

**SOCIAL  
ENTERPRISE  
UK**

State of  
Social  
Enterprise  
Survey  
2013

# THE PEOPLE'S BUSINESS



social enterprise:  
Elvis and Kresse

supported by



# Acknowledgements

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## Inspiring Enterprise

At the Royal Bank of Scotland Group, we are encouraging a more entrepreneurial culture. From the classroom to the boardroom, we are inspiring and enabling enterprise at every stage of the journey.

We know that starting and running a business can be both exciting and challenging. We understand that entrepreneurs and businesses need the right combination of support, advice and funding to succeed. That's why we provide a wide range of products and services for businesses of all shapes and sizes, in every sector of the economy.

We also know that people need help to explore the idea of enterprise, unlock their potential and gain the right skills, knowledge and networks before they can achieve their ambitions. This is what RBS Inspiring Enterprise is all about.

While we will always support entrepreneurs and businesses of all shapes and sizes, we are focusing additional efforts on three groups that could play a stronger role in the entrepreneurial economy, if given more support.

We have committed, by the end of 2015, to:

- Help 100,000 young people to explore enterprise, develop their skills and start up in business, whatever their background
- Inspire and enable 20,000 women to explore and unlock their enterprise potential
- Support 2,500 social enterprises, working in partnership with the sector to improve access to expertise, markets and finance

In summary, Inspiring Enterprise is how we encourage more people, in more communities, to explore enterprise, build their skills and, ultimately, to start up and succeed in business.

[www.rbs.com/inspiringenterprise](http://www.rbs.com/inspiringenterprise)



# Foreword



Social enterprise is a movement unified by a proposition: that we can change the world by changing the way we do business.

Social enterprises are businesses trading for social and environmental purposes. Rather than maximising private profit, their aim is to generate profit to further their social and environmental goals. They want to make the world – or at least their community – a better place.

In the present climate this might sound idealistic. Yet over the past few years, as tens of thousands of organisations up and down the country have made the promise of making social enterprise a reality, recognition has grown that we are onto something.

Policymakers are looking to social enterprise for new ways of delivering public services; entrepreneurs are putting their skills to work in their communities; consumers are keen to use their spending and saving to make the world a better place; and traditional charities are trading to survive and grow in the face of declining philanthropy.

The 2013 survey contains a snapshot of our sector at a crucial time, capturing how social enterprises are performing, the challenges they are facing and what helps and hinders them. It also continues to build our understanding of the significant economic and employment contribution made by social enterprises across the country.

It's essential to the health and growth of the sector that we build our understanding of what is happening on the ground. This is the purpose of the State of Social Enterprise survey, conducted every two years. I would like to thank the many hundreds of organisations and people who have taken part in this year's survey, as well as our sponsors, The Royal Bank of Scotland Group. Together, they have helped us understand what the next steps are for this growing movement at a critical time in its development.

**Claire Dove OBE DL**

Chair of Social Enterprise UK

# Foreword from our sponsor



We are delighted to be supporting this State of Social Enterprise Survey 2013 report as part of our long-standing partnership with Social Enterprise UK. RBS has been working with the social enterprise sector for more than 10 years, and it has been both fascinating and rewarding to have played a part in the development of the thriving sector we see today. This report shows impressive growth and optimism within the sector and highlights areas where social enterprise is role modelling the way to do business in the 21st century.

It is particularly striking to see the diversity of both the leadership and workforce of social enterprise. RBS has made diversity and inclusion

a priority with considerable success. But the comparisons between FTSE 100 companies, SMEs and the social enterprise sector are remarkable. This report shows that 38% of social enterprises are led by women, compared with just 3% of FTSE 100 companies and 19% of SMEs. What's more, 91% of social enterprises have at least one woman on the leadership team (vs 51% SMEs) and 28% have at least one member of the leadership team from a Black and Minority Ethnic background (vs 12% SMEs). It seems that the sector is not just changing the way we do business but also changing *who* does business.

One thing that is common to all businesses is the need for access to affordable finance. In this report, 39% of respondents cited access to finance as the single largest barrier to their growth and sustainability. While the majority are looking for grants rather than loans (89% vs 20%), we are committed to helping more social enterprises get access to the finance they need. That is why we recently scaled up the RBS Group Microfinance Funds (MFF). The MFF is an independent charity, closely connected to RBS, that lends directly to the social enterprise sector. In 2012 it approved over £3 million of loans to social enterprises and we hope to see this grow. Through the MFF and our support for a number of organisations – including the Community Development Finance Association, Big Society Capital, Social Enterprise UK and the upcoming EngagedX index – RBS is making a significant contribution to the fast-evolving social investment landscape and we are enthusiastic about its future.

This report shows a thriving sector that is really beginning to make its mark. Through **Inspiring Enterprise**, RBS has committed to help 2,500 social enterprises, working in partnership with the sector to improve access to expertise, markets and finance by the end of 2015. We hope our contribution will encourage further success and growth for the nation's social enterprises.

## Chris Sullivan

Chief Executive Officer  
Corporate Banking Division  
Royal Bank of Scotland Group



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# Executive summary

This report presents the findings of the State of Social Enterprise Survey 2013 – the largest survey of social enterprises in the UK. Its results are taken from 878 telephone and online interviews with senior figures in social enterprises.

## Background and context

The social enterprise sector is growing. Recent government estimates suggest there are 70,000<sup>1</sup> social enterprises in the UK, employing around a million people<sup>2</sup>. The sector's contribution to the economy has been valued at over £24 billion<sup>3</sup>. The UK is a pioneer when it comes to social enterprise and the social investment that helps finance it, attracting the interest of international practitioners and policymakers alike. The social enterprise sector's economic and social contribution is also increasingly recognised by government, business and individuals alike – from the Treasury's announcement of a tax incentive for investment into social enterprise to the increased procurement of social enterprise in private sector supply chains.

## Our summary of the survey findings

The social enterprise sector in the UK is thriving, with a huge proportion of start-ups and high expectations of growth. Social enterprises are attracting more female leaders and more leaders from Black, Asian and Minority Ethnic communities than mainstream businesses.

Common indicators of business success – growth, optimism and innovation – are very healthy among social enterprises compared with mainstream businesses. Social enterprises are more likely than SMEs (small and medium-sized enterprises) to report that their turnover has grown in the last year.

The sector is not, of course, immune to the country's economic problems. These survey results show an overall reduction in the sector's median turnover in the last two years.

One important barrier to growth and sustainability that is commonly cited by social enterprises is public procurement policy: in this year's survey, the number of social enterprises citing it as a principal barrier has increased markedly.

Overall, we believe that the main thing to be interpreted from our survey is that the UK's considerable social enterprise sector is likely to swell in size. In our last survey two years ago, we identified a start-up explosion. Since then, we have seen the proportion of start-ups increase even more dramatically.

We believe that this is partly generational, related to young people's attitudes to business and civic duty<sup>4</sup>; partly driven by the economic decline, as start-ups traditionally increase during a recession; and partly due to a shift in the plates of the UK economy – as the traditional boundaries between private, public and voluntary sectors blur. And blur they must, if the UK is to be as innovative and resilient as it must be to meet the challenges ahead.

## Key findings

- The proportion of start-ups in the social enterprise sector is extraordinary. Close to a third of all social enterprises are three years old or younger, with three times the start-up proportion of traditional SMEs. This is a trend that has increased since our 2011 survey.
- Start-ups are three times more likely than older social enterprises to be operating in healthcare (15% vs 5%), twice as likely to be operating in social care (16% vs 8%) and more likely to be operating in education (23% vs 14%).
- Social enterprises are very heavily concentrated in the UK's most deprived communities. 38% of all social enterprises work in the most deprived 20% of communities in the UK, compared with 12% of traditional SMEs.
- Social enterprises are far more likely to be led by women than mainstream businesses. 38% of social enterprises have a female leader, compared with 19% of SMEs and 3% of FTSE 100 companies. 91% of social enterprises have at least one woman on their leadership team. 49% of mainstream SMEs have all-male directors.
- 56% of social enterprises developed a new product or service in the last 12 months compared with 43% of SMEs. New product or service development is often used as a proxy-indicator of business innovation.
- 15% of social enterprise leaders are from Black, Asian and Minority Ethnic (BAME) communities. 28% of social enterprise leadership teams have BAME directors. Only 11% of SMEs report having directors from a BAME background<sup>5</sup>.
- Business optimism has improved since our 2011 survey, with 63% of respondents expecting their turnover to increase in the next two to three years – compared with 57% two years ago. Only 37% of SMEs expect their turnover to grow.
- 11% of social enterprises export or licence abroad – and the newer start-up social enterprises are more likely to export than established social enterprises.
- 38% of social enterprises saw an increase in turnover compared with 29% of SMEs<sup>6</sup>, in the last year. This means that proportionally, almost a third more social enterprises grew based on turnover last year than SMEs.
- 22% of social enterprises experienced a decrease in turnover in the last year compared with 31% of SMEs.
- Our 2011 survey called for decisive action over concerns at 25% of social enterprises that worked mainly with the public sector citing procurement policy as a principal barrier to their sustainability. In 2013, that figure stands at 34%.
- The most common (32%) main source of income for social enterprises is trade with the general public. Close to half of all social enterprises now trade with the private sector too.
- The proportion of social enterprises that trade with the public sector is increasing – and especially among social enterprise start-ups. Over half (52%) of social enterprises do some trade with the public sector – twice the proportion of SMEs (26%).
- 48% of social enterprises sought to raise external finance in the past 12 months (from a range of options including grants, loans, overdrafts and equity), twice the proportion of SMEs; 39% cited access to finance as the single largest barrier to their growth and sustainability – the most common barrier experienced.
- The median amount of finance sought by social enterprise was £58,000 – below the minimum thresholds of many specialist social investment vehicles.

1 Government estimate for 'very good fit definition' social enterprises from BMG Research, *Social Enterprise: Market Trends*, Cabinet Office (May 2013) and based on the BIS Small Business Survey 2012.

2 973,700 according to BMG Research, *Social Enterprise: Market Trends*, Cabinet Office (May 2013).

3 Government gross value added (GVA) estimate derived from: *Annual Small Business Survey 2005*, Department of Trade and Industry (DTI); *The Annual Survey of Small Businesses' Opinions 2006/07* (ASBS 2006/07), Department for Business Enterprise and Regulatory Reform (BERR) (February 2008); *Annual Small Business Survey 2007/08*, BERR (2009); and the *Annual Business Inquiry 2008*, Office for National Statistics (ONS) (2010). DTI and BERR are now known as the Department for Business, Innovation and Skills (BIS).

4 "Young people are more likely than the general population to want to start up a social enterprise (27% compared to 20%), and more likely to consider supporting social causes (70% to 63%)"; Populus, *RBS Enterprise Tracker*, in association with UnLtd, (2nd quarter 2013).

5 BMG Research, *Small Business Survey 2012: SME Employers – Data Tables*, Department for Business, Innovation & Skills, (March 2013). Available at [www.gov.uk/government/publications/small-business-survey-2012-sme-employers](http://www.gov.uk/government/publications/small-business-survey-2012-sme-employers).

6 Ibid.

# 1.0

## Introduction

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This report presents the findings of the State of Social Enterprise Survey 2013 – the largest survey of social enterprises in the UK.

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. When they profit, society profits.

The 2011 survey revealed a detailed picture of social enterprises – showing that, contrary to popular belief, most social enterprises traded with the general public, not the public sector. The survey showed that the public sector was important, but the potential social enterprise revolution in public service delivery was yet to arrive – often hampered by poor commissioning. The 2011 survey also showed that social enterprise was attracting an ever-greater proportion of start-ups, and that they had leadership teams that closely reflected the communities they worked in. The 2013 survey explores the extent to which these findings are maintained or have changed or developed over time.

In the two years since the last social enterprise survey in 2011, there have been a number of significant developments in the sector. 2012 saw the launch of Big Society Capital (BSC), established to develop and shape a sustainable social investment market in the UK. BSC aims to give organisations tackling major

social issues access to new sources of finance to help them thrive and grow. Also in 2012, the Public Services (Social Value) Act received Royal Assent – it is a new law calling for all public sector commissioning to factor in social value.

This changed landscape provides the context for the 2013 survey, as does a challenging economic climate and a public service delivery environment characterised by both austerity and reform. The survey will explore:

**The scale and scope of social enterprise:** How well established are social enterprises and what is the proportion of new start-ups, what is the scale of their turnovers, their geographical reach and what are the types of community in which they work and the economic sectors in which they trade?

**Social enterprises in their markets:** 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.

**Inside social enterprise:** How social enterprises work, who are the social enterprise leaders, where they come from and what their teams are like, what their social and environmental objectives are – and what they do in pursuit of those objectives.

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

# 2.0

## Methodology

The State of Social Enterprise Survey 2013 was commissioned by Social Enterprise UK, in association with the RBS Group. 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 878 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 members of Social Enterprise UK and members of related social enterprise networks and organisations. The sample frame was further enhanced by other relevant organisations contacting their membership and encouraging them to participate in the survey.

