UK social enterprises as a whole (60% turnover below £100,000 compared to 47% in UK) – this is all largely reflective of the geographical picture and spread outlined in the report.

Overall, as the report makes clear, social enterprises are located across the length and breadth of Scotland, and, in no small part because of the strong support and infrastructure available, the sector as a whole is just as confident of growth as elsewhere, and just as optimistic about its future.

Scale and Scope

- 25% of Scottish social enterprises have been established in the last 5 years, 42% in the last decade
- 56% are located in urban areas, with 26% in Glasgow and Edinburgh combined
- Social enterprise is flourishing in remote and rural communities: the Highlands and Islands accounts for 9% of Scotland's population but more than 22% of the nation's social enterprises
- 60% have a turnover below £100,000, with 8% having a turnover over £1million
- 18% are based in the top 20% most deprived areas
- 24% operate in a single community or neighbourhood, 32% in one local authority area, 11% across Scotland, 5% across the UK and 7% internationally.

Money & Markets

- 68% earn income from the general public, 61% from the public sector, 50% from the third sector, and 39% from the private sector
- 54% earn over half of their income from trading, with a further 17% earning between a quarter and a half of income from trading
- On average, social enterprises report a 4.4p profit for every £1 income; however, 39% reported a deficit in the preceding year⁴
- 66% believe they will increase turnover in the year ahead, and 47% that they will increase their workforce.

People & Purpose

- 60% are led by women; 53% have equal gender representation on the board
- The average pay ratio between the lowest and highest paid is 1:2.5
- 75% employ more than half of their workforce locally; 48% employ people previously disadvantaged in the labour market
- 67% provide training or support to improve employability, with 30% reporting volunteers moving into paid employment
- Around half measure their social impact to some extent; 26% do so using a recognised framework
- Community amenities, creative industries, and childcare are the most common sectors of operation; 'Providing volunteering opportunities' and 'Helping people to actively participate in local community' are the most common social objectives.

Barriers & Enablers

- 59% say that time/capacity to develop trading activity is the main barrier to development, although declining grant funding (50%) and difficulties accessing finance (13%) are greater in combination
- 81% expect to apply for a grant in the next 12 months, 15% for a loan, 5% an overdraft, 3% equity
- Between 1-in-5 and 1-in-6 are making some use of repayable or loan finance.

Full report available at: www.socialenterprisescotland.org.uk/files/1a891c7099.pdf

- 1 Big Lottery Fund, Co-operative Development Scotland, Highlands & Islands Enterprise, Nesta, Social Investment Scotland, Scottish Enterprise and Scottish Government
- 2 Community Enterprise in Scotland, Firstport, Glasgow Caledonian University, Scottish Urban Regeneration Forum, Senscot, Social Enterprise Academy, Social Enterprise Scotland and Social Firms Scotland. Social Enterprise UK was also part of the advisory group.
- 3 Registered social landlords (housing associations) contribute a substantial proportion, estimated at £1.3bn turnover and net worth of around £2bn.
- 4 These figures exclude credit unions and housing associations which significantly skew the numbers

5.0 PEOPLE AND PURPOSE

Key findings

The natural home of the female entrepreneur: The trend of women leading social enterprises continues from 2013, with 40% of social enterprises now female-led.

As diverse as our communities: The leadership teams of social enterprise reflect the communities where they live and work: 12% of social enterprises are BAME led, 31% have BAME directors, 40% have a director with a disability.

Addressing the big social issues: Social enterprises seek to address a huge range of our most pressing social and environmental concerns. Individual social enterprises also try to address as many issues as they can – an average of 5.2 each – as they seek to maximise their social impact. They can prove it too – 76% of social enterprises now measure their social impact.

Job creators: A greater proportion of social enterprises are creating jobs than comparable SMEs, with 41% of social enterprises employing more people than 12 months ago.

Not just any jobs: 59% of social enterprises employ at least one person who is disadvantaged in the labour market (e.g. long-term unemployed, ex-offenders, disabled people, etc.). This proportion increases to 66% in our most deprived communities. For 16% of social enterprises, this group forms at least half of all employees.

41% of social enterprises are employing more people than 12 months ago

Paying fair: The survey revealed that 24% of social enterprises are accredited living wage employers – with ability to pay rising in a direct relationship with turnover. The average ratio between CEO pay and the lowest paid is just 3.6:1 – very different to FTSE 100 CEOs where the ratio stands at 150:1.

5.1 Introduction

This section aims to look inside social enterprise, exploring how these organisations work and the difference they are trying to make. It sets out the survey's findings on social enterprise leaders and leadership teams, their social objectives and their actions as employers.

5.2 Leaders

Our survey asked for information about the leader of the social enterprise – the chief executive, managing director, owner or equivalent – exploring their age, gender and ethnicity. The results, as presented in Figure 14, describe a sector strongly representative of the communities where social enterprises work.

In 2013, the survey revealed that 38% of social enterprise leaders were women. In 2015, this figure stands at 40%. This contrasts with 18% of SMEs,¹³ 3.6% of FTSE 250 leaders¹⁴ and 5% of FTSE 100 leaders.¹⁵ This trend is likely to continue, with women leading 42% of social enterprise start-ups under three years old. The data arguably confirms the contention first set out in 2013 – that social enterprise is the natural home of the female entrepreneur.

The proportion of social enterprises led by a member of a Black and Minority Ethnic community (BAME) is 12%. This level is broadly in line with the UK population as a whole,¹⁶ and compares favourably with SMEs (7%).¹⁷ Social enterprise is also proving attractive for BAME entrepreneurs, with 16% of start-ups led by people from BAME communities.

The majority of social enterprises have leaders aged between 44-65 (60%). There is, however, an increasing cohort of social enterprise leaders who are under 45, growing from 24% in 2013 to 30% in 2015 – this proportion increases to 39% for start-ups trading for three years or less.

Figure 14: Social enterprise leaders and SME leaders

	SE	SME
% female	40%	18%
% male	60%	82%
% BAME	12%	7%

5.3 Leadership teams

Our survey has also sought to explore the make-up of social enterprise leadership teams. The results show that 84% of social enterprises have at least one woman on their leadership team: 16% had male only directors. Whilst this is less strong than the 9% of male-only teams reported in 2013, it still compares favourably to the 46% of SMEs who have male-only directors.¹⁸

More than three in ten (31%) of the organisations surveyed report having at least one member of the leadership team who is from a BAME background. As expected, there is considerable variation by geography, with London-based social enterprises reporting that 57% had at least one BAME director. Four out of ten (40%) social enterprises that provided a response¹⁹ reported that they had at least one disabled director. Almost a third of social enterprises (29%) have a leadership team member over 65.

Taken together, the data on both leaders and leadership teams reveals a social enterprise sector that is taking down the barriers to equality of opportunity in the workplace, building a more inclusive model of business.

¹³ BMG Research (2015) 'Small Business Survey 2014: SME Employers' Department for Business Innovation and Skills

¹⁴ Vinnicombe, S., et al (2015) 'The Female FTSE Board Report 2015: Putting the UK Progress into a Global Perspective' Cranfield Business School

¹⁵ ibid

¹⁶ 12.9% Source: Census 2011, Office for National Statistics

¹⁷ BMG Research (2013) 'Small Business Survey 2012: SME Employers' Department for Business Innovation and Skills

¹⁸ BMG Research (2015) 'Small Business Survey 2014: SME Employers' Department for Business Innovation and Skills

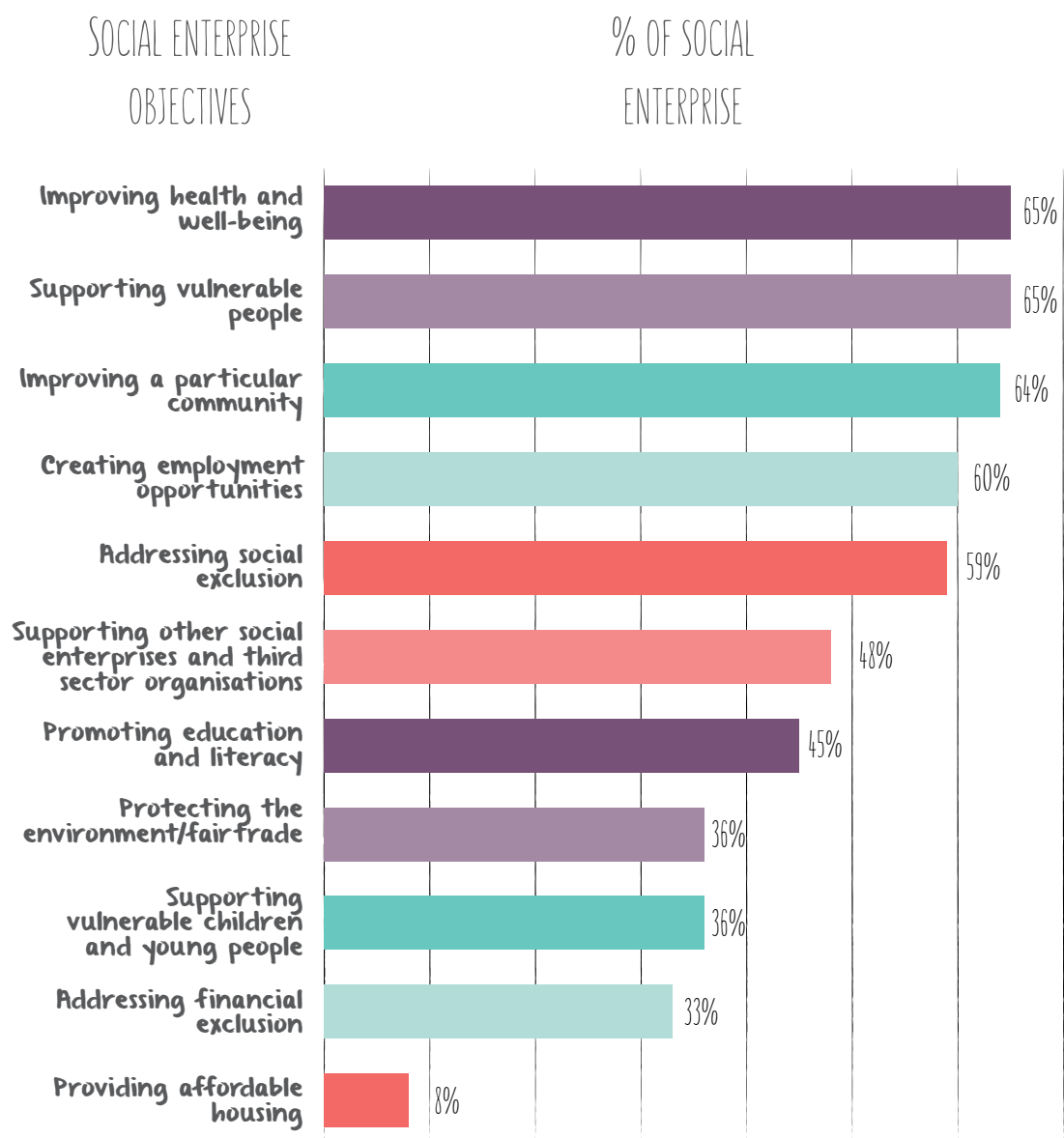
¹⁹ 7% of respondents declined the question