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

- Telephone interviews of a random sample of potential research targets (650 completed responses). This phase was conducted during February 2013.

- Inviting potential respondents to participate in an online survey via email (228 completed responses). This phase included responses from those organisations contacted by their membership body and encouraged to respond. The online survey was conducted during March 2013.

A two-step filter was applied because the networks from which data was obtained were very diverse. These networks included a wide variety of organisational forms, legal forms<sup>7</sup> and objectives. 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<sup>8</sup>.
- Generated 26% or more of their income from trading activities.

### 2.2 Sample characteristics

The sample sources were similar to those used in 2011 to ensure that the datasets are broadly comparable. In fact, the diversity of this sample is greater than in 2011, providing confidence that the survey represents a fair proxy of views and positions of social enterprises in the UK. Where differences in the sample frame may have affected any notable changes in comparisons between the 2013 and 2011 findings, this is indicated in the report.

### 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%.

Comparisons with findings from other relevant surveys have been made under full acknowledgment that underlying caveats<sup>9</sup> exist making exact like-for-like comparisons very difficult; any comparisons are therefore made in the broad sense. Measures have also been applied to ensure that comparisons are as commensurate as possible, notably, where social enterprises are compared with SMEs in the Small Business Survey<sup>10</sup>, the data has been amended to match the essential characteristic of the SMEs (i.e. organisations employing fewer than 250 but excluding organisations with zero employees). This accounts for instances where two different figures for the same finding is presented in the report.

<sup>7</sup> For a breakdown of legal forms represented in the sample, see Annex A.

<sup>8</sup> They agreed that their business has 'primarily social objectives whose surpluses are principally reinvested for that purpose in the business or community, rather than being driven by the need to maximise profit for shareholders and owners'.

<sup>9</sup> Caveats owing to a full range of differences between the surveys, including (but not exhaustive to): methodology, sampling, sector characteristics and objectives.

<sup>10</sup> BMG Research, *Small Business Survey 2012: SME Employers*, commissioned by the Department for Business, Innovation & Skills, (March 2013). Available at [www.gov.uk/government/publications/small-business-survey-2012-sme-employers](http://www.gov.uk/government/publications/small-business-survey-2012-sme-employers). This version of the report excluded findings for small and medium enterprises (SMEs) with zero employees.

# 3.0

## The scale and scope of social enterprise

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### Key findings

**The future is social:** Close to a third of all social enterprises are three years old or younger, with three times the proportion of start-ups than the SME sector – a trend that has increased since the 2011 survey. The social enterprise sector is a real success story for business formation and is attracting new entrepreneurs at an increasing rate.

**It's tough out there:** Social enterprises are not immune to the economic headwinds affecting equivalent SMEs, with median turnover in this year's survey dropping from £240,000 in 2011 to £187,000.

**Social enterprises are exporters:** 11% of social enterprises export or licence abroad – and the newer start-up social enterprises are more likely to export than established social enterprises.

**Social enterprises are concentrated in our most deprived communities:** 38% of all social enterprises work in the most deprived 20% of communities in the UK. The more deprived the community, the more likely you will find a social enterprise working there.

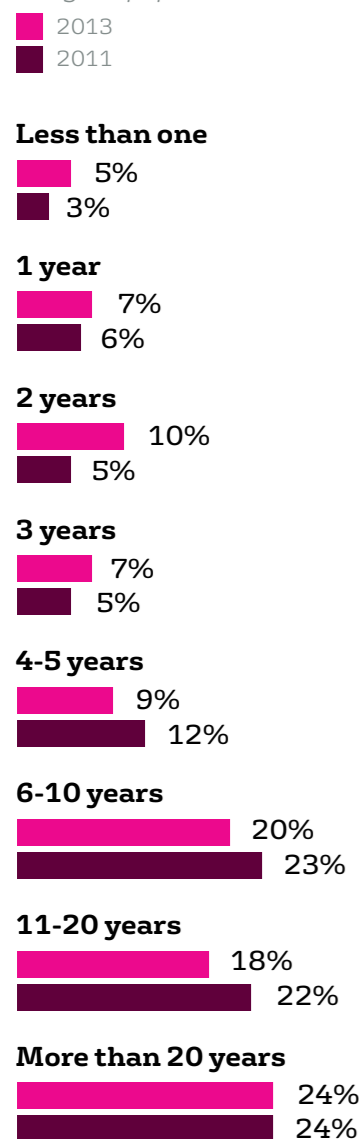
**Start-ups delivering for society:** Start-ups are three times as likely as older social enterprises to be operating in healthcare (15% vs 5%), twice as likely to be operating in social care (16% vs 8%) and more likely to be operating in education (23% vs 14%).

### 3.1 Introduction

This section explores the results from the survey that cover how well established social enterprises are, the proportion of start-ups, the scale of their turnovers, their geographical reach, the types of community in which they work and the economic sectors in which they trade.

**Figure 1a: Length of operation: Comparison of findings from 2013 and 2011**

Length of operation

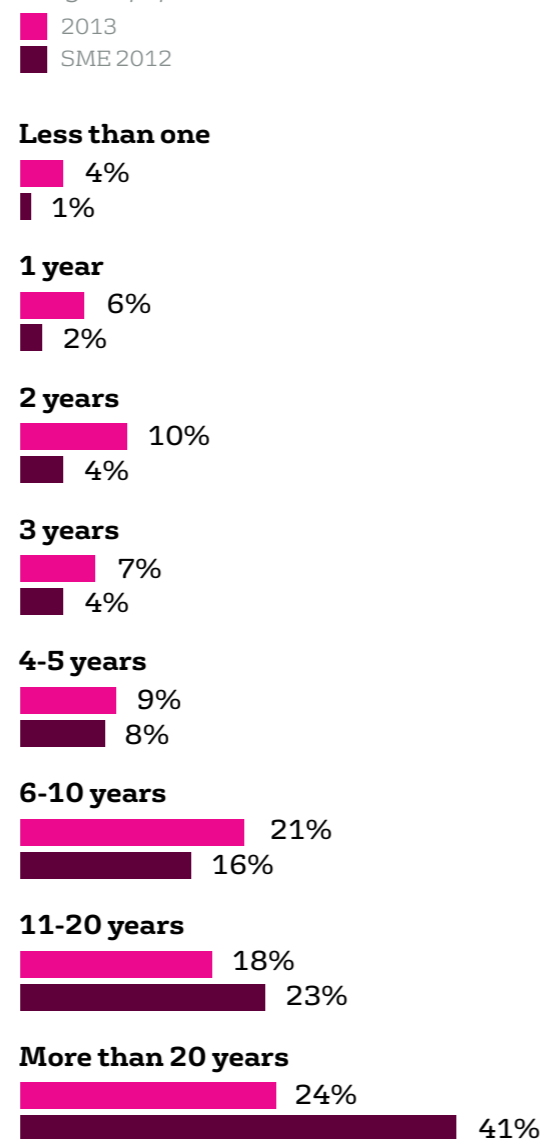


### 3.2 How well established are social enterprises?

The 2009 and 2011 social enterprise surveys both discovered a core of well-established social enterprises and a growing proportion of start-up social enterprises. The 2013 survey reveals that this pattern has continued.

**Figure 1b: Length of operation: Social enterprises compared with SMEs**

Length of operation



As Figure 1a demonstrates, the survey results show a dramatic increase<sup>11</sup> in the proportion of start-ups, with 29% of all social enterprises trading for three years or less – compared with 19% in the 2011 survey. When this start-up figure is amended<sup>12</sup> to be comparable to SMEs (27%) it is well over twice the proportion of start-up small and medium sized enterprises (SMEs) reported in the most recent 2012 Small Business Survey<sup>13</sup> (11%).

There remains a stable cohort of established social enterprises, with a quarter (24%) of social enterprises over 20 years old – the same figure as in 2011. However, the proportion of maturing social enterprises – those trading between 6 and 10 years and 11 and 20 years – has dropped compared with the last survey, from 23% to 20% and 22% to 18% respectively. The higher proportion of start-ups found in this sample may partially explain this decrease in the proportion of maturing social enterprises – a reflection of a change in the social enterprise population.

That close to a quarter (22%) of the social enterprises in this survey had yet to be founded at the time of the 2011 survey arguably shows a dynamic sector that is attracting entrepreneurs – particularly when compared with the proportion of start-ups amongst mainstream SMEs (as shown in Figure 1b).

### 3.3 How big are social enterprises?

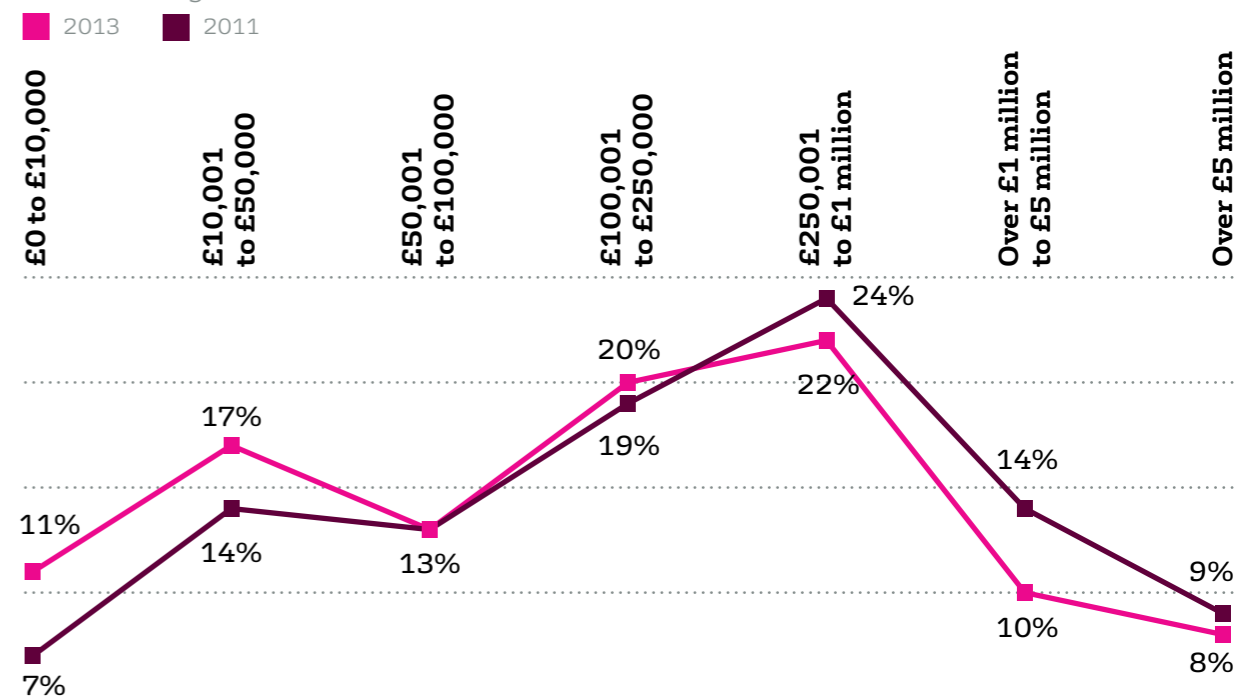
Respondents were asked to state their turnover for the most recent financial year (2011/12). It shows that social enterprises have a very broad range of turnovers, from 11% turning over less than £10,000 to 8% turning over more than £5 million per year. It shows that there is a cohort of social enterprises operating at scale, but the majority are operating at small or micro business levels.

Figure 2 presents the percentage of social enterprises at different levels of turnover, comparing the results of the current 2013 survey with 2011. It demonstrates that over the past two years, there has been a marked increase in the proportion of social enterprises with turnovers of £50,000 or less, and a decrease in the proportion of social enterprises with turnovers in the £1m – £5m range. This is perhaps unsurprising when the high proportion of start-ups is taken into account.

The data shows that turnover is indeed associated with business age. Half (48%) of those turning over up to £10,000 were up to two years old. Four in five (81%) of those turning over £1 million or more have been in operation for six years or more.

**Figure 2: Turnovers of social enterprises<sup>14</sup>**

Turnover range



11 This increase in start-ups may partially be explained by a slightly higher proportion of start-ups in the sample frame, however, this alone would not account for the significant increase since 2011.

12 See section on reporting in the methodology chapter of this report.

13 BMG Research, *Small Business Survey 2012: SME Employers*, commissioned by the Department for Business, Innovation & Skills, (March 2013). Available at [www.gov.uk/government/publications/small-business-survey-2012-sme-employers](http://www.gov.uk/government/publications/small-business-survey-2012-sme-employers).

14 Figures based on all respondents that gave an absolute figure.



The median<sup>15</sup> turnover of social enterprises has decreased since the 2011 survey, from £240,000 in 2011 to £187,000. Figure 3 shows that this decline is replicated across the age-ranges of social enterprises. This suggests that the decline is based on factors common to all, such as a challenging economic environment, not simply because of the larger cohort of start-ups in 2013.

This picture is reinforced when one considers the experience of SMEs. Social enterprises are not alone in seeing turnover decline. The mean<sup>16</sup> turnover of SMEs also fell by 11% during a comparable period<sup>17</sup>.

### 3.4 Are social enterprises growing?

The findings show that 32% of social enterprises increased their turnover in the past 12 months, 18% experienced a decrease in turnover and 29% stayed the same<sup>18</sup>. This is a less robust performance than the 2011 survey, where 41% of social enterprises reported growth and 14% reported a decrease in turnover. However, when compared with SMEs, 38% of social enterprises saw an increase in turnover compared with 29% of SMEs<sup>19</sup>, and 22% of social enterprises experienced a decrease compared with

31% of SMEs. This means that, proportionally, almost a third more social enterprises grew based on turnover last year when compared with SMEs.

Increase in turnover closely corresponds with scale. Half (50%) of all organisations turning over £1 million reported revenue growth. However, mid-sized social enterprises turning over between £250,000 and £1 million, have found conditions much harder. They are almost as likely to report a decrease (29%) as an increase (32%).

compared with established social enterprises; 16% of more recent start-ups reported trading internationally, compared with 7% of more established social enterprises (trading for more than 11 years).

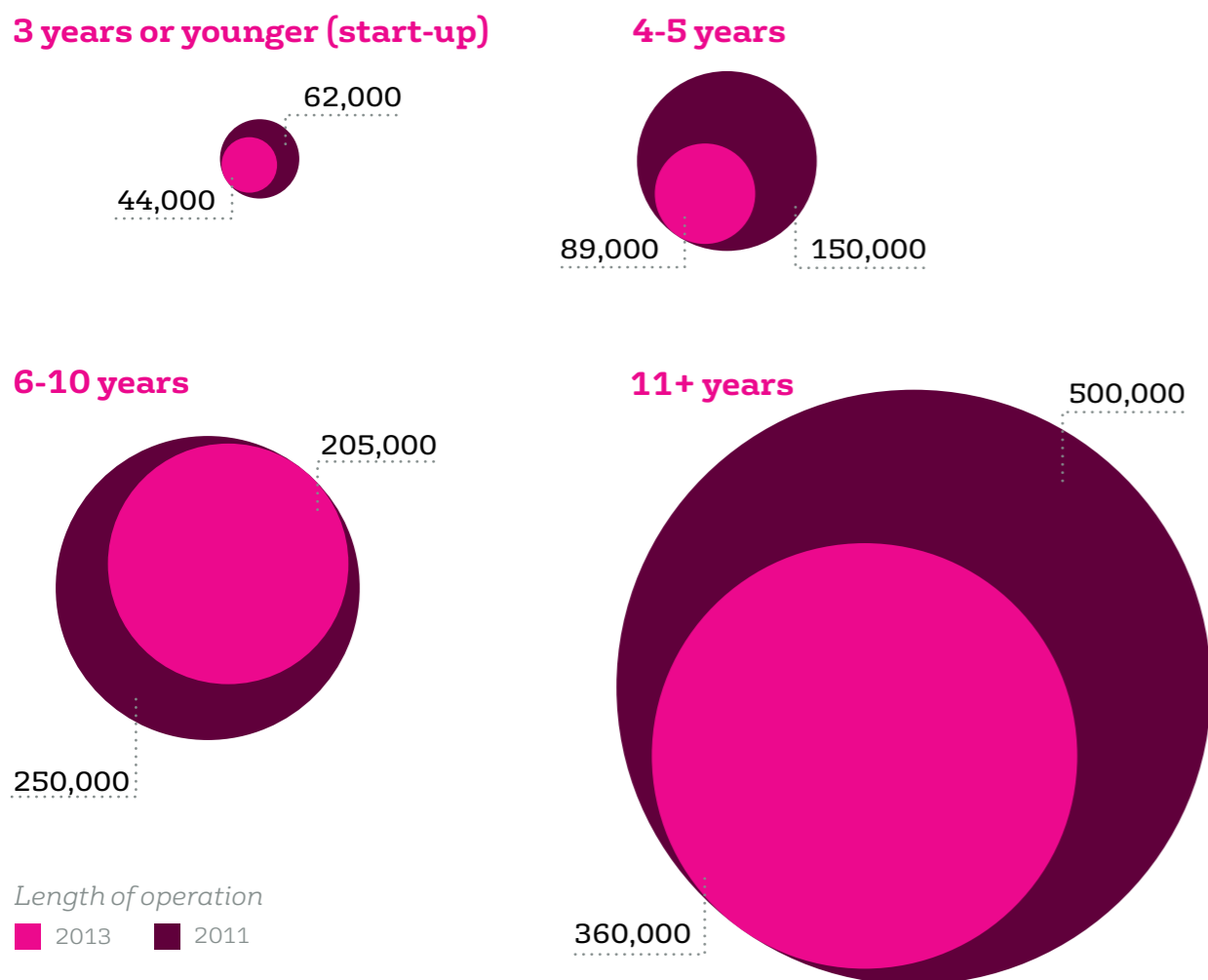
### 3.6 Social enterprises on the frontline

The survey collected location data for most respondents and matched that with the Index of Multiple Deprivation (IMD) rankings<sup>20</sup>.

The 2011 survey showed that social enterprises were most strongly concentrated in the areas of highest deprivation. The 2013 survey findings establish that this trend has indeed continued with 38% of social enterprises working in the most deprived areas (band 1<sup>21</sup>) in the UK compared with the 39% of social enterprises in 2011. The comparative findings for the rest of the bands are also similar, with 43% of social enterprises working in band 2 and band 3 combined, compared with 41% in 2011, and 19% working in band 4 and band 5 combined, compared with 20% in 2011.

Figure 4 clearly demonstrates that social enterprises continue to have their highest concentration in the areas of the greatest deprivation – three times the proportion of SMEs (12%) – creating jobs and contributing to the economy where it is needed the most.

Figure 3: Median turnover of social enterprises by length of operation



Length of operation  
 ■ 2013 ■ 2011

15 Median = the central value in the distribution. The median is used instead of the mean average as the data is asymmetrically distributed (the turnovers of several very large social enterprises distort the result).  
 16 The Small Business Survey does not present the median figure, making an explicit comparison impossible.  
 17 BMG Research, *Small Business Survey 2012: SME Employers*, Department for Business, Innovation & Skills (March 2013).  
 18 The remaining organisations did not provide sufficient information for the change in turnover/income to be calculated.  
 19 BMG Research, *Small Business Survey 2012: SME Employers*, Department for Business, Innovation & Skills (March 2013).

### 3.5 The reach of social enterprises

As in previous years, the survey sought to establish the geographical reach of social enterprises – whether they operate at local, regional or national scales. Similar to 2011 findings, the majority of organisations work very locally. In the 2013 survey, 23% state that they work in their community, 15% state that they work within one local authority area and 15% say they work in several local authority areas. 21% of social enterprises operate on a national scale which is similar to 2011 findings of 19%.

In addition, the survey revealed that slightly more than one in ten (11%) of the organisations surveyed export goods or services – or license their product – outside the UK. Interestingly, start-ups are more than twice as likely to export when

Figure 4: Where social enterprises work: by level of deprivation compared to SMEs<sup>22</sup>

Band	1	2	3	4	5
Social enterprises <sup>23</sup>	38%	26%	14%	9%	7%
SMEs	12%	19%	21%	26%	22%

Most deprived ← → Least deprived

20 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.  
 21 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 1) to the least deprived 20% of communities in the UK (band 5).  
 22 Data derived from BMG Research, *Small Business Survey 2012: SME Employers*, Department for Business, Innovation & Skills (March 2013), by Third Sector Research Centre, Middlesex University.  
 23 6% of social enterprises surveyed were unable to be classified within IMD quintiles.

### 3.7 What sectors do social enterprises operate in?

The survey also sought to establish the business sectors that social enterprises operate in, asking respondents about their principal trading activity. The results reveal the diversity of the sector with social enterprises in a wide range of industries including brewing, security, construction, abattoirs, nautical safety and grain storage. The data does show, however, that social enterprises are concentrated in certain industries – particularly service industries – as shown in Figure 5, with business support (16%), education (16%), employment and skills (14%) and housing (13%) the most frequently cited.

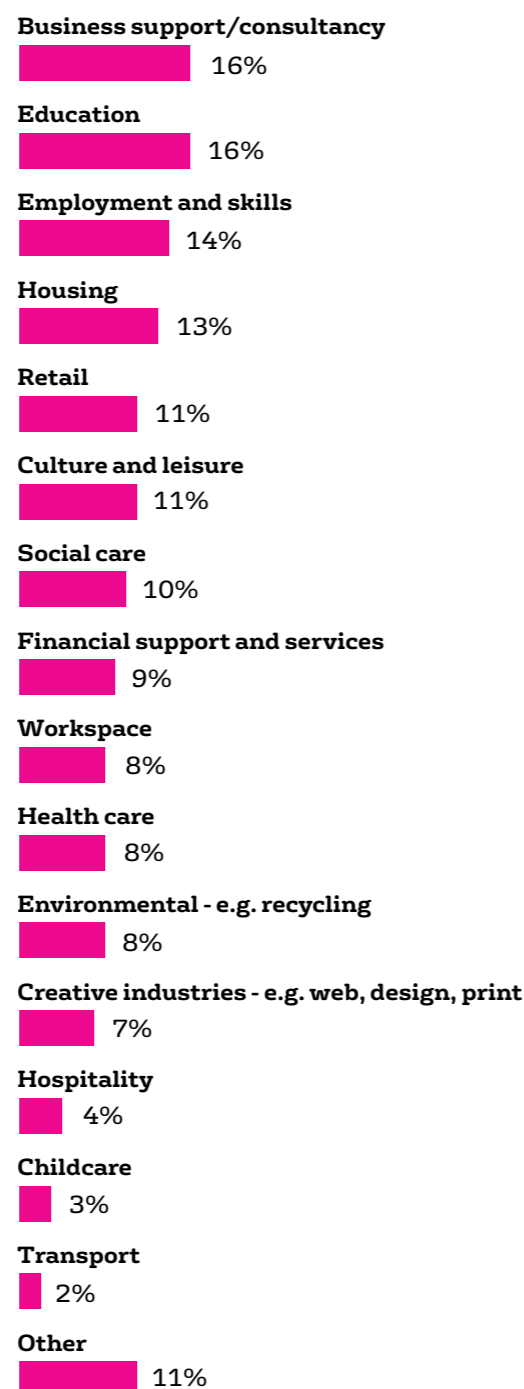
Social enterprises that have been trading for three years or less are three times as likely as older social enterprises to be operating in healthcare (15% vs 5%), twice as likely to be operating in social care (16% vs 8%) and more likely to be operating in education (23% vs 14%). It could be that this is due to new entrants responding to opportunities found in government agendas, such as health service reform and localism, or it may be that these are simply areas where there are significant social challenges to tackle.

Perhaps understandably, the proportion of social enterprises in the retail sector decreases, largely, with increasing deprivation. In the least deprived communities, 17% of social enterprises operate in retail, a figure that drops to 6% in the most deprived.

This pattern is reversed for social enterprises that provide financial support and services. 15% of social enterprises in the most deprived communities operate in this sector – a level that decreases in line with deprivation, with no social enterprises sampled from the least deprived communities working in this sector.

Taken together, the pattern of trading activities arguably shows evidence of social enterprises responding to market signals: whether they are initiated/precipitated by government, local community conditions, or individual customers. They are adapting for financial sustainability in their business environments, much as mainstream businesses would adapt.

Figure 5: Principal trading activity



\*Respondents could select more than one activity

### Case study: Elvis and Kresse

*Exporting its lifestyle accessories around the world.*

Elvis & Kresse, a multi-award winning British luxury brand, creates stunning lifestyle accessories by re-engineering seemingly useless waste. The raw material for their principal range is genuine de-commissioned British fire brigade hoses, which after a distinguished career fighting fires and saving lives were otherwise destined for landfill. 50% of profits from Elvis & Kresse's fire-hose line are donated to the Fire Fighters Charity.

Elvis & Kresse have been working with British waste since 2005. More than 10 waste streams are used to create their range of bags, belts and wallets. They are constantly searching for more materials to reclaim and have saved over 200 tonnes from landfill so far. Elvis & Kresse focus on classic, timeless design and quality craftsmanship, which means their accessories are made to last for as long as the materials they reclaim.

Elvis & Kresse export their accessories around the world, with products stocked in more than 15 countries, including the USA, Australia, Switzerland, Italy and Norway.

The enterprising duo behind this incredibly successful social enterprise – James (Elvis) from the UK and Kresse, a politics graduate from Canada, show no sign of slowing down. They dream of a time without landfill, when everything is recycled or composted.

<http://elvisandkresse.com>  
@elvisandkresse





**Exporting  
accessories  
made from  
waste  
materials.**

# 4.0

## Social enterprises in their markets

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### Key findings

**This is not charity:** Social enterprises earn their money through trade – with 72% of social enterprises earning between 76% and 100% of their revenue in their marketplaces.