5.4 Social and environmental objectives

Social enterprises are organisations that trade in pursuit of explicit social or environmental objectives. The survey aimed to explore the variety of issues that social enterprises were

trying to address. The most common objectives are set out in Figure 15. Unlike in previous surveys, where respondents were asked to identify their three most significant objectives, the 2015 survey provided social enterprises with the opportunity to list the full range of what they are trying to achieve.

Figure 15: Social and environmental objectives



Multiple responses allowed

Case Study

WILDHEARTS OFFICE

in brief

WildHearts is a social enterprise that has resolve and is committed to launching companies that serve humanity. By combining philanthropy with entrepreneurial efficiency, we create sustainable, vigorously commercial vehicles that enable businesses to fulfil their CSR responsibilities and take a stand against economic injustice in an efficient and credible way.

What sector does your business operate in?

Office and business supplies.

How do you generate income?

B2B sales of stationery, print, merchandise, workwear, office furniture, catering supplies and data management.

What sector/area does your organisation support?

WildHearts Office funds the work of the WildHearts Foundation. In the UK, WildHearts delivers free employability training and entrepreneurship education in schools via our award-winning Micro-Tyco programme. In the developing world, we fund microfinance to help people set up small businesses to work their way out of poverty sustainably.

Where do you work?

WildHearts Office operates UK-wide, to deliver our social impact both nationally and in 37 developing countries.



What is your social mission?

Our mission is to use business as a force for good and to 'democratise opportunity' both for British young people and for those living in poverty across the globe.

What's the back story?

At WildHearts we believe that business can and must be a force for good. We created WildHearts Office to give companies an efficient and credible way to express their values; to their customers, their current staff and their future employees. By switching to WildHearts Office, businesses can use their existing office overheads to address social and economic injustice, both at home and abroad, without affecting their bottom line. WildHearts customers literally make a difference whilst they make a living.

Our vision of compassionate commerce continues through to our social impact. We transform the futures of young British people through Micro-Tyco, our multi-award winning entrepreneurial training programme. Participants learn and practice fundamental employability skills and business principles in a safe 'micro' environment. Over 26,000 young people have taken part so far, many of whom have gone on to gain work experience and apprenticeships at top employers. In the developing world we fund micro-loans, mainly for women, to help them set up small businesses and work their way out of poverty with dignity. This raises family nutrition and education levels, increases access to housing and medicine and impacts entire





communities. To date, our customers have helped us to transform the lives of over 65,000 people in 37 developing countries.

What prompted you to join Social Enterprise UK?

To connect with companies who share our belief that 'Business For Good' is no longer an optional extra but rather an essential

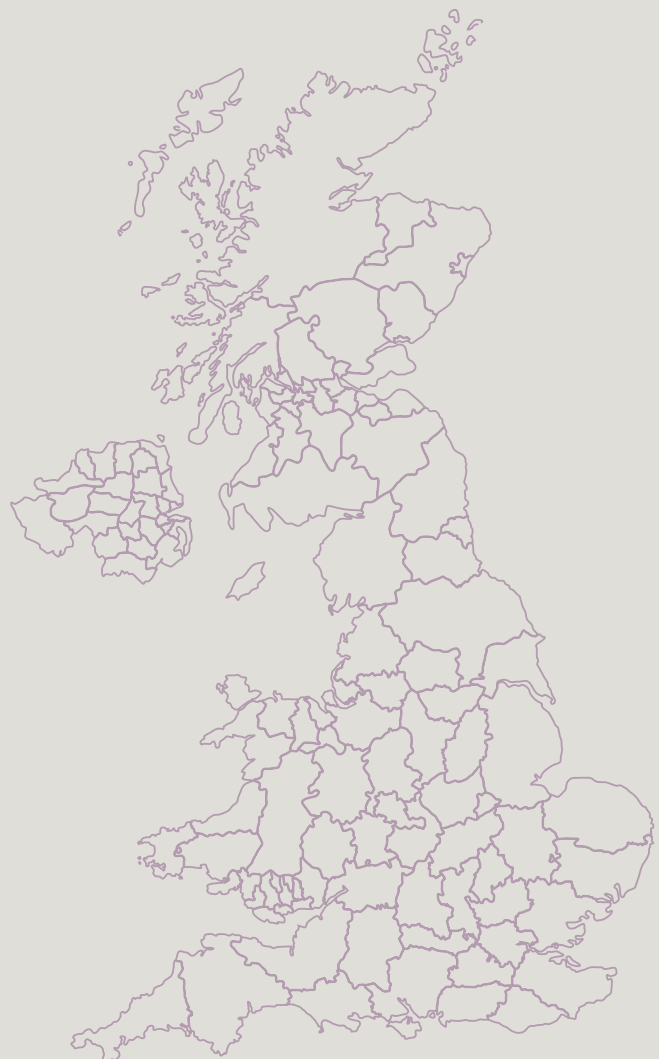
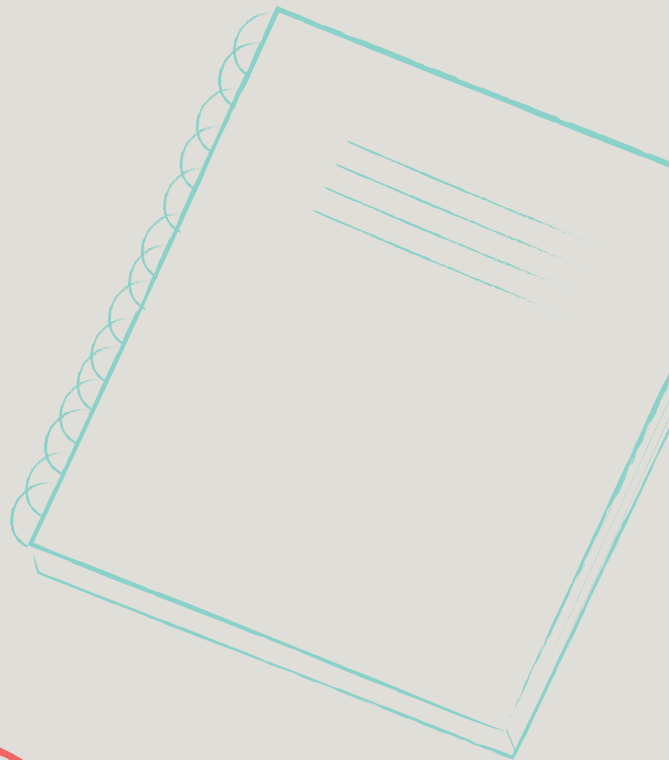
investment in the credibility, relevance and sustainability of their businesses.

"WE CREATED WILDHEARTS OFFICE TO GIVE COMPANIES AN EFFICIENT AND INCREDIBLE WAY TO EXPRESS THEIR VALUES."

How has being a member of Social Enterprise UK benefitted your organisation?

Being a member of Social Enterprise UK has helped us to win business from some of the UK's largest brands, by connecting us to fantastic companies who are committed to making a social impact.

www.wildheartsinaction.org



One of the key findings from the data is arguably the breadth of issues that individual social enterprises aim to tackle – an average of 5.2 social or environmental objectives each. It could be suggested that this multiplicity of objectives reflects a desire to address complex and inter-related social needs, particularly in deprived communities. It can also be explained by social enterprises aiming to maximise their social impact not just in what they deliver but in how they go about it. This can be seen in the inter-trading (buying social achieves more) and also employment statistics. For example, 81% of social enterprises that employ over 250 people state that creating employment opportunities is an objective, and there is some evidence that these larger social enterprises recognise their ability to create employment and ability to create additional social impact, regardless of their primary social purpose.^{20,21}

5.5 Measuring social impact

The survey has revealed the broad range of social and environmental objectives pursued by social enterprises – but do they seek to demonstrate the difference they make in a structured way? We asked social enterprises the extent to which they measured their social impact.

More than three quarters (76%) of respondents measure their social impact to a greater (33%) or lesser (44%) extent – an increase in the proportion of social enterprises measuring social impact from 2013 (68%). Only 7% take no steps whatsoever to measure their impact. The results suggest that the case for measuring impact has been increasingly accepted, though consistency of approach remains elusive: 61% use their own method of social impact measurement, with SROI (13%), Outcomes Star (6%) and Social Audit / Accounts (6%) the three most common approaches used by more than one organisation.

5.6 Social enterprises in their communities

Local accountability: Close to three quarters (73%) of social enterprises actively involve their beneficiaries or service users in decision making to a greater (31%) or lesser (42%) extent. Only 7% of social enterprises do not engage with their beneficiaries at all. This provides social enterprises with greater legitimacy in the communities where they work and can provide a source of innovation, for example in service design. See Figure 16 for details.