**The general public and private sector are buying social too:** The main discussions in public policy have been about social enterprise delivery of public services. However, the most common (32%) main source of income for social enterprises is in fact trade with the general public. Close to half of all social enterprises now trade with the private sector too.

**The public sector is attracting start-ups:** The proportion of social enterprises that trade with the public sector is increasing – and attracting a higher proportion of social enterprise start-ups. More than half (52%) of social enterprises do some trade with the public sector – this is twice the proportion of SMEs (26%) that trade with the public sector.

**The challenge of scale:** The larger you are as a social enterprise, the more likely it is you'll have the public sector as your main source of income. More must be done to unlock trade with the public sector for smaller social enterprises.

**The rise of the sound pound:** We are seeing an emerging network of trade, one based on values as much as value. There has been a sharp increase in the amount of trade with third sector organisations and between social enterprises themselves – choosing to 'buy social' by including other social enterprises in their supply chain as a way of maximising their own social impact.

**Out innovating the private sector:** 56% of social enterprises developed a new product or service in the last 12 months compared with 43% of SMEs.

### 4.1 Introduction

Social enterprises have a social or environmental mission at the heart of what they do, but they are profoundly unlike traditional charities – social enterprises earn their money through trade, just like regular enterprises. The best way to be a high-impact social enterprise is to be an effective business.

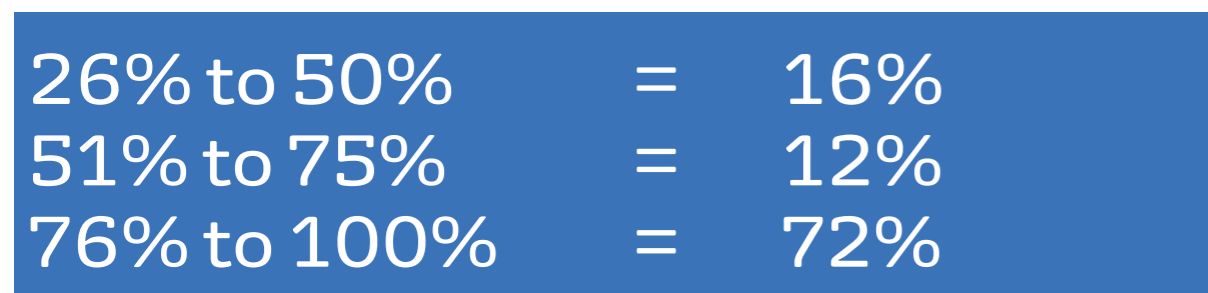
This section sets out how social enterprises are performing as businesses in their chosen markets. It presents the findings from our survey that explore where their income comes from, who they are trading with and whether they are growing, profitable and optimistic for the future.

### 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 results are shown in Figure 6.

With 72% of respondents earning between 76% and 100% of their income through trade, it is clear that social enterprises are different from most traditional voluntary and community organisations with which they are sometimes confused or conflated – even if they do share similar values and objectives.

**Figure 6: Proportion of income earned through trade**



## The best way to be a high-impact social enterprise is to be an effective business.

### 4.3 Who do social enterprises trade with?

If social enterprises earn their money through trade, then who do they trade with? Our survey asked respondents to identify both their main (or only) source of income, as shown in Figure 7, and also any other sources of income that they had received over the past 12 months.

The majority of social enterprises have diverse income streams and rarely restrict themselves to one type of customer – the findings revealed that three quarters of all social enterprises (75%) pursue more than one source.

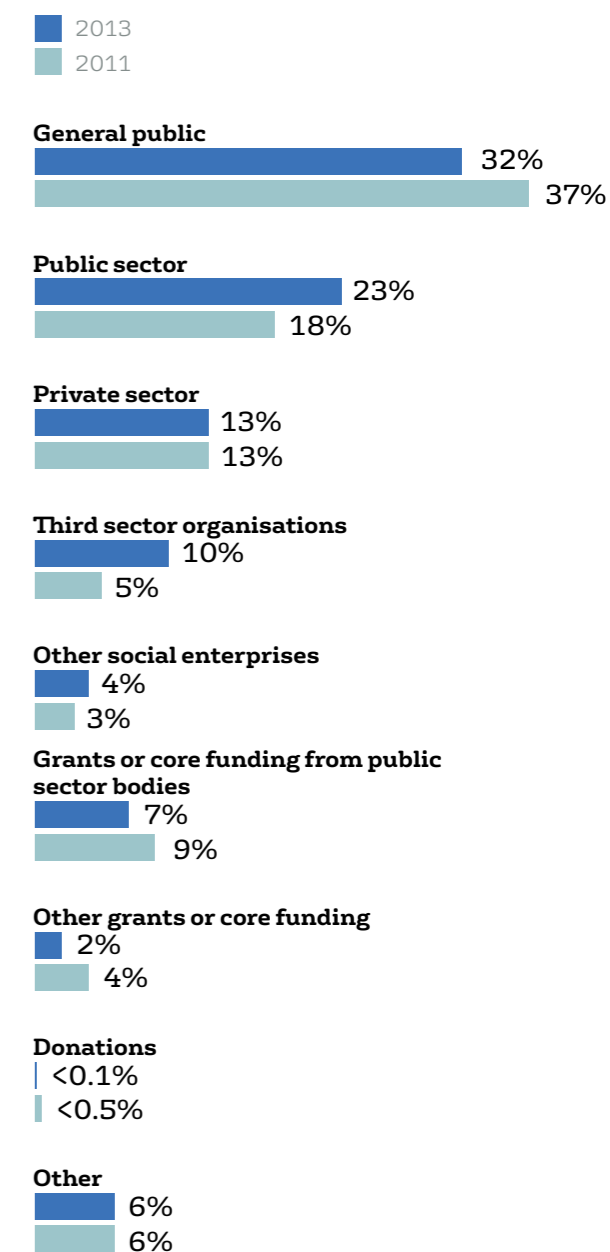
**Trade with the general public:** As discovered in the 2011 survey, the most common source of income for social enterprises is trade with the general public – both as a source of income (63%) and as a main source of income (32%). Trading with the general public as the main source of income broadly increases as deprivation decreases. 26% of social enterprises in the most deprived communities earn income in this way. This rises to 42% of respondents in the least deprived.

The finding that social enterprises' continued main source of income is from trading with the general public remains an important reminder about the real breadth of sectors and work that social enterprises engage in. The current public policy focus on social enterprises as contractors to the state may be misinterpreted as suggesting that the delivery of public services is the mainstay of social enterprises.

**Trade with the public sector:** Whilst the public sector is not the largest source of income for social enterprises, it is both significant and growing. More than half (52%) of social enterprises trade with the public sector – this is twice the proportion of SMEs (26%)<sup>24</sup>.

For 23% of social enterprises, trade with the public sector is their main source of income – an increase from the 2011 survey of 18%. This increase is arguably influenced by the drive in public policy for social enterprises to engage in public service delivery. Indeed, start-ups are marginally more likely than older social enterprises to cite the public sector as their main source of income (25% vs 22%).

**Figure 7: Main or only source of income: 2013 compared with 2011 survey**



24 BMG Research, *Small Business Survey 2012: SME Employers*, Department for Business, Innovation & Skills (March 2013).

Trade with the public sector as a social enterprise's main source of income is directly related to the size of the social enterprise, as shown in Figure 8. The largest social enterprises, those with turnovers of over £1 million, are nearly four times as likely (39%) as the smallest social enterprises, with turnovers of less than £10,000 (11%), to cite the public sector as their main source of income. This is broadly comparable to the SME experience where larger organisations are very much more likely to bid for public sector work<sup>25</sup>.

**Trade with the private sector:** The proportion of social enterprises whose main source of income is trade with the private sector has remained stable since the last survey at 13%. In contrast, the proportion of social enterprises that do business with the private sector has increased from 44% to 49%. Close to half of all social enterprises now trade with the private sector. This arguably demonstrates both the potential and growing awareness in the private sector of including social enterprises in their supply chains.

This small increase in social enterprises trading with the private sector, alongside the significant rise in trading with other social enterprises and charities more widely (see below), seems to

indicate that initiatives such as Social Enterprise UK's 'Buy Social' campaign are starting to have an impact on the ground. The substantial increase in social enterprises actively using their social enterprise status in their marketing might also support this.

**Marketing social enterprise:**

The survey asked social enterprises the extent to which they used their social enterprise status in their marketing. Nearly 8 out of 10 (78%) do so to a greater, (36%) or lesser (42%) extent. This is a marked increase from 2011 where only 53% of social enterprises actively promoted themselves as such. This increase and the finding that start-ups trading for less than three years are more likely (88%) than older social enterprises to communicate their identity - arguably describes a sector increasingly confident in the social enterprise brand.

**Figure 8:** Turnover, by percentage of social enterprises with public sector as main source of income

Turnover range	% of social enterprises
£0 to £10,000	11%
£10,001 to £50,000	15%
£50,001 to £100,000	19%
£100,001 to £250,000	20%
£250,001 to £1 million	28%
Over £1 million to £5 million	39%

<sup>25</sup> Small Business Survey 2012 found that larger SMEs were more likely to have made a bid for public sector contracts. It found that 8% of micros, 17% of small businesses and 23% of medium-sized businesses had made a bid.

## Case study: Hoxton Street Monster Supplies

*On the high street, trading with the general public to deliver on its social mission.*



In one of East London's less advantaged areas there's a shop. No big deal you might think. But behind the everyday facade of Hoxton Street Monster Supplies is the Ministry of Stories.

Opened in November 2010 by co-founders author Nick Hornby, Lucy Macnab and Ben Payne, the Ministry of Stories aims to inspire a nation of storytellers. The social enterprise, the first of its kind in the UK, provides creative writing programmes and one-to-one mentoring for young people, while income generated from the selling of products in the shop - from fang floss to tins of terror - helps the organisation to deliver on its social mission.



In its first year, the Ministry of Stories worked with more than 3,000 young people. The team partners closely with schools, supporting the work of teachers, but also provides mentoring to help children who need support with language skills, communication, social and educational confidence.

In recognition of the organisation's success in using creative writing to help improve the literacy of local children, a group of primary school children from Hackney - who attend after school writing clubs at the Ministry of Stories - were recently invited to 10 Downing Street to host a fictional 'cabinet meeting.'

[www.ministryofstories.org](http://www.ministryofstories.org)  
[www.monstersupplies.org](http://www.monstersupplies.org)  
 @Mini\_Stories  
 @monstersupplies



**GREEN  
WOBBLY  
THINGS  
DANCING**

**THE COLLYWOBBLES**  
PREPARED BY  
MR MICHAEL BROWN  
TINNED FEAR  
Hoxton Street Monster Supplies  
ESTD 1818  
Purveyor of Quality Goods for Monsters of Every Kind

**OLDE FASHIONED BRAIN JAM**  
Hoxton Street Monster Supplies  
ESTD 1818  
Purveyor of Quality Goods for Monsters of Every Kind

**ESCALATING PANIC**  
PREPARED BY  
MR JON WILKINSON  
TINNED FEAR  
Hoxton Street Monster Supplies  
ESTD 1818  
Purveyor of Quality Goods for Monsters of Every Kind

**ALARM**  
PREPARED BY  
MR MICHAEL BROWN  
TINNED FEAR  
Hoxton Street Monster Supplies  
ESTD 1818  
Purveyor of Quality Goods for Monsters of Every Kind

**THE NIGHT SWEATS**  
PREPARED BY  
MR ANDY EUSTON  
TINNED FEAR  
Hoxton Street Monster Supplies  
ESTD 1818  
Purveyor of Quality Goods for Monsters of Every Kind

**ALARM**  
PREPARED BY  
MR MICHAEL BROWN  
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PREPARED BY  
MR ANDY EUSTON  
TINNED FEAR  
Hoxton Street Monster Supplies  
ESTD 1818  
Purveyor of Quality Goods for Monsters of Every Kind

**NIGHT TERRORS**  
PREPARED BY  
MR ANDY EUSTON  
TINNED FEAR  
Hoxton Street Monster Supplies  
ESTD 1818  
Purveyor of Quality Goods for Monsters of Every Kind

**Trading  
on the  
high street  
to deliver  
a social  
mission.**

**CREEPING DREAD**  
PREPARED BY  
MR CHARLES DUNN  
TINNED FEAR  
Hoxton Street Monster Supplies  
ESTD 1818  
Purveyor of Quality Goods for Monsters of Every Kind

**CREEPING DREAD**  
PREPARED BY  
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**CUBED EARWAX**  
ORIGINAL RECIPE

**CUBED EARWAX**  
ORIGINAL RECIPE

**CUBED EARWAX**  
ORIGINAL RECIPE

**CUBED EARWAX**  
ORIGINAL RECIPE

# Third sector organisations and social enterprises themselves are choosing to 'buy social', including social enterprises in their supply chain as a way of maximising their own social impact.