Trading for the planet: As shown in Figure 17, 85% of respondents indicated that their organisation actively aimed to minimise its environmental impact to a greater (44%) or lesser (41%) extent. Only 3% of organisations took no action at all.

5.7 Social enterprises as employers

Local focus: The survey explored the extent to which social enterprises recruit staff locally. Close to two thirds (63%) report that they draw their entire workforce (100%) from their locality – a figure that rises to 74% for rural social enterprises. A quarter (25%) draw between 50% and 99% of their workforce from the local area – and only 3% employ no people from the local area at all. See Figure 18 for details.

Tackling disadvantage: The survey revealed that a clear majority (59%) of social enterprises with two or more staff employ at least one person who is disadvantaged in the labour market (e.g. long-term unemployed, ex-offenders, disabled people etc.) – as presented in Figure 19. For 23% of respondents, it forms between 11% and 50% of their workforce – and for 16% of respondents, this group forms between 51% and 100%; for 5% of social enterprises, it is their entire workforce. This practice is related to economic deprivation, with social enterprises in the most deprived communities more likely to employ this group (66% in the most deprived communities compared to 57% in the least deprived).

²⁰ Some larger (and smaller) social enterprises map these additional impacts in their theories of change and actively manage them, see www.hctgroup.org/social_impact for an example

²¹ Another example of this is explored in Section 4, where there is evidence that social enterprises are including other social enterprises in their supply chain with a view to maximising social impact.

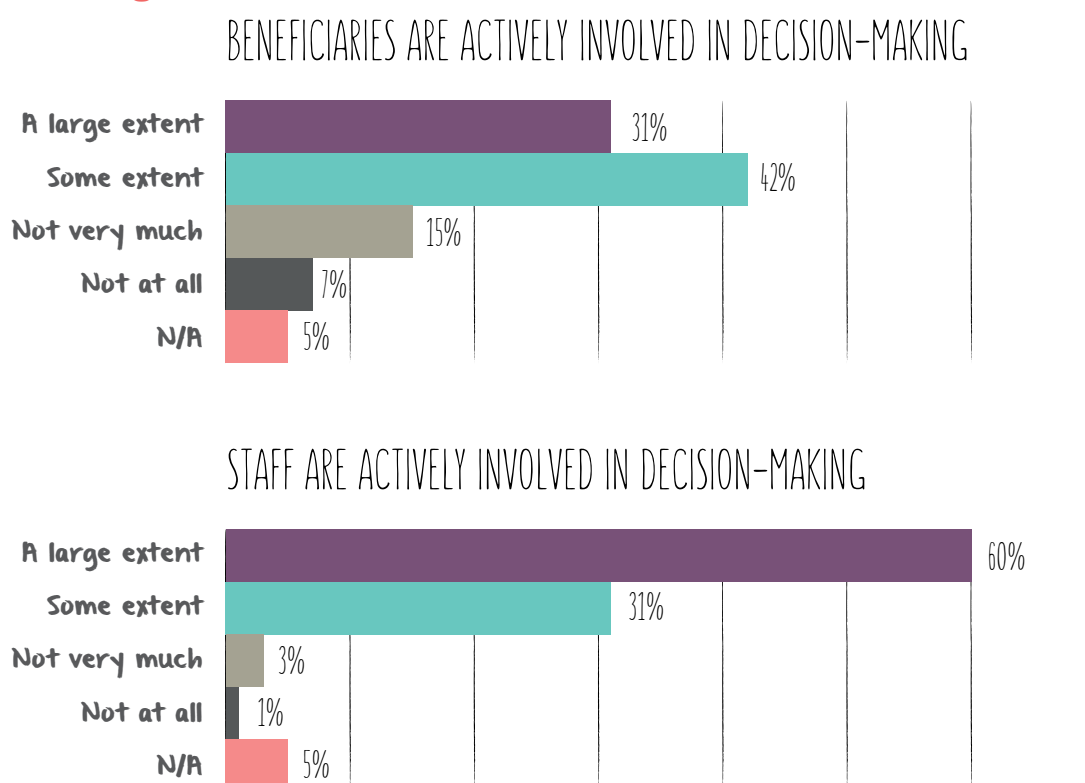
In addition to the positive impact on people's lives, the economic impact of employing people disadvantaged in the labour market is hard to overstate – as it replaces immensely costly support by the state with a positive economic and social contribution. It is worth noting that social enterprises whose main source of income is trade with the public sector are more likely (62%) than other social enterprises to employ this group – meaning that these benefits are available for commissioners to choose when they select their suppliers.

Fair pay: The survey sought to establish how social enterprises rewarded their staff, asking whether social enterprises demonstrated that they pay the living wage.²² The survey revealed that 24% of social enterprises are accredited living wage employers – with ability to pay rising in a direct relationship with turnover.²³

The survey also asked about remuneration of the chief executive or highest paid person, revealing that the average rate of pay of a social enterprise CEO is £45,300. This means that the ratio between the highest paid to lowest paid in our survey is just 3.6:1²⁴ – very different from the ratio of FTSE 100 chief executives where the ratio stands at 150:1.²⁵ Perhaps unsurprisingly, chief executive pay rises in direct proportion with turnover, rising from an average of £18,500 for the smallest social enterprises to £90,200 for organisations with turnovers greater than £5m.

Staff engagement: The survey asked social enterprises the extent to which staff are actively involved in decision-making. Around 90% of respondents indicated that their organisation actively aimed to involve staff in decisions about the business to a greater (60%) or lesser (31%) extent. Only 1% of organisations did not involve staff at all. See Figure 16 on accountability.

Figure 16: Accountability: Beneficiaries and staff are actively involved in decision making



22 The Living Wage is a minimum level that employers choose to pay on a voluntary basis. It is calculated according to the basic cost of living in the UK, and is higher than the minimum wage. The UK Living Wage for outside of London is currently £7.85 per hour, The London Living Wage is currently £9.15 per hour. Both are set annually by the Living Wage Foundation. www.livingwage.org.uk

23 It is worth noting that the actual percentage may be higher, as some social enterprises will pay the living wage, but choose not to pay extra for the official accreditation; future surveys should examine this.

24 Ratio calculated assuming that the lowest paid is a full time employee working a 37.5 hour week receiving the national minimum wage of £6.50 p/h. If living wage (£7.85) is assumed, the ratio falls to just below 3:1

25 <http://www.ft.com/cms/s/0/637449a4-10e8-11e5-9bf8-00144feabdc0.html#slide0>

Figure 17: Trading for planet: actively aims to minimise its environmental impact

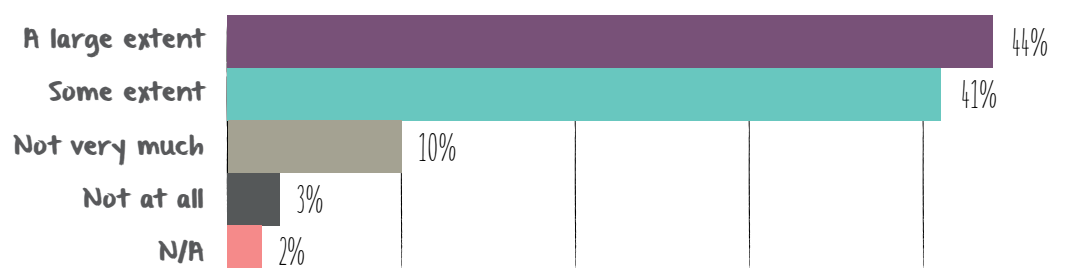
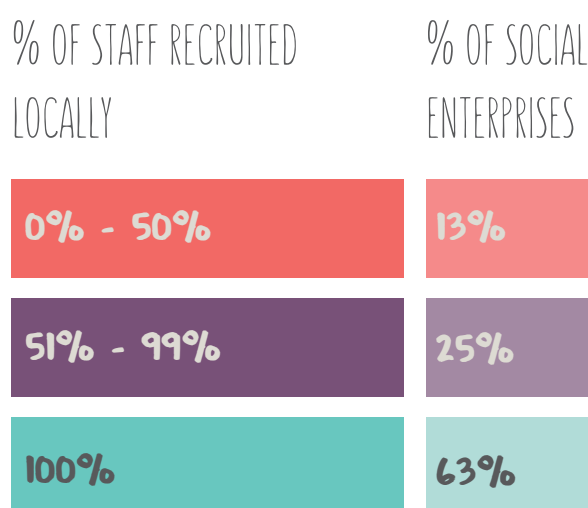


Figure 18: Local focus: actively recruits staff locally



Employment and job creation: Our survey asked social enterprises how many staff they employed, with the number of all staff, both full and part time, shown in Figure 20.

Most respondents are operating at micro-enterprise levels, with 56% stating that they have between one and nine employees – a figure similar to that seen in 2013 (57%). One in ten (10%) respondents have no employees – and are likely to be volunteer-led or consist solely of their founder; this figure has dropped from 17% in 2013.

In addition to asking about current levels, organisations over a year old were also asked how many people they employed 12 months ago. This shows that 41% of social enterprises have increased their workforce, while 12% have reduced it. This compares favourably to SMEs,²⁶ where 22% have increased their workforce. There is little regional difference in these figures, though organisations in Scotland and Northern Ireland are slightly more likely to both report a reduction in the last 12 months, and slightly less likely to anticipate growth; workforce size is also slightly more likely to have decreased in the last 12 months within organisations that are based in the most deprived areas.

Plans to recruit: The survey also asked about future job creation. Close to half (47%) of all respondents expected the number they employed to increase in the next 12 months, 29% expect to stay the same and 24% expect the number of employees to reduce. Expectations of growth have improved markedly (this was 33% in 2013, 26% in 2011) and is over double the equivalent SME figure (22%);²⁷ but so have those expecting a reduction: up from 18% in 2013.

Figure 19: Tackling disadvantage: employs people who are disadvantaged in the labour market

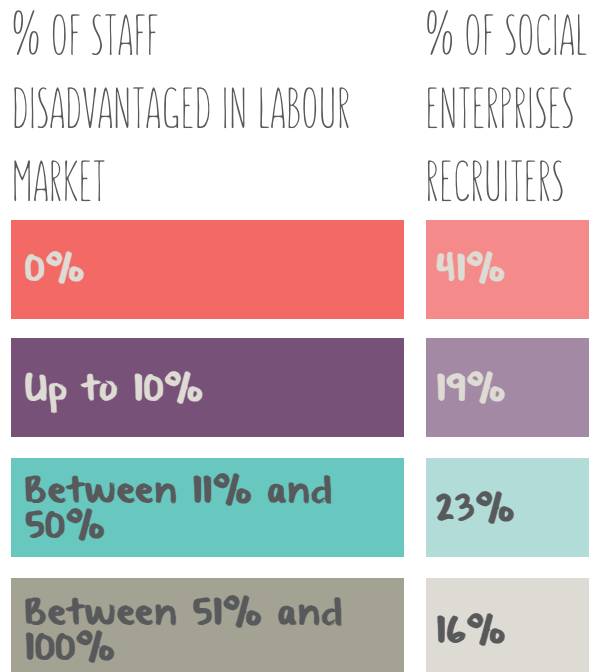
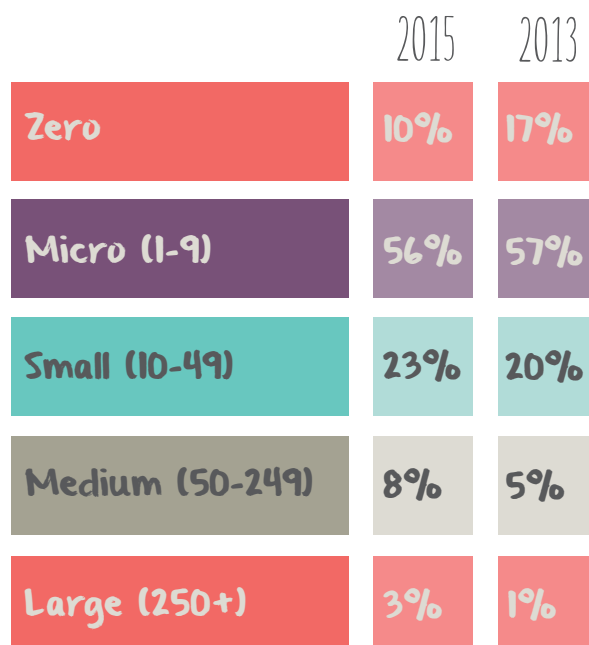


Figure 20: Employees in social enterprise



26 BMG Research (2015) 'Small Business Survey 2014: SME Employers' Department for Business Innovation and Skills

27 BMG Research (2015) 'Small Business Survey 2014: SME Employers' Department for Business Innovation and Skills

Case Study

VIEWPOINT RESEARCH CIC

in brief

Viewpoint Research are experts in the field of market research and offer some of the best technology and studio facilities to help you acquire precise and accurate data.



What sector does your business operate in?

We provide a high quality telephone research service, enabling our clients to gain an understanding of both customer need and customer opinions and to inform improvements to their service. Our business model is based around three main service areas:

- Tenant satisfaction questionnaires for local authorities, ALMOS and housing associations. We provide the full range of questionnaires need by this client group to enable them to capture views from their tenants to drive service improvement. Service areas covered include; responsive repairs, anti-social behaviour, complaints, new tenants, supported housing and STAR surveys.
- Fieldwork Research. This work involves completing questionnaires for organisations (typically public or third sector) who require information from service users, members or other stakeholders. Alongside completing the fieldwork element we sometimes produce evaluation reports with analysis and recommendations.
- Client satisfaction questionnaires. Involves interviewing people within businesses (SMEs) to collect customer

satisfaction feedback, usually to inform their customer satisfaction KPIs.

How do you generate income?

- We generate income through contracted work with the above clients.

What sector/area does your organisation support?

We aim to create sustainable, fulfilling employment opportunities for people who find it very difficult to achieve this due to a disability or other disadvantage in the workplace. Our primary beneficiaries are people who have a disability (inc physical impairment, sensory impairment or a mental health issue) and the long-term unemployed.

Case study - Trisha Blake

Trisha was off work for two years due to anxiety and depression before working for Viewpoint in Sheffield in 2009. She has since become one of our most experienced researchers. She has completed her NVQ Level 3 in customer service and will take up one of the new research manager roles.

"WHEN WORKING FOR VIEWPOINT YOU DON'T HAVE TO HIDE WHO YOU ARE OR HOW YOU FEEL. IF YOU ARE HAVING A BAD DAY EVERYONE SUPPORTS YOU IN A WAY THAT DIDN'T HAPPEN AT MY PREVIOUS WORKPLACES. TO ME, VIEWPOINT IS LIKE A FAMILY. I REALLY FEEL I'VE FOUND MY NICHE WORKING HERE. I ENJOY EVERY MINUTE OF IT."

Where do you work?

We are based in Yorkshire and Humber with offices in Sheffield, Leeds and Doncaster. But our client base is anywhere in the UK.

What is your social mission?

Our mission is to provide high quality, innovative tele-research through the employment of people marginalised from the job market including the long-term unemployed and people with a disability.

What's the back story?

Viewpoint started operating in Sheffield in May 2006 as a project within Broomby CIC – a social enterprise development agency. Broomby held a single contract with Sheffield Homes, completing telephone satisfaction questionnaires on the Decent Homes programme and wanted to create a new social enterprise to deliver this work.

Successful management of this project allowed Viewpoint to attract additional clients and in November 2008 Viewpoint had reached a level of sustainability which allowed it to incorporate as an independent Community Interest Company.

In 2009 we opened our second office in Leeds in partnership with the Royal National Institute of Blind People (RNIB), employing a team of blind and partially sighted staff and were named South Yorkshire Start-up Social Enterprise of the Year. In 2012 we opened our third office, in Doncaster in partnership with St Leger Homes, to create sustainable jobs for their tenants, with a particular focus on the long-term unemployed.

In November 2012 Managing Director Alistair Ponton was named Yorkshire & Humber Social Entrepreneur of the Year and nine of our staff have now achieved NVQ Level 3 in customer service.

We deliver a range of telephone-based research services with the aim of improving our clients' performance, saving our clients time and helping make our clients more socially responsible. As such we have developed a growing client list including Sheffield City Council, Kier Group, local NHS partnerships, Sheffield Hallam University, Key Fund and Social Enterprise UK.

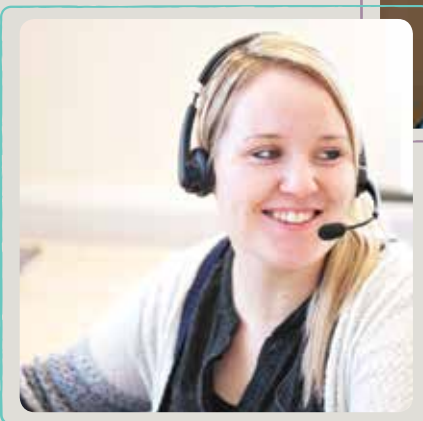
What prompted you to join Social Enterprise UK?

Have had a lot of contact with SEUK over the years. We wanted to support their work as well as widen the opportunities for us to trade with their members and associates.

How has being a member of Social Enterprise UK benefitted your organisation?

- We have picked up good contacts from SEUK events, access to the advice and knowledge of their staff, and have been awarded contracted work from SEUK.

www.viewpoint-research.co.uk



The State of the Sector:

WALES

With funding from the Welsh Government and the European Regional Development Fund (ERDF), the Wales Co-operative Centre commissioned the Bevan Foundation and Wavehill to conduct research and data collection. They identified a sector turning over a collective £1.7 billion and employing an estimated 38,000 people. The final report, entitled *Social Businesses in Wales: the State of the Sector* was released in June 2015.

Headline findings are shown on the facing page.

There is much here that is consistent with the wider UK picture in this report: a young and dynamic sector, more likely to be in the most deprived areas, representative of the communities it works in, innovating and optimistic for the future, an important local employer and with access to finance as its main barrier.

There are some notable differences with the broader UK picture, although comparisons are made with caution due to some differences of approach and sampling. The overall levels of trading are lower (across the UK, 73% of social enterprises earn 75% or more of their income

from trading; in Wales, this figure is 41%) and this seems to correspond in part to higher levels of available grants and donations. Trading with the general public as a main source of income is notably higher at 41% than the overall UK picture (30%), and this may be related to the prominence of culture and leisure in the sectors of operation – it is the leading sector in Wales, but only sixth across the rest of the country.

Overall, the report highlights a dynamic and expanding social enterprise sector in Wales, which is confident, robust and positive about its future.

Scale and Scope

- 19% of Welsh social enterprises have been established within the last three years; 41% have been operating for five years or less
- 53% operate within a single local authority, 17% operate across Wales; 60% are based in urban areas
- The median turnover is between £50,000 and £100,000, with a small number of very large social enterprises making a large contribution to aggregate figures
- They work where the need is greatest: 29% are based in the top 20% most deprived areas.

Money & Markets

- The general public is the most important trading partner: a main source of income for 41% of organisations
- 57% stated that income from trade accounts for over half of their income, and 41% that trade accounts for over 75% of turnover
- Longer-established organisations are more likely to trade with the public sector than younger ones; grants are most important for social enterprises in their first year
- 60% have attracted new customers in the past year; 49% have developed a new product or service
- 69% expect their turnover to increase in the next 2-3 years.

People & Purpose

- 35% are led by women, compared to 19% SMEs in Wales
- 65% recruit at least three-quarters of employees from their local area; 19% report that at least a quarter of their employees are disadvantaged in the labour market
- 92% say they measure their social impact, but most do not use recognised measurement tools
- Culture, leisure, education and environment are the most common sectors of operation; 'improving a particular community' is the social objective for over 50%.