**Trade with the third sector and other social enterprises:** There has been a marked increase in both trade with third sector organisations and trade between social enterprises. Social enterprises that trade with the third sector have increased from 39% in 2011, to 48% in 2013. Inter-social enterprise trade has increased from 29% to 40%. This pattern is even stronger in the areas of highest economic deprivation, where 59% of social enterprises trade with the third sector and 49% trade with other social enterprises.

Furthermore, the proportion of organisations that cite trading with the third sector as their main source of income has doubled, from 5% in 2011, to 10% in 2013. Chasing the 'sound pound' is also attractive enough to encourage start-up social enterprises. 13% of start-ups (as opposed to 7% of older social enterprises) cite trade with the third sector as their main source of income. It may be that we are seeing ethical choice in action: an emerging network of trade, one based on values as much as value - the 'sound pound'. In this scenario, third sector organisations and social enterprises themselves are choosing to 'buy social', including social enterprises in their supply chain as a way of maximising their own social impact. This inter-trading can be particularly crucial at a time of constrained resources.

**Grants and donations:** Whilst more than a third (39%) of social enterprises received grant funding as a source of income, only 7% of social enterprises cited this as their main source. Donations played an even smaller role in the economic life of social enterprises. 21% of social enterprises received a donation or donations over the past 12 months (24% of our sample are registered charities). However, the proportion for which this was their main source of income was less than 0.1%. This underlines the differences between social enterprise and the traditional charity sector.

## 4.4 Are social enterprises profitable?

Social enterprises trade and seek to make a profit - with the aim of reinvesting that profit in support of their social objectives. Our survey asked social enterprises whether they had made a profit, a loss, or had broken even. It found that 55% of social enterprises had made a profit, 22% reported a loss and 18% broke even. This is broadly similar to the 2011 survey where 53% of social enterprises reported a profit, 23% made a loss and 19% broke even.

Whether a social enterprise made a profit or loss is closely linked to its scale - social enterprises with a higher turnover are more likely to be profitable. Profitability rises from 32% of

organisations with turnovers of under £10,000 to 76% of organisations with turnovers of over £1 million. As with growth, scale for social enterprises appears to bring its own rewards.

## 4.5 Growth and innovation

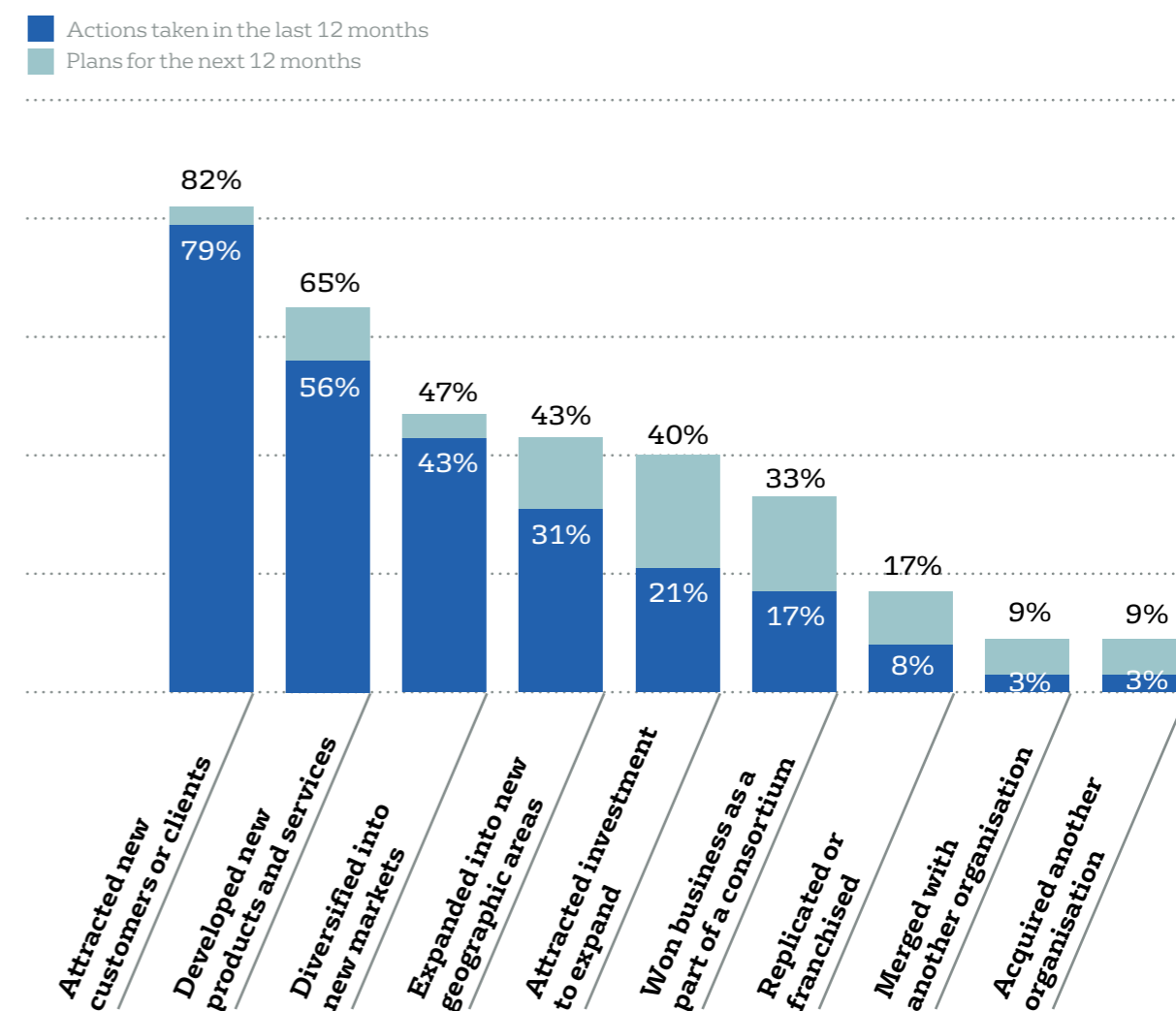
As social enterprises have faced tougher economic conditions, the survey sought to establish what steps social enterprises had taken to secure growth, asking both what actions they had taken during the past 12 months, and also what plans they had for the next 2 to 3 years.

Close to nine in ten (88%) had taken specific actions on growth or diversification in the past 12 months as shown by the results presented in Figure 9.

The most common action taken for growth was, perhaps unsurprisingly, to attract new customers or clients, with nearly eight out of ten (79%) social enterprises taking this step. 56% of social enterprises developed new products or services and 43% diversified into new markets.

The drive for market diversification was led by organisations whose main source of income is

**Figure 9: Social enterprises and growth: actions over the last year, and plans for the next 2 to 3 years**





trade with the public sector – 61% in comparison with 38% of other organisations. Social enterprises whose main source of income is the public sector were also significantly more likely to diversify geographically – 66% as opposed to 53%. This diversification of both services and geographies can be seen as a reaction to increasingly constrained public sector resources, with many social enterprises needing to be flexible and agile with their business model to survive and thrive. The experiences of social enterprises with the public sector market are discussed further in the special feature in the section on barriers and enablers.

Each action for growth over the past 12 months was matched or exceeded by plans for growth over the next two to three years. Growing numbers of social enterprises, in their plans for the years ahead, are thinking about joint working or aggregation to achieve impact, be it through replication, consortia or mergers and acquisitions.

The Small Business Survey 2012 uses the percentage of organisations introducing either new or improved products and services over

the past 12 months as a principal indicator of innovation<sup>26</sup>. By this measure, social enterprises are considerably more innovative than their SME peers – 43% of SMEs have done so, in comparison to 59% of social enterprises.

#### 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 survey respondents whether they believed that their turnover would increase, decrease or stay the same over the next two to three years.

Business optimism has improved since the 2011 survey, with 63% of respondents expecting their turnover to increase in the next two to three years – compared with 57% two years ago. Expectations of a decrease in turnover have also improved from 14% in 2011 to 9% in 2013. Social enterprises are also more confident about the future than SMEs, of who only 37% believe that their turnover will increase, with 14% believing that it will decrease.

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**Social enterprises are more confident about the future than SMEs...63% expect their turnover to increase in the next two to three years.**

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## Case study: Belu

### *Innovation for greater social and environmental impact.*

Belu, the bottled water social enterprise which donates 100% of its profits to clean water charity WaterAid, has partnered with sustainability focused glass packaging specialist Rawlings to develop the new business, Ethical Glass.

Ethical Glass will deliver the lightest, greenest and most ethical mineral water glass bottle on the UK market – available for purchase not just by Belu, but by its competitors too. It will be lighter than previous Belu glass bottles saving enough glass to produce 2.1 million wine bottles. It will reduce Belu's carbon emissions by a further 11%, equivalent to the carbon emissions associated with 7,000 hotel nights in the UK. Ethical Glass will also raise significant funds for Belu's partner Water Aid – a royalty of 0.3 pence for each new bottle sold will be donated to the clean water charity.

Through this new business idea, Belu is enabling the market to be greener overall through sharing rather than protecting its innovative new product. It has also recently launched a new 18.9L bottle, suitable for all water coolers, through its partner Zepbrook.

Since 2011, award-winning Belu has generated more than £330,000 for Water Aid, transforming the lives of over 20,000 people in the developing world.

[www.belu.org](http://www.belu.org)  
@BeluWater



**Introducing the  
most ethical  
mineral water  
glass bottle  
in the UK.**



# 5.0

## Inside social enterprise

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### Key findings

**Challenging the glass ceiling:** 38% of social enterprise leaders are women – and only 9% of social enterprises have male-only leadership teams. Social enterprise is becoming a natural home for the female entrepreneur.

**A mirror to our communities:** 15% of social enterprise leaders are from Black, Asian and Minority Ethnic (BAME) communities. 28% of social enterprise leadership teams have BAME directors.

**Tackling disadvantage:** The majority (52%) of social enterprises actively employ people who are disadvantaged in the labour market (for example: long-term unemployed, ex-offenders, disabled people).

**Proving their impact:** 68% of social enterprises measure their impact – and this rises to 74% for start-up social enterprises. There is a growing culture of proving that social enterprises make a real difference.

## 5.1 Introduction

This section aims to look inside social enterprises, exploring how they work and the difference they are trying to make. It will set out the survey's findings on social enterprise leaders, who they are and where they come from; on social enterprise leadership teams and employees; on the social and environmental objectives of their organisations; and on their behaviours in pursuit of those objectives.

## 5.2 Leaders

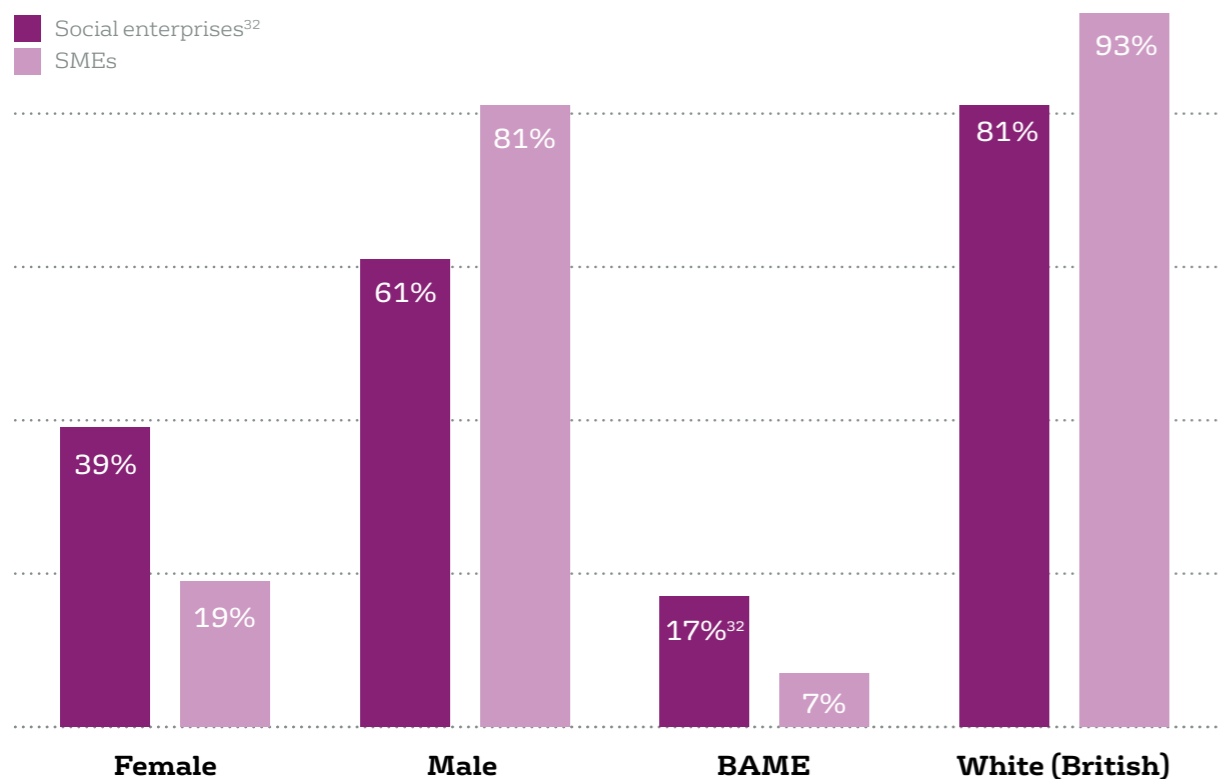
Social enterprise is a different way of doing business – but who are the people behind that change? Our survey asked for information about the leader of the social enterprise – the chief executive, managing director, owner or

equivalent – exploring their age, gender, ethnicity and background.

As presented in Figure 10, female leaders are a key feature of the social enterprise movement, with 38% of social enterprises led by women. As Figure 10 demonstrates, when compared with SMEs this figure increases slightly to 39% and contrasts favourably with SMEs<sup>27</sup> (19%<sup>28</sup>). Social enterprise continues to attract women entrepreneurs in ever-greater numbers – 41% of the leaders of social enterprise start-ups under three years old are women.

The data arguably shows that social enterprise is emerging as the natural home of the female entrepreneur, especially when you look at other figures of women leaders in FTSE 100 companies (3%<sup>29</sup>), FTSE 250 companies (4%<sup>30</sup>) and the senior civil service (24.5% - 2010 figures<sup>31</sup>).

**Figure 10: Leaders: Social enterprises compared with SMEs**



27 Small Business Survey 2012 defines women-led as controlled by a single woman, or having a management team of which a majority were women.

28 BMG Research, *Small Business Survey 2012: SME Employers*. Department for Business, Innovation & Skills, (March 2013).

29 Robert Half FTSE 100 CEO Tracker (2013). Available at [www.roberthalf.co.uk/id/PR-03593/FTSE-100-Companies-UK-Press-Release](http://www.roberthalf.co.uk/id/PR-03593/FTSE-100-Companies-UK-Press-Release).

30 Sealy, R, Vinnicombe, S, *The Female FTSE Board Report: Milestone or millstone*, Cranfield Business School (2012).

31 Government Equalities Office, Fact sheet: Women's representation (2010). Available at [http://webarchive.nationalarchives.gov.uk/20100505211508/http://www.equalities.gov.uk/pdf/301611\\_GEO\\_WomensRepresentation\\_acc.pdf](http://webarchive.nationalarchives.gov.uk/20100505211508/http://www.equalities.gov.uk/pdf/301611_GEO_WomensRepresentation_acc.pdf).

32 Figure does not include responses that could not be coded as a Black, Asian and Minority Ethnic group.

## Case study: Bounce Back

*Give people a job and see them in a different light.*

In 2010, Francesca Findlater founded Bounce Back, the painting and decorating social enterprise which provides training, work experience and employment for offenders at the end of their sentences – when re-offending is most likely to occur. Bounce Back competes on a level playing field with private companies to offer professional services on residential and commercial projects. Its work includes office refurbishment, partnering with developers and housing associations on large scale regeneration schemes.



Bounce Back works with several prisons in London, including HMP Wandsworth, HMP Wormwood Scrubs and HMP Brixton. The social enterprise starts working with offenders when they're still in prison. Following interview, selected candidates are mentored and supported to the end of their sentence, given training and the opportunity to acquire qualifications.



On release, candidates complete their training and studies, before working on voluntary painting and decorating projects in the local community – vital work experience prior to paid employment.

To date, over 130 people have been through the programme at a rate of six to eight new candidates a month. Of these, Bounce Back have supported 80% into paid employment. Only 10% have re-offended. It costs up to £90,000 a year to keep someone in prison and £29,000 to keep them on benefits. To train someone through Bounce Back costs just £2,500.

[www.bouncebackproject.com](http://www.bouncebackproject.com)  
@the\_bounce\_back



**Reducing  
reoffending  
through  
renovations  
work.**

The proportion of social enterprises led by a member from Black, Asian and Minority Ethnic (BAME) communities is 15%, broadly in line with the UK population as a whole<sup>33</sup>. As Figure 10 demonstrates, social enterprises again contrast favourably to SMEs<sup>34</sup> (17% vs 7%<sup>35</sup>). Interestingly, close to half (48%) of BAME-led organisations are also women-led.

The majority of social enterprises have leaders aged between 44 and 65 (58%), 13% of social enterprises are led by people over the age of 65 and, it is noteworthy that, 7% of social start-ups three years old or younger are led by people over 65 - indicating a small cohort of 'silver entrepreneurs' in social enterprise.

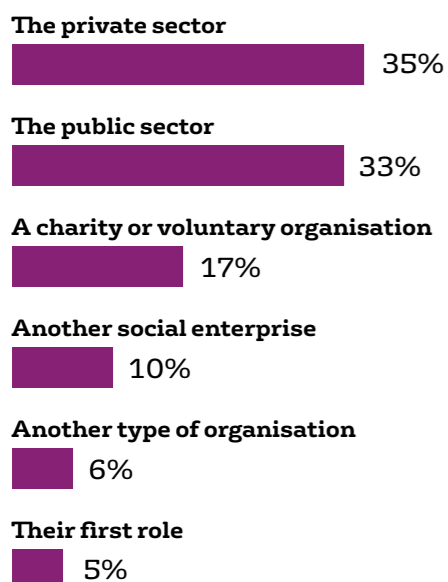
The survey also asked about where social enterprise leaders had worked before starting their role. The range of responses was very diverse, as shown in Figure 11, and demonstrates that people are entering the social enterprise movement from all sectors - indeed, most come from a private sector background.

The public sector (including, both central and local government) is also a considerable

## Just 9% of social enterprises have male only directors, compared with 49% of SMEs.

cohort with 33% of social enterprise leaders having previously worked there. There is also a significant group who have come from other social enterprises (10%), suggesting that the sector is starting to develop leadership talent in its own right.

Figure 11: Social enterprise leaders, by previous roles

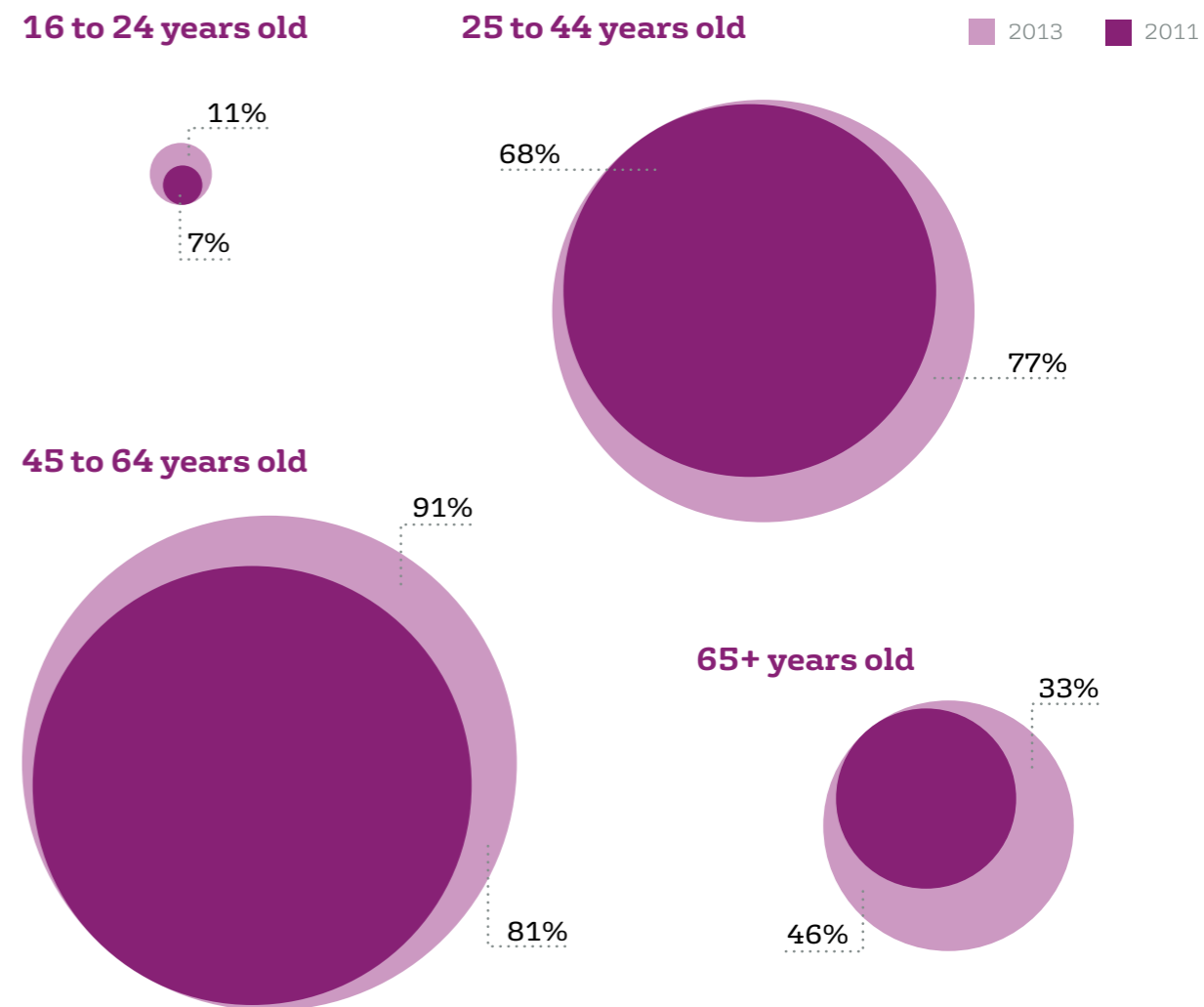


33 The 2011 Census for England and Wales, conducted by the Office for National Statistics, revealed findings that 19.5% of the resident population, 48.2 million people, identified themselves as belonging to a Black, Asian and Minority Ethnic group.

34 *Small Business Survey 2012* defines Minority Ethnic Group led as having a person from an ethnic minority in sole control, or having a management team with at least half of its members from an ethnic minority.

35 BMG Research, *Small Business Survey 2012: SME Employers*, Department for Business, Innovation & Skills (March 2013).

Figure 12: Age breakdown of the leadership team



### 5.3 Leadership teams

The results show that 91% of social enterprises have at least one woman on their leadership team - just 9% have male only directors. This figure remains striking when compared with SMEs - 49% of which have male only directors<sup>36</sup>.

Close to three in ten (28%) organisations surveyed report having at least one member of the leadership team who is from a BAME background - although there is considerable variation by geography. This figure increases to 31% when compared with SMEs - only 11% of SMEs reported directors from BAME backgrounds<sup>37</sup>.

The survey also sought to discover the age composition of leadership teams in social enterprises. As set out in Figure 12, the survey found that 11% of leadership teams include directors between the ages of 16 and 24 - and 77% of social enterprises have directors aged between 25 and 44.

Taken together, the data on both leaders and leadership teams describes a cohort of social enterprise leaders that much more closely reflects the communities they serve than their equivalents in mainstream business. Social enterprise is clearly challenging the abiding social stereotype of business as the preserve of the older, white male.

36 BMG Research, *Small Business Survey 2012: SME Employers*. Department for Business, Innovation & Skills, (March 2013).

37 *Ibid.*

## 5.4 Social and environmental objectives

Social enterprises are organisations that trade for an explicit social or environmental purpose – but what is that purpose? The survey aimed to catalogue the variety of social and environmental objectives that are social enterprises' reason for being. The most common objectives are set out in Figure 13, which also shows the different objectives by level of deprivation.

The aim of improving a particular community was the most commonly cited social objective (37%), as was the case in the 2011 survey, demonstrating how place-based social enterprise remains a mainstay of the movement. There has also been a significant increase in focus on

improving health and wellbeing since the last survey (31% vs 22%) and a large increase in organisations that aim to support other social enterprises or third sector organisations (20% vs 6%).

Social enterprises in the most deprived communities are more likely than social enterprises in the least deprived to focus on creating employment opportunities (32% vs 17%), addressing social exclusion (20% vs 12%) and addressing financial exclusion (15% vs 6%). The employment data is particularly important here, with a third of social enterprises in the most deprived communities seeking to create jobs and employment opportunities where they are most needed.

**Figure 13:** Main social and/or environmental objectives, by most and least deprived communities

Social enterprise objectives	All social enterprises	Most deprived communities	Least deprived communities
Improving a particular community	37%	36%	26%
Improving health and well-being	31%	27%	38%
Creating employment opportunities	27%	32%	17%
Supporting vulnerable people	25%	26%	26%
Supporting other social enterprises or third sector organisations	20%	20%	20%
Protecting the environment/fair trade	18%	14%	17%
Promoting education and literacy	17%	19%	15%
Addressing social exclusion	16%	20%	12%
Addressing financial exclusion	13%	15%	6%
Supporting vulnerable children and young people	13%	14%	12%
Providing affordable housing	11%	11%	9%

(Respondents could indicate more than one objective)

## Case study: PM Training

### *Delivering place-based solutions for young people.*

PM Training is a social enterprise which is tackling one of the key challenges society currently faces: youth unemployment. It does this through providing work opportunities to 16-18 year-olds in Staffordshire through apprenticeships, study programmes, vocational training and industry work experience.