Barriers & Enablers

- 44% say that access to finance is the main barrier to sustainability, followed by cash flow and the broader economic climate
- 66% had applied for finance in the last 12 months; over 90% had applied for grants with only 4% seeking loans, or 2% overdraft; 50% had applied to a trust or foundation, 36% to Welsh government and 32% to a local authority
- The median amount of money applied for was £35,000.

Full report available at: www.walescooperative.org/wp-content/uploads/2015/05/Social-Businesses-in-Wales-Report-ENG.pdf

6.0 BARRIERS AND ENABLERS

Key findings

From alarm back to concern: Public sector procurement decreased as a barrier to social enterprise sustainability – but only to the high levels in the 2011 survey where it was noted as a singular, urgent concern.

Still hungry for funding and finance: Consistent with all previous surveys, 44% of social enterprises sought funding and finance in the last 12 months, more than double the proportion of SMEs (19%). 39% of social enterprises believe its lack of availability is a barrier to their sustainability, compared to just 5% of SMEs.

44% of social enterprises sought finance in the last 12 months, more than double the proportion of SMEs

Not getting in on the Act: 67% of social enterprises whose main source of income is the public sector know about the Public Services (Social Value) Act, but 49% of social enterprises in these markets say they're yet to see it arrive in commissioning – there is more to do before the Act works as intended.

Out of step? The median amount of funding or finance sought by social enterprise was £60,000, similar to the median in 2013. This figure remains below the minimum thresholds of many specialist social investors and funds. As the structure of the social enterprise sector continues to change, can the specialist financing structures change with it?

Skilling up? Social enterprises report strong business capability in areas such as people management, but 56% say they are poor or average at marketing and branding, and others identify technical skills areas which would support their performance and growth.

6.1 Introduction

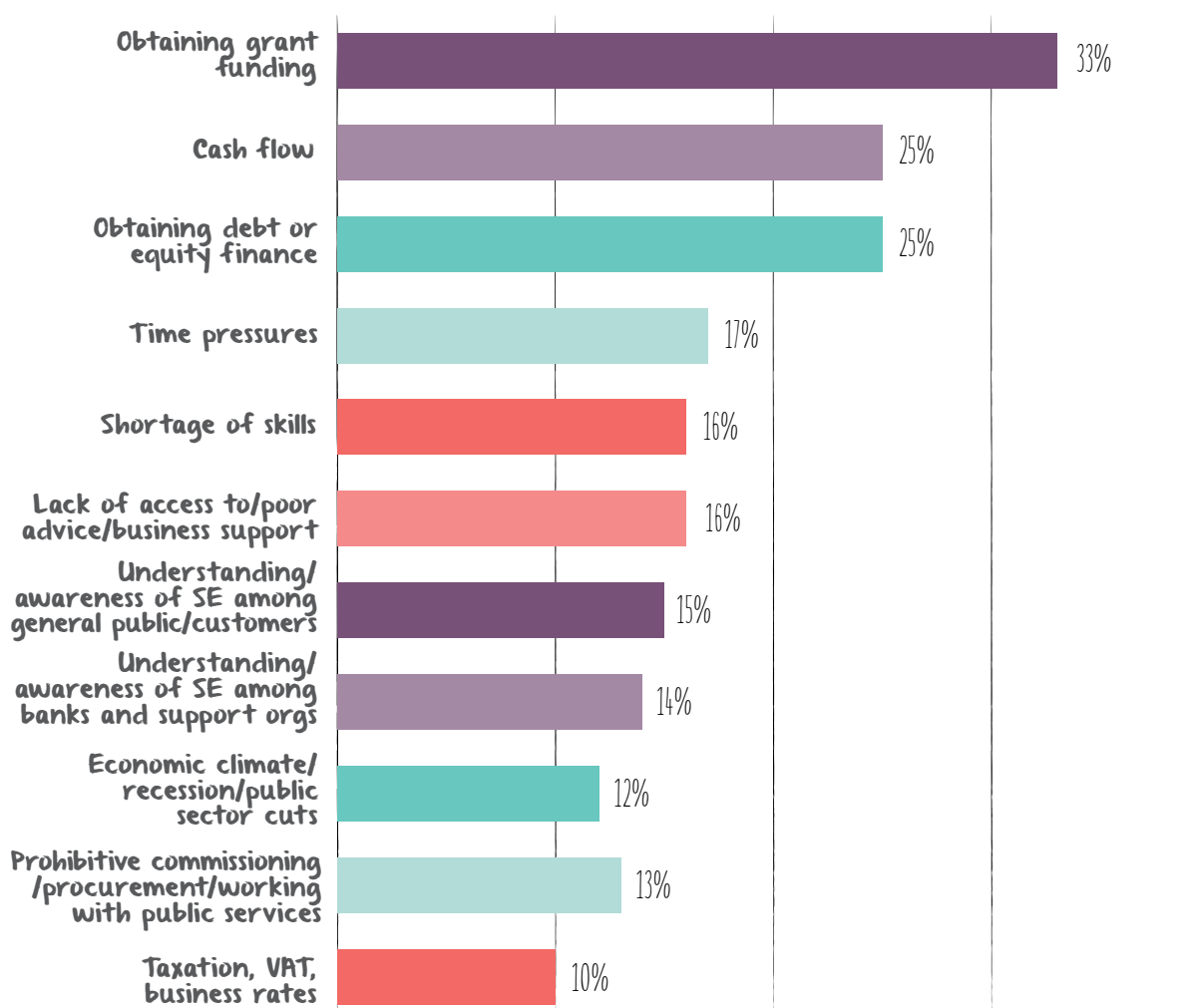
This report has set out how social enterprises are trading in a wide variety of industries, attracting an ever increasing proportion of start-ups with entrepreneurs and employees from all sections of our communities, operating in our most deprived areas and tackling a multiplicity of pressing social problems. As a consequence, it is important to understand what helps and hinders social enterprises. This section explores the barriers and enablers – for both start-ups and existing enterprises.

6.2 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 most common barriers are presented in Figure 21.

This year's survey disaggregates grant funding and debt or loan finance for the first time. But funding remains the largest stated barrier – demonstrating its importance for start-ups. In 2013, the data showed a greater proportion of female and BAME-led social enterprises reporting finance as a barrier at start up when

Figure 21: Top 10 barriers experienced on start-up



compared to white-led and male-led social enterprises. Promisingly, this difference is not repeated in the 2015 data.

However, the proportion of social enterprises reporting debt finance as a barrier at start-up increases with levels of deprivation, with 18% reporting this as a barrier in the least deprived communities, rising to 29% in the most deprived.²⁸

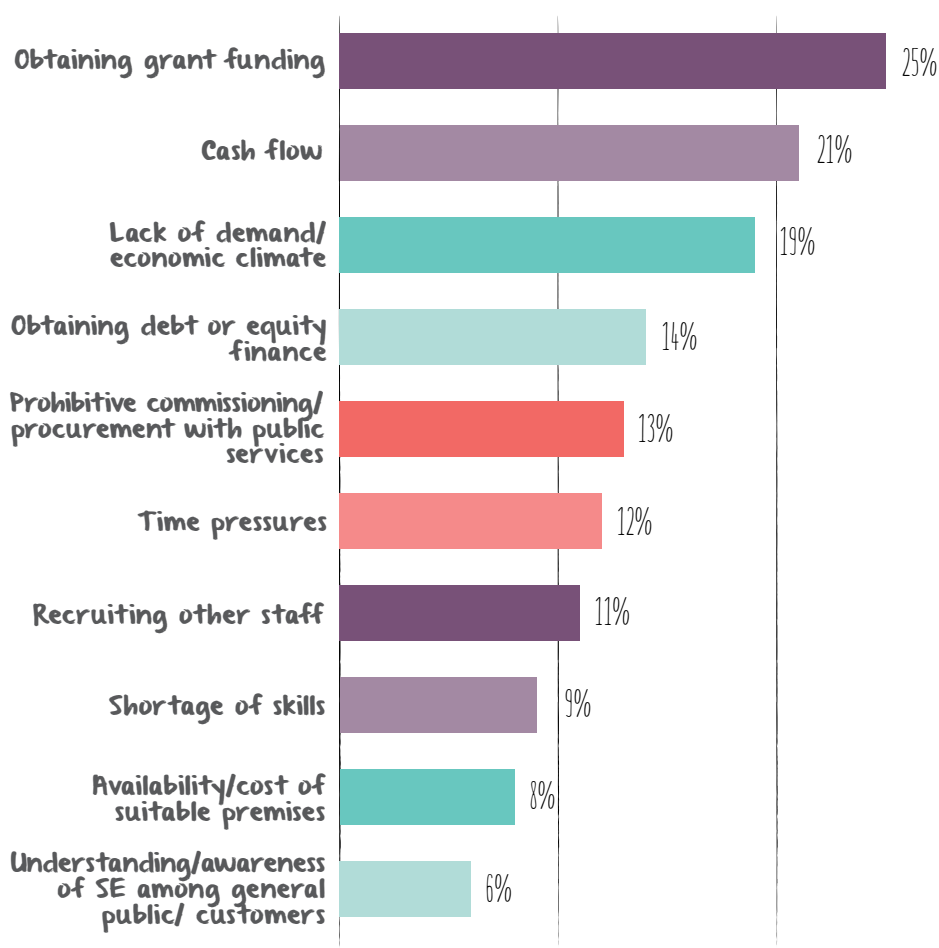
Other stated barriers such as cash flow (25%), time pressures (17%), shortage of skills (16%)

and a lack of business support (16%) are more similar to all small business start-ups: these challenges would be instantly recognisable to a private sector peer.

6.3 Barriers to sustainability

The survey also asked all social enterprises what the three most significant barriers were to their sustainability and/or growth. The results are presented in Figure 22.