PM Training has a long track record of delivery in the county, and its focus remains on giving young people an opportunity in those local communities where it is needed most. In 2012, 1,175 people from Stoke On Trent, Stafford, Leek and Newcastle Under Lyme joined one of PM Training's programmes, with 262 real apprenticeships being created with a range of local partners and businesses.

As part of the Aspire Group, PM Training also directly helps improve individual homes, neighbourhoods and estates through its Homeworks services. Annually, Homeworks maintains 1000 gardens, paints and decorates 300 properties, and makes 500 environmental improvements – positively affecting the lives of more than 5000 local residents each year, whilst simultaneously creating jobs and training opportunities.

The problem of youth unemployment remains significant but PM Training's approach is one that is increasingly recognised by local businesses, local authorities and central government alike as one that works. It demonstrates that all young people, no matter where they live, can have an enterprising future.

[www.pmtraining.org.uk](http://www.pmtraining.org.uk)

**“PM Training is a social enterprise which is tackling one of the key challenges society currently faces: youth unemployment.”**

Start-ups trading for less than three years are more likely than older social enterprises to focus on supporting vulnerable people (33% vs 23%) and improving health and wellbeing (40% vs 27%), while BAME-led social enterprises are more likely than other social enterprises to focus on addressing root causes of deprivation such as creating employment opportunities (27% vs 17%) and promoting education and literacy (33% vs 26%). See Figure 14.

### 5.5 Social enterprises in their communities

**Local accountability:** Three quarters (74%) of social enterprises actively involve their beneficiaries or service users in decision making to a greater (40%) or lesser (34%) extent. This provides social enterprises with legitimacy in the communities they exist to serve and provides a source of innovation in service design. See Figure 14.

**Trading for planet:** 87% of respondents indicated that their organisation actively aimed to minimise its environmental impact to a greater (48%) or lesser (37%) extent. Only 3% of organisations took no action at all. This is a great deal more responsible than comparable SMEs of who 33% took no actions to minimise their environmental impact<sup>38</sup>.

### 5.6 Social enterprises as employers

**Local focus:** The survey shows that social enterprises recruit staff locally, with 84% of respondents doing this to a greater (66%) or lesser (18%) extent. This is a particular feature of social enterprises whose main source of income is the public sector when compared with other social enterprises (87% vs 78%) and demonstrates one of the key selling points of social enterprise to local authority commissioners. Their spend stays in the local economy.

**Tackling disadvantage:** The majority (52%) of social enterprises also actively employ people who are disadvantaged in the labour market (for example: the long-term unemployed, ex-offenders, people with disabilities) to a greater (23%) or lesser (29%) extent. See Figure 14.

This practice is closely related to economic deprivation, with social enterprises in the most deprived communities considerably more likely to employ this group (64% vs 31%). When asked what percentage of employees are from this group, social enterprises working in the most deprived areas indicated that 40% of their employees are disadvantaged in the labour market.

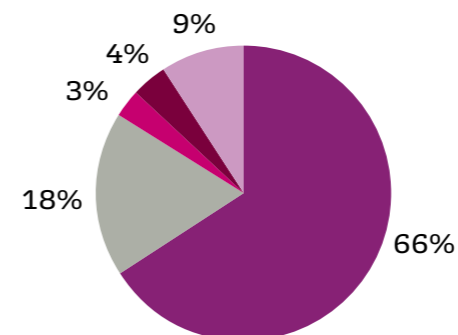
Alongside the obvious social benefits, the economic impact of employing people disadvantaged in the labour market is hard to overstate, particularly because government support for people in this group is immensely costly. When the additional tax income from those employed and the impact of increased local spend is also factored into the mix, the economic case for supporting such enterprise activity becomes clear.

**Job creation:** As Figure 16 demonstrates, based on the number of full-time and part-time employees the number of micro<sup>39</sup> social enterprises (between 1 and 9 employees) and small<sup>40</sup> social enterprises (between 10 and 49 employees) remain broadly similar to the 2011 findings. However, differences can be found at either end of the size spectrum. The number of organisations surveyed with no employees (17%) is almost double those surveyed in 2011 (9%) – the increase in start-ups since 2011 can partly explain this. These organisations are likely to be volunteer led or to consist solely of their founder.

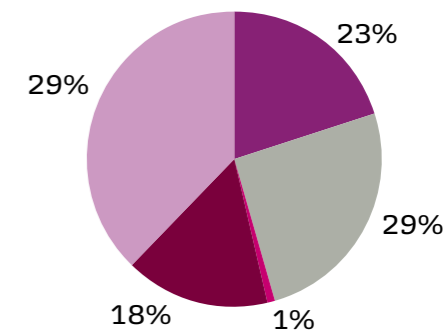
There is also a decrease in the size of social enterprises with 50 or more employees from 14% in 2011 to 6% in 2013. However, this may partially be explained by the greater proportion of leisure trusts included in the 2011 sample, which normally employ very large numbers of employees, as well as the greater proportion of start-ups in the 2013 sample.

Figure 14: Organisational behaviour<sup>41</sup>

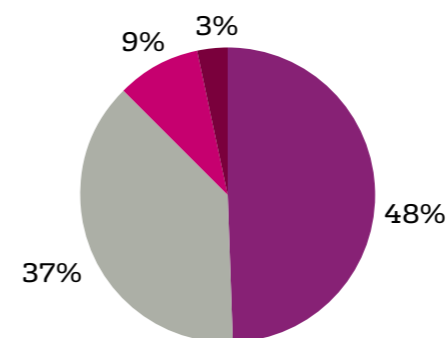
**Local focus: Actively recruits staff locally**



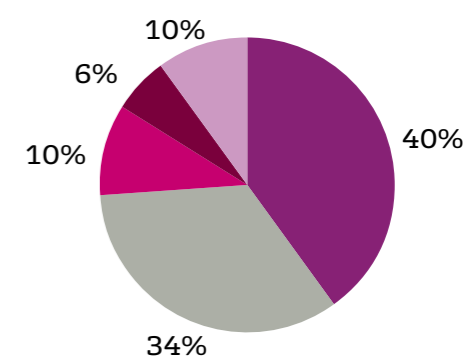
**Tackling disadvantage: Employs people who are furthest from the labour market**



**Trading for planet: Actively aims to minimise its environmental impact**



**Staff engagement: Beneficiaries are actively involved in decision-making**



Legend: A large extent (dark purple), Some extent (grey), Not very much (magenta), Not at all (dark red), Not applicable / don't know (light purple).

38 BMG Research, *Small Business Survey 2012: SME Employers*. Department for Business, Innovation & Skills, (March 2013).

39 Micro definition in line with classification of micro as used in *Small Business Survey 2012*.

40 Small definition in line with classification of small as used in *Small Business Survey 2012*.

41 This does not present figures from social enterprises which stated that the behaviour was not applicable to their organisation or were not able to say to what extent it was applicable.



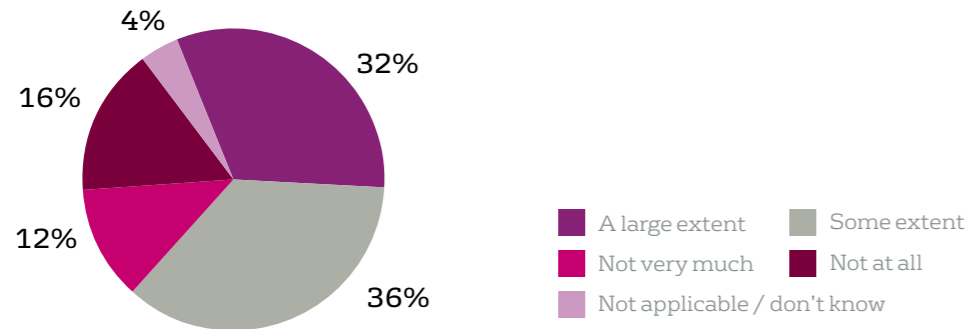
### Measuring social impact

The survey has revealed a very broad range of methods by which social enterprises seek to maximise their social impact - but do they seek to demonstrate this in a structured way? The survey asked social enterprises the extent to which they measured their social impact.

As shown in Figure 15, more than two thirds (68%) measure their social impact to a greater (32%) or lesser (36%) extent. This figure rises to 74% of start-ups who have been trading for three years or less, suggesting that the case for measuring impact has been increasingly accepted. The proportion rises even further for social enterprises whose main source of income is the public sector (76%) - arguably because there are greater advantages for these organisations if they can effectively articulate the added value they bring.

Figure 15: Measuring social impact<sup>42</sup>

#### Organisation measures its social impact

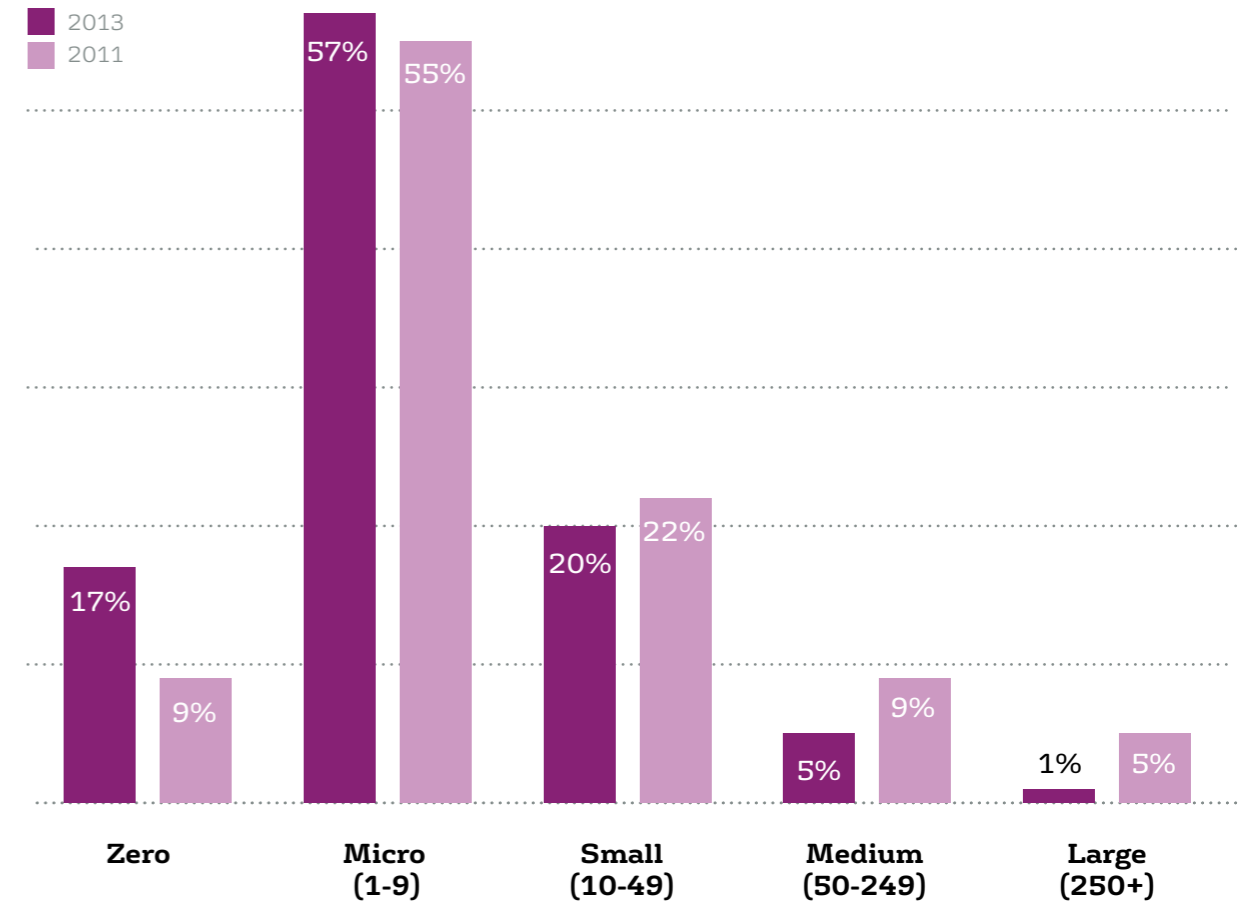


<sup>42</sup> This does not present figures from social enterprises that stated that the behaviour was not applicable to their organisation, or were not able to say to what extent it was applicable.

## Social enterprises recruit staff locally and their spend stays in the local economy.

Figure 16: Employees in social enterprise

Number of full-time<sup>43</sup> and part-time<sup>44</sup> employees employed in social enterprise across all sites in the UK



<sup>43</sup> Full-time is commonly regarded as 35 hours per week or more.