Figure 22: Top 10 barriers to sustainability



28 The sample size is not large enough here to make this finding definitive.

Access to funding or finance is still the principal, most significant barrier to sustainability cited by respondents, for the third survey in a row and little-changed: it is at the same proportion as 2013 (39%) when obtaining grant funding²⁹ (25%) and debt or loan finance (14%) are combined. The situation is very different for SMEs, where just 5%³⁰ state that access to finance is an obstacle to their business – it ranks eighth rather than first in the list of issues facing SMEs.

The largest change since the 2013 survey is the impact of the economic climate on social enterprises. In 2013, it was the second-ranked barrier to sustainability (32%). This has now fallen to 19% – still the third most common barrier, but less prevalent. The proportion of organisations citing the economic climate as a barrier increases with the age of the organisation – rising from 16% of start-ups to 24% of organisations trading for 11 or more years.

Prohibitive commissioning and procurement by the public sector is less frequently cited than in 2013, falling from 18% of respondents to 13% – and for organisations whose principal source of income is the public sector it has fallen from 34% to 25%. Whilst this is welcome, it only returns this barrier to the level of the 2011 survey where it was noted as a singular, urgent concern – and it is still an area that needs tackling, particularly for smaller social enterprises.

Skills and staffing are both also mentioned as barriers, and we asked social enterprises to rate their business capability in a range of areas, from very strong to very poor; as shown in Figure 23.

This is potentially of interest to those seeking to support social enterprises – while large majorities consider themselves strong in areas like people and financial management, a fifth acknowledge they are poor at marketing, branding and PR – and a majority (56%) consider themselves at best average in this area. Support in technical areas like tax, regulation and technology are also still needed.

Public sector markets and the Social Value Act

The Public Services (Social Value) Act came into law in January 2013: for the first time, it requires all public sector bodies in England (and some in Wales) to consider how the services they commission and procure might improve the economic, social and environmental wellbeing of the area.

This survey asked social enterprises whether they were aware of the Act, two years after it came into force, with 53% of respondents stating they were aware – an increase from 43% since 2013. This rises for the largest organisations (96%) and those trading primarily in the public sector (67%).

56% of social enterprises said they have not seen social value appear more in public sector tenders, and the figure is 49% for those whose primary source of income is the public sector. Whilst 28% have seen social value appearing in public sector tenders, there is clearly much more work to do for the aims and potential of the Act to be realised more fully.

6.4 Funding and finance

As access to funding and finance is so significant for all social enterprises, this survey again looked at this issue in depth: how many had sought funding, what types of finance, and how successful they were.

More than four out of ten (44%) of all social enterprises surveyed had sought funding or finance or capital over that previous 12 months. This is a lower proportion than 2013 (48%), yet still more than twice the proportion of SMEs that sought finance (19%). The proportion is higher still in newer organisations (53% of those operating for up to three years).

Type of funding or finance sought: As shown in Figure 24, the most common type of funding or finance applied for was grant funding, with 83% of respondents applying – a drop of 4% from 2013. The second most common source was loan finance, with 23% applying – a small increase from the 20% shown in the 2013 survey.

29 Whilst grant funding is most commonly associated with the traditional third sector, it is worth noting that there are streams of grant funding for mainstream SMEs – and SMEs frequently seek grant funding as a source of capital. According to the Small Business Survey 2014, 12% of SMEs sought grant funding.

30 BMG Research (2015) 'Small Business Survey 2014: SME Employers' Department for Business Innovation and Skills

Figure 23: Rating of business capability

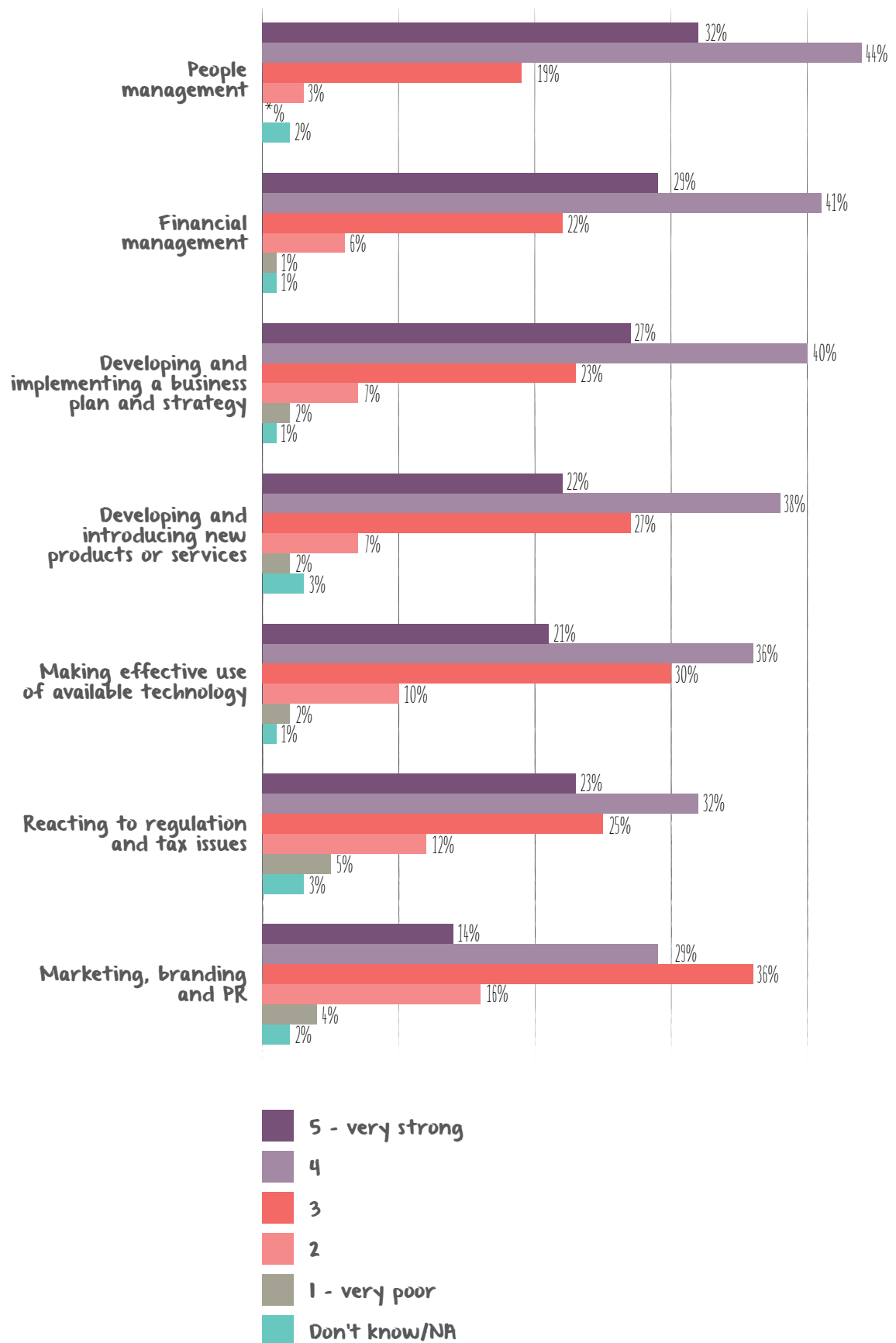
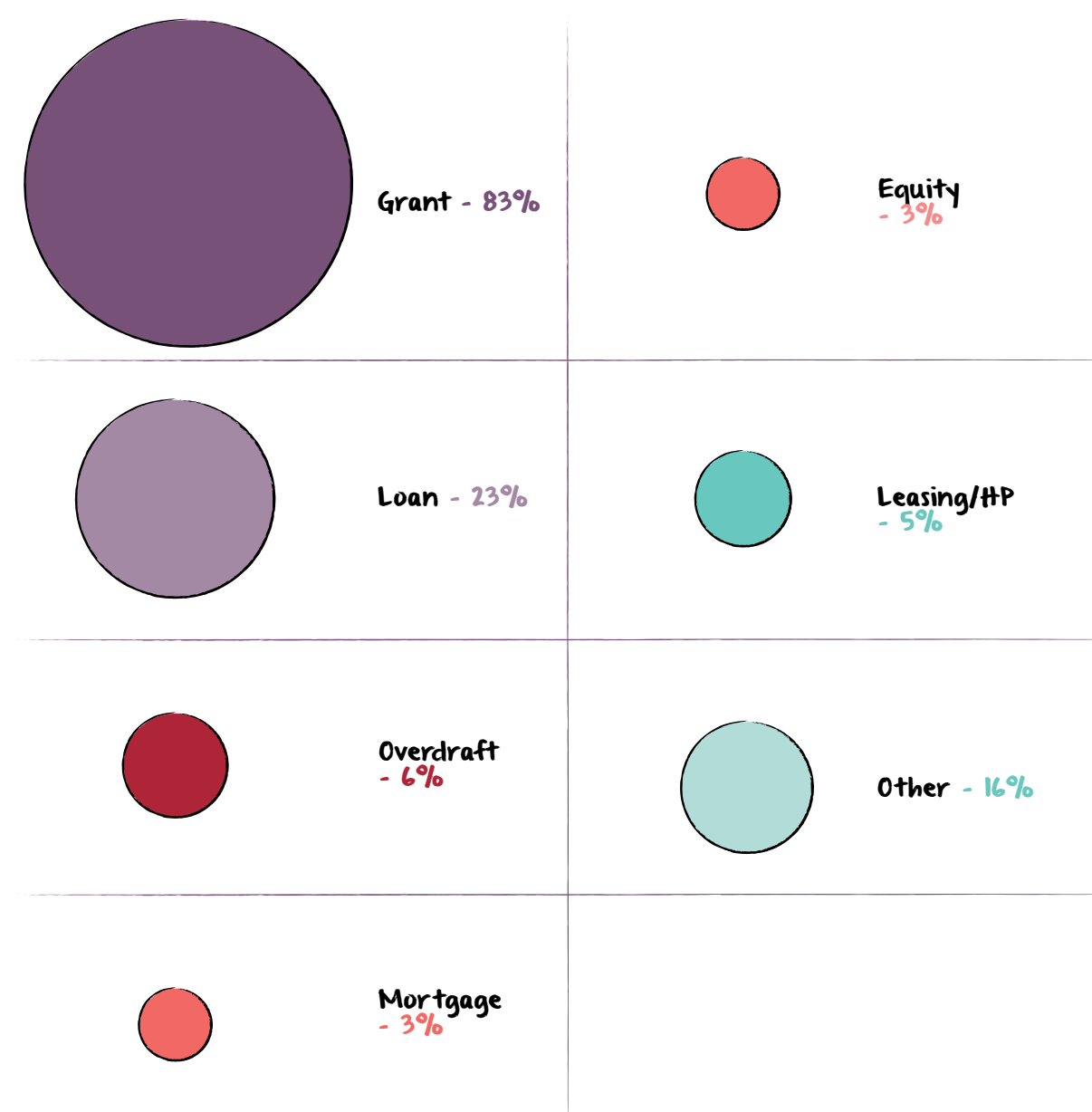


Figure 24: Form of funding or finance applied for



Where organisations had applied for a loan, more than a third (38%) report it was secured against their business assets, one in twenty (6%) that it was secured against their personal assets, and half (50%) that it was unsecured.