<sup>44</sup> Part-time is commonly regarded as 34 hours per week or less - the hours of part-time employees are added up to make approximate full time equivalents.

## The number of social enterprises that expect an increase in employees in the next 12 months is doubled when compared with SMEs.

The median number of employees in 2013 is 23<sup>45</sup> – this is half the median number of employees in 2011 (46). However, this difference is reduced when you compare the figures for the number of full-time employees only – social enterprises in the 2013 sample have an average of 29 employees, compared with the 2011 average of 35. The decrease in part-time employees is more significant – from an average of 19 in 2011 to an average of 10 in 2013.

**Plans to recruit:** Social enterprises were also asked to predict whether employee numbers would increase or decrease over the next 12 months. The proportion that expect the numbers employed to increase is higher than was the case in 2011 (33% in 2013 compared with 26% in 2011) – and the number of those that expect employee numbers to decrease is lower (18% compared with 25%). The number of social enterprises that expect an increase in employees is doubled when compared with SMEs, of which 20% expect an increase compared with 40% of social enterprises.

**Redundancies:** Given the challenging economic climate, the survey also asked whether social enterprises had to make redundancies in the last year and whether they expected to have to do so in the next 12 months. Overall, (17%) report having had to make redundancies in the last 12 months, which matches the proportion in 2011 (18%). One in ten (9%) expect to have to make redundancies in the next year. This is a significantly lower proportion than the 19% that expected to have to do so in 2011.

Social enterprises where the main source of income was trade with the public sector were almost twice as likely as other social enterprises to make redundancies (27% vs 14%) in past 12 months. The level of redundancies also increased with levels of deprivation – 24% of social enterprises in the most deprived areas made redundancies over the past 12 months, compared with 9% of organisations in the least deprived areas.

**Staff engagement:** The survey asked social enterprises the extent to which staff are actively involved in decision-making. 86% of respondents indicated that their organisation actively aimed to involve staff in decisions about the business to a greater (64%) or lesser (22%) extent. Only 2% of organisations did not involve staff at all. See Figure 14.

<sup>45</sup> Mean number derived from full-time and part-time staff figures combined and only where an absolute figure was provided.

## Case study: Connection Crew

*Regenerating its business with employees who are regenerating their lives.*

Connection Crew is the only crewing and logistics social enterprise in Europe, established in 2005 to improve opportunities for the homeless and ex-homeless. Based in London, Connection Crew works in two ways to boost its social impact.

This Community Interest Company employs 25% of its crew through an employment support programme, providing work placements and ultimately jobs for work ready ex-homeless people who have gained experience in the industry. The benefits for these employees are potentially life-changing: many of them will stay with Connection Crew for years, integrating into the business as part of a society where nobody is aware of their homeless past, whilst others use their time and experience as a conduit back into society.

Profits made by Connection Crew go directly to The Connection at St. Martin-in-the-Fields charity for the homeless, based just off Trafalgar Square in London. This money helps to fund the various specialist support services directly benefitting homeless people.

The crewing sector in the UK is a multi-million pound market of which 70% is in London. Of this, Connection Crew has an estimated 3% market share with rapid growth in recent years demonstrating the increased demand for its services.

[www.connectioncrew.co.uk](http://www.connectioncrew.co.uk)  
@ConnectionCrew





**Providing placements and jobs for work-ready ex-homeless people.**

# 6.0

## Barriers and enablers

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### Key findings

**From concern to alarm:** The 2011 survey called for decisive action over concerns that 25% of social enterprises who worked mainly with the public sector cited procurement policy as a principal barrier to their sustainability. In 2013, that figure stands at 34%.

**An appetite for finance:** 48% of social enterprises sought to raise external finance in the past 12 months (from a range of options including grants, loans, overdrafts and equity), twice the proportion of SMEs; 39% cited access to finance as the single largest barrier to their growth and sustainability – the most common barrier experienced.

**Too much to ask?** The median amount of finance sought by social enterprise was £58,000 – below the minimum thresholds of many specialist social investors and financiers. It can be argued that some specialist financing structures have fallen out of step with the actual needs of the sector.

**The best of times, the worst of times:** Work with the public sector is growing, but the experiences of social enterprises differ wildly. Social enterprises that trade mainly with the public sector are the most likely to predict a profit (54%), but at the same time they are also most likely to have made redundancies (27%). There are wide variations in experience by both geography and, especially, size. The largest social enterprises are the most likely to experience growth.

## 6.1 Introduction

In the preceding chapters, we have uncovered a movement trading in a wide variety of industries, attracting an ever-increasing number of start-ups and entrepreneurs, operating in our most deprived communities and tackling pressing social problems. This raises the question of what can be done to ensure the social enterprise movement continues to develop and increase its contribution.

To answer this, it is important to understand what helps and hinders social enterprises. This section aims to explore the barriers and enablers, both in terms of encouraging start-ups and supporting the sustainability of existing enterprises. Many of the issues facing social enterprises are directly influenced by measures introduced by policymakers. This is where government can make its most active contribution to the success of the sector.

## 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 17.

The single greatest barrier cited at start-up was lack of, or poor access to, finance or funding, with 40% of social enterprises naming it as an issue: this remains the top barrier from 2011. Whilst access to finance is likely to be an issue affecting all businesses as they start, there are two interesting points to note. Firstly, women-led social enterprises were more likely than male-led social enterprises to report access to finance as a barrier (45% vs 36%). Secondly, BAME-led social enterprises were also more likely than their counterparts to raise this as a barrier (50% vs 39%). However, it needs to be noted that the sample size in these cases is too small to determine whether this link is likely to be relational or causal.

The barriers following on from access to finance: cash flow (25%), lack of marketing expertise/marketing issues (21%), time pressures (20%), and lack of appropriate managerial skills/experience (12%) demonstrate that social enterprise start-ups and small business start ups face similar challenges. These issues would be instantly recognisable to a private sector peer.

# Access to finance is still the principal barrier.

However, certain challenges at the start-up stage are of particular relevance to social enterprises. Public procurement is significant. It was cited by 16% of respondents overall and this proportion rises to a quarter (25%) of respondents where the main source of income is trade with the public sector.

In a similar pattern to the 2011 survey, social enterprises also cited a lack of understanding about social enterprise from customers and the public (17%) and from banks and support organisations (13%).

## 6.3 Barriers to sustainability

The survey also sought to explore what is currently holding organisations back – we asked what the three most significant barriers were to the organisation's sustainability and/or growth. The results are presented in Figure 18.

Access to finance is still the principal barrier to the sustainability of social enterprises, with 39% of respondents citing this as one of the three most significant issues. When compared with SMEs the percentage of social enterprises that state access to finance as the top barrier is slightly higher at 40%, a stark contrast with the 7%<sup>46</sup> of SMEs that state obtaining finance as the main obstacle. In fact, obtaining finance is only the 6th biggest barrier to SMEs.

Findings on business capability may provide some insight on why access to finance continues to be the biggest barrier to social enterprises. When asked to rate how capable their business is in terms of financial management, 73% of social enterprises rated their capability as high (rating 4 or 5 out of 5<sup>47</sup>) However, only 32% rated their business capability as high in terms of accessing external finance, and almost as

Figure 17: Barriers experienced at start-up



many (28%) rate their business as poor (rating 1 or 2). This suggests a disconnect exists where social enterprises, although financially capable internally, may lack – or perceive that they lack – the skills or resources necessary to access finance externally. Increased efforts to help social enterprises understand the additional information and detailed, practical steps to become what is often called 'investment ready' may help either narrow these genuine skills gaps or puncture perceived ones.

The largest change since the 2011 survey is the impact of the economic climate on social enterprises. In 2011, just 8% cited the economic climate as a barrier. In 2013, this figure has increased to 32%. Concern about the economic

<sup>46</sup> BMG Research, *Small Business Survey 2012: SME Employers*, commissioned by the Department for Business, Innovation & Skills (March 2013).

<sup>47</sup> 5 denotes the highest level of capability on a spectrum from 1 to 5.

Figure 18: Barriers to sustainability and growth



climate increases in proportion with turnover. Larger organisations are significantly more likely to cite this as a barrier. While 17% of social enterprises with a turnover of £10,000 or under list this as an issue, 49% of social enterprises with turnovers over £1 million state that the economic climate is a barrier to growth.

The third most commonly cited barrier to growth and sustainability is public procurement (18%). This figure grows to 34% of social enterprises whose main source of income is trade with the public sector – a marked increase from the 2011 survey where 25% of this cohort listed commissioning as a barrier. It should be of material concern to policymakers that the situation has worsened rather than improved.

### Public sector markets: The best of times, the worst of times

Trade with the public sector has grown since the 2011 survey and is increasing as a principal source of income. More than half (52%) of all social enterprises now trade with the public sector. For 23% of social enterprises, trade with the public sector is their main source of income – an increase from the 2011 survey of 18%. Further, while 29% of all social enterprises surveyed saw their level of work with the public sector increase over the past year, this figure rose to 53% for social enterprises whose main source of income is from public sector work.

Overall, the experience of social enterprises with the public sector market is a mixed bag, with marked differences between the findings of all social enterprises compared with those whose main source of income is trade with the public sector: 27% of social enterprises whose main source of income is trade with the public sector made redundancies last year, compared with 14% of other social enterprises. However, there are also surprisingly divergent findings within the experiences of social enterprises whose main source of income is trade from the public sector. They were simultaneously more likely than other social enterprises to predict an increase in employee numbers (42% vs 30% respectively) and a decrease (28% vs 17% respectively). These social enterprises are also more likely to expect profits to increase than others (54% vs 51%), yet also more likely to see them decrease (14% vs 10%).

One key factor in this disparity of experiences seems to relate to the size of the social enterprise. As Figure 19 shows, the larger social enterprises turning over £1 million a year are more than twice as likely (43%) to see growth as the smallest social enterprises (21%). There has been a dramatic increase in the number of social enterprises who work in these markets citing public procurement as a principal barrier to their growth and sustainability, as shown in section 6.3.

Another possible cause of this disparity could be geography. Whether work with the public sector has increased, decreased or remained the same varied widely across the country. The findings revealed regions where many more organisations have seen an increase than a decrease in work (Yorkshire and the Humber 39% increase vs 18% decrease) as well as regions where an equal percentage of organisations have seen a decrease and an increase (South West: 19% increase vs 19% decrease). There are also regions where there has been a net decline (West Midlands 18% increase vs 26% decrease). It could be that the case for social enterprise is still to

**Figure 19: Increase or decrease in trade with the public sector, by turnover**

	£0 to £10,000	£10,001 to £50,000	£50,001 to £100,000	£100,001 to £250,000	£250,001 to £1 million	Over £1 million
Increase	21%	23%	26%	22%	33%	43%
Decrease	14%	12%	18%	21%	20%	15%
Stay the same	37%	27%	39%	33%	37%	29%

be made in many localities. This becomes all the more important with the arrival of Local Enterprise Partnerships.

Social enterprises whose main source of income is the public sector are doing their best to manage these risks through diversification. 61% of these social enterprises have diversified into new markets over the past 12 months, compared with 38% of other social enterprises. They are also more likely than other social enterprises to have diversified into new geographical areas (44% vs 28%). Just 7% of public sector specialists now trade exclusively with public sector.

### The Public Services (Social Value) Act

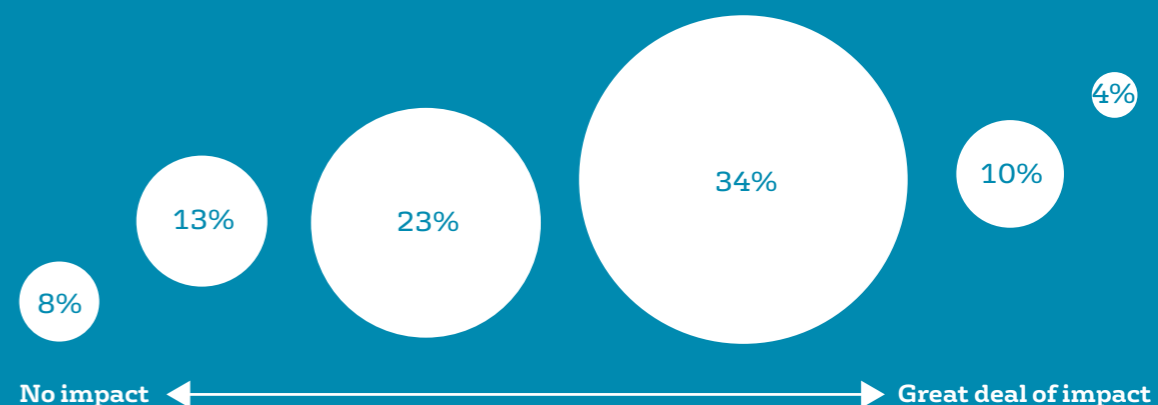
The (Public Services) Social Value Act is a new law, calling for all public service commissioning to factor in social value. The Act received Royal Assent on 8th March 2012 and commenced implementation in January 2013.

For the first time, all public bodies