Amount of funding or finance applied for and received: Those who had applied for funding or finance were asked how much their organisation wanted to raise. Most commonly the amount aimed for ranges between £10,000 and £50,000

(28%), with an overall median amount sought of £60,000, similar to the 2013 median of £58,000.

As was noted in the 2013 survey as well, this is out of kilter with much of the social investment market pursuing larger deals. As the proportion of younger, smaller organisations continues to grow, it raises the question of how well aligned some of the financial and investment structures put in place to support social enterprise are with the realities of the sector itself.

Figure 25: Median amount of finance applied for and received based on length of operation

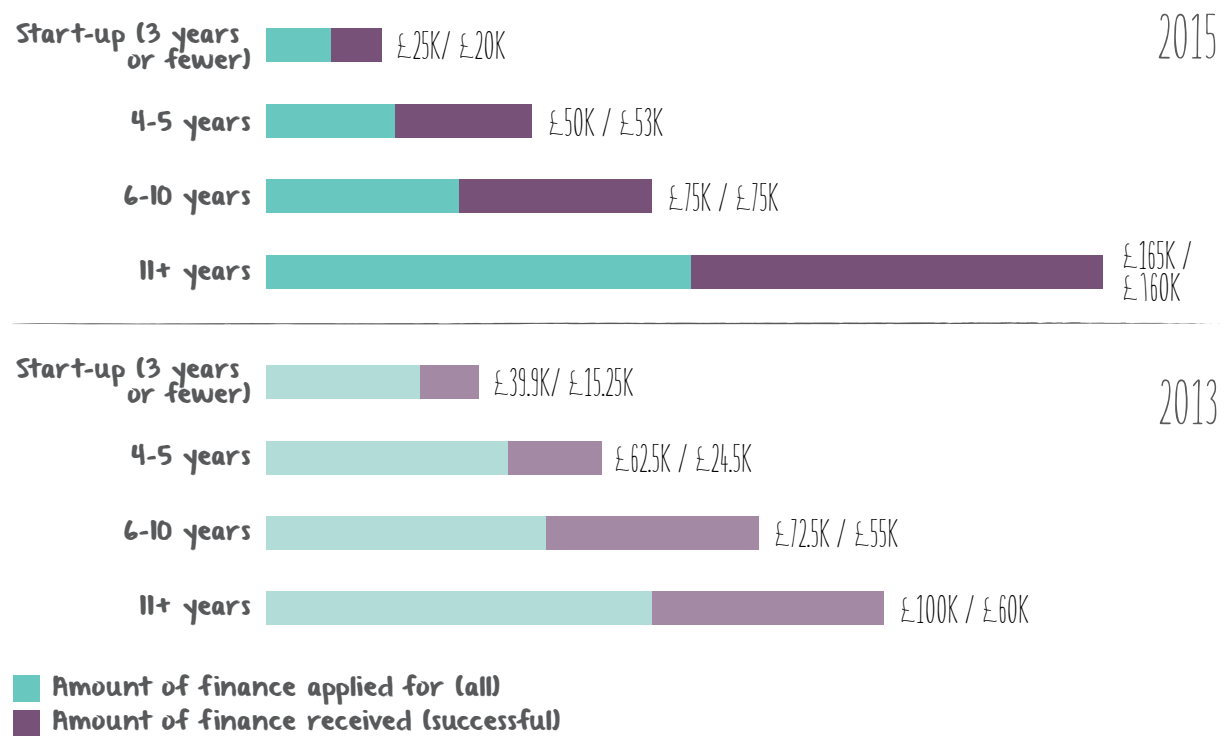
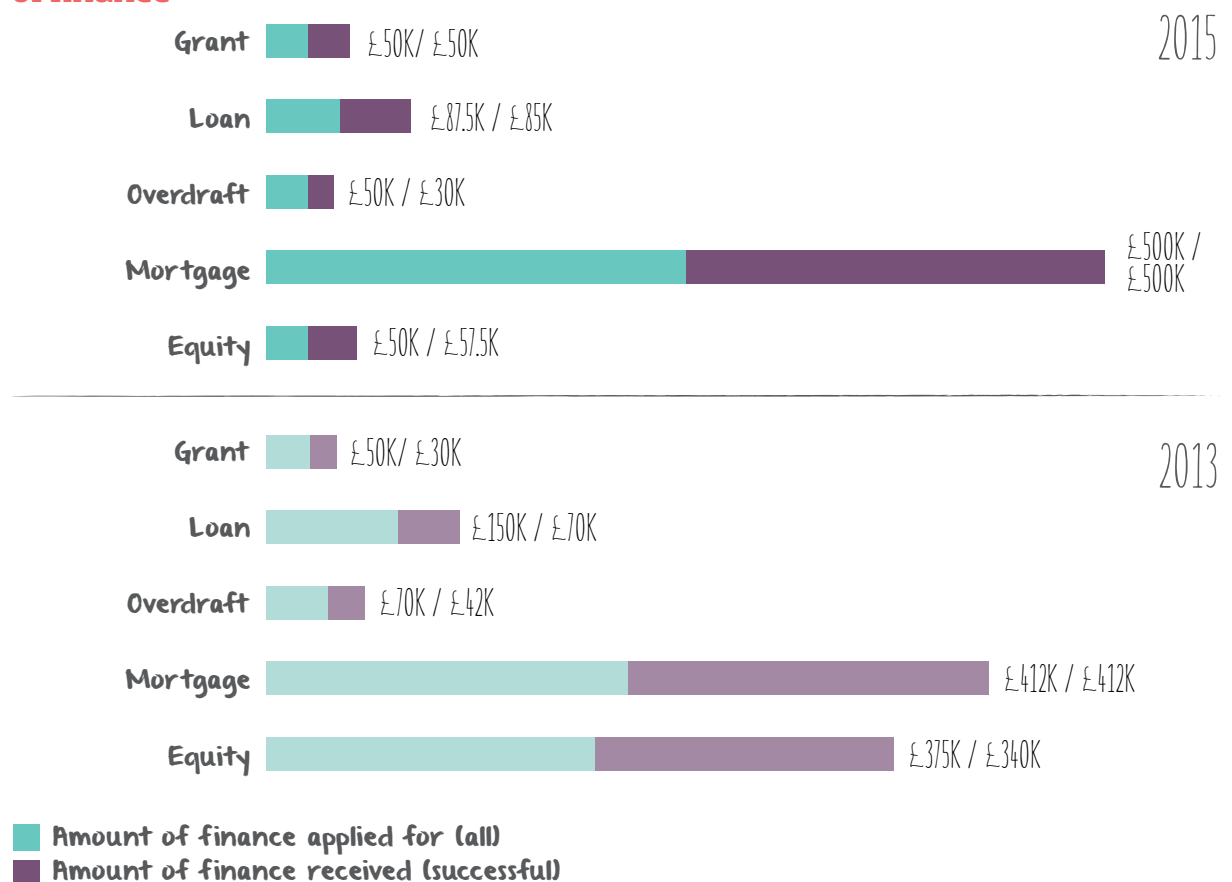


Figure 26: Median amount of finance applied for and received, by type of finance



Note that the sample sizes for mortgage and equity are relatively small

The respective success rates for the two main types of funding or finance applied for are also shown in Figure 27.³¹ The results of the survey show that those applying for loans were more likely to be entirely successful (62% and 53% respectively) than those applying for grants (35%).

Figure 27: Success in securing funding or finance

	GRANT	LOAN
All	35%	62%
Some	33%	12%
None	13%	7%
Made an offer but refused	1%	5%

Purpose of funding or finance: The survey also asked social enterprises what the purpose of the funding or finance sought was for, as set out in Figure 28.

Figure 28: Purpose of funding or finance

Development capital	47%
Working capital	42%
Property or equipment purchase/refurbishment	35%
Finance payments by results contracts	5%
Other	17%

The greatest proportion (47%) of social enterprises were seeking development capital – to fund growth or new services – at similar levels to 2013 (52%) and 2011 (48%). This is consistent with the actions for growth earlier in this report.

The trend of an increasing requirement for working capital has continued in this survey, rising from 23% in 2011 to 31% in 2013 and now standing at 42%. This is the first survey where social enterprises have shown the same levels of working capital need as SMEs – amongst whom it is the most common financing requirement (38% of SMEs applied).³²

³¹ The remaining sample sizes for Mortgage, Equity and Leasing/HP were too small to explore meaningfully

³² BMG Research (2015) 'Small Business Survey 2014: SME Employers' Department for Business Innovation and Skills

Barriers to funding or finance: Of those that did not seek finance, 34% of that group considered doing so but chose not to. As set out in Figure 29, the survey asked those social enterprises why they didn't apply.

Figure 29: Reasons for not applying for funding or finance

All issues mentioned by over 10% of respondents.



Of the most common reasons cited, several are internal to the enterprises themselves – timing, workload or finance simply not being needed. However, it is interesting to note some barriers here that could be addressed by relevant agencies in terms of support and outreach: according to the data, navigation, building confidence and skills, and addressing myths and fears (of rejection) are all more significant barriers than the cost of finance. Restrictions of legal form were a barrier for only 4% of this group.

Case Study COCKPIT ARTS

in brief

At Cockpit Arts we support extraordinary craftspeople making work in the UK. We are an award winning social enterprise providing the UK's only creative-business incubator for designer-makers. *"Fostering some of London's most exciting creative talent."* - Vogue.

What sector does your business operate in?

Office and business supplies.

How do you generate income?

We generate most of our income from subsidised fees paid by our designer-maker beneficiaries for our craft business incubation services. We also generate income from providing consultancy, private tours and venue hire.

Currently 90% of our income is self-generated from this model, with the remaining 10% from fundraising. In the future we aim to be 100% self-financing and generating surpluses, enabling us to do even more to further our social mission.

What sector/area does your organisation support

We support craft businesses, particularly people and businesses who are disadvantaged including unemployed young people and start-ups, as well as businesses whose crafts are in danger of dying out, such as musical instrument making, paper making and weaving.



Where do you work?

We have two London centres in Hoxton and Deptford, housing up to 170 craft businesses. We work with hundreds more nationally and internationally via our training and seminar programme, online resources and consultancy services.

What is your social mission?

Our mission is to support and promote talented designer-makers from all backgrounds through all stages of their career. We strive to raise standards in the contemporary craft and design sectors, making an important contribution to the UK cultural landscape and economy.

What's the back story?

Cockpit Arts was founded as a charity in 1993 to provide workspaces for craftspeople in need of inexpensive studios.

In 2005 the charity decided that it could help British craftspeople to become more successful and sustainable by providing intensive and tailored business support, and so transformed the organisation into a social enterprise that uses a business incubator model, aiming to become totally financially self-sufficient.

Following initial investment from a regional development agency, Deutsche Bank and Esmée Fairbairn Foundation, we were able to build our operation and develop the capacity for our beneficiaries to pay for services, simultaneously and to mutual positive advantage.

Ten years on, we are an award winning social enterprise and the UK's only creative business incubator, profiled nationally and internationally for our innovative and sustainable business model.



We house up to 170 small businesses at our two London centres where we provide on-site business incubation services delivered by an in house team. Services comprise a mix of workspace and studios, business coaching, workshops and seminars, access to finance, selling and promotional opportunities.

Around 90% of our income is self-generated from services provided to beneficiaries, using an incremental fee scale – those just starting out pay less and those most in need are exempt. Recycling of earned and grant income covers involvement with those most in need. There is also the opportunity for ambitious and growing businesses to access loan funding.

Our craft employment initiatives create new and permanent job openings and our partnership programme with The Prince's Trust for previously unemployed young people has had a 100% success rate for sustainable self-employment after two years of beneficiary support. We also support first time employers to take on apprentices.

Our craft businesses are not only more sustainable but more successful, reporting higher average turnovers and profit than comparable businesses in the rest of the UK.

What prompted you to join Social Enterprise UK?

We joined SEUK to be part of the social enterprise movement, promote our social enterprise business model and tap into specialist expertise within SEUK.

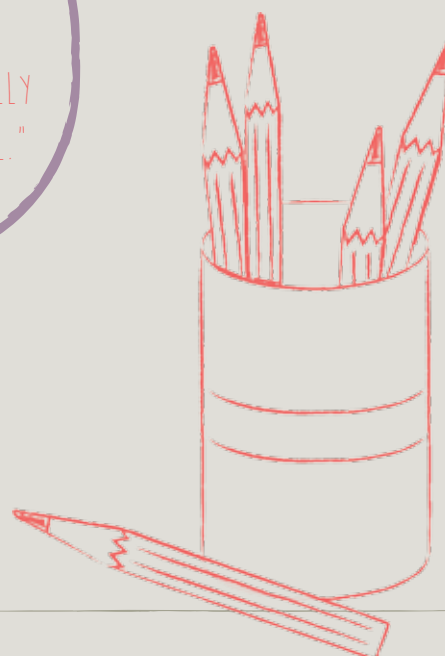
How has being a member of Social Enterprise UK benefitted your organisation?

- Raised our profile through being invited to participate in panel debates.
- One to one advice about future sustainability and scaling up via mixed funding model.

www.cockpitarts.com



"TEN YEARS ON, WE ARE AN AWARD WINNING SOCIAL ENTERPRISE AND THE UK'S ONLY CREATIVE BUSINESS INCUBATOR, PROFILED NATIONALLY AND INTERNATIONALLY FOR OUR INNOVATIVE AND SUSTAINABLE BUSINESS MODEL."



7.0 CONCLUSIONS AND RECOMMENDATIONS

This survey is the most detailed, representative and academically rigorous that SEUK has ever undertaken. It reveals a movement that is delivering on the promise of social enterprise: financially sustainable, creating jobs, tackling complex problems in the areas that need it most, and building a fairer world through how they operate. It also reveals a social enterprise movement which is changing in nature – the growing proportion of younger, smaller organisations makes it one of the most dynamic, fast-moving areas of business in the UK.

The performance of the sector revealed by the evidence is unquestionably impressive. Social enterprise is outperforming its mainstream SME counterparts in almost every key business metric: including turnover growth, start-up rates, diversity of leadership, innovation, workforce growth, and business optimism.

Nevertheless, there remain barriers to overcome, challenges to be faced and opportunities to be taken. To this end, we have identified **10 practical recommendations** emerging from the evidence of this survey – for local and national government, for support agencies, for social investors and for social enterprises themselves.

A changing sector

Policymakers, support organisations and financiers alike need to take stock of the changing make-up of the social enterprise sector. It is one with an ever-growing proportion of younger organisations, who have finance, skills and support requirements to help them sustain, grow and expand their work. We recommend:

1) Central government, particularly the Department for Business, Innovation and Skills, includes and provides **access for social enterprises in all mainstream business support programmes** to cater to the growing population. The same must apply to Local Enterprise Partnership initiatives.

2) Specialist social enterprise support agencies should focus their interventions on **approaches that cater to these much larger numbers** (eg. networks, online, peer-to-peer) and on the skill and support requirements of younger organisations becoming more established and mature.

Local insight

The data in this report reveals consistency in some areas across the UK, but also some stark differences and variations – for example in business optimism, start-up rates, and ability to access finance. Those seeking to support social enterprises most effectively should draw on this evidence, along with other sources, in order to focus their interventions. We recommend:

3) Local Enterprise Partnerships and other local government agencies should design programmes and create initiatives for social enterprise that **address areas where they are weaker relative to other localities**; this will help ensure maximum additionality and impact for the resources invested.

4) Social investors, support agencies, private sector programmes and government-backed initiatives alike must take a more **place-based approach to support** which is fit to the needs of the area, involves relevant stakeholders, and takes more account of local conditions and context.

Social investment

As well as responding to needs by size of organisation and local context, this report reveals a consistent picture of a demand for unsecured, smaller scale finance. Some policy initiatives are already responding to this, but with 40% of social enterprises seeking to attract investment in the coming year, more is needed. It should also be noted that barriers to seeking funding or finance are more about navigation, accessibility and confidence than the cost of capital or legal structures. We recommend:

5) Social investment intermediaries and market champions should **focus more on accessibility, navigation and confidence-building** with regards to social investment, at least as much as cost of capital. On this data, existing legal structures are not a significant barrier to social investment or to start-up rates.

6) There should be a continued focus from social investment intermediaries and government-supported programme on **smaller, simpler, unsecured social investment deals**: given the larger proportion of younger social enterprises, this trend is only set to continue.

Employment and skills

The evidence is compelling that social enterprise is a beacon of job creation and leadership for other sectors to learn from: more diverse, inclusive, accountable and representative than its mainstream business counterparts. Its significant job creation role should be of note to policymakers seeking to bring more and more people back into employment. Social

enterprises themselves do face barriers around recruiting talent and in certain skills areas, notably marketing, branding and PR, but also in operational business areas. Support programmes should respond to this picture. We recommend:

7) Local Enterprise Partnerships and economic development programmes must **include social enterprise as a key part of their employment and job creation plans**: for sustained employment which is growing, locally-rooted and by nature employs more of those furthest from the labour market.

8) Support bodies and learning programmes need to **focus less on the individual entrepreneur and more on technical skills areas and talent** areas in which social enterprises themselves say they are lacking – these could usefully focus on operations, technology and marketing and branding.

Public sector

The public sector is a hugely important market for social enterprise, and it has a substantive role to play in reform and transformation in the current climate. There are causes for concern, though: public sector trade is most significant for those in the most deprived areas, and there are early signs that these social enterprises are feeling the pressures of austerity.

9) SEUK should work with its members and partners, including social investment intermediaries and other support bodies, to **gather more regular data from the frontline** to identify individual cases and more general geographical or industry areas of concern.

10) Public sector spending needs to be as effective as possible, and **proper implementation of the Social Value Act** should support this: local and national government need to step up and grasp the opportunity the Act gives to transform and reform public services for the better.

Additionally, as public sector markets are squeezed, the whole social enterprise movement should focus on opening up, building and promoting markets in other sectors: from supply chains in the private sector to raising awareness with the general public; from international opportunities to buying social ourselves.

Published by Social Enterprise UK

We are the national body for social enterprise. Our members come from across the social enterprise movement – from local grassroots organisations to multi-million pound businesses, as well as the private and public sectors. Together with our members we are the voice for social enterprise. We believe that social enterprise is our best chance of creating a fairer world and protecting the planet.

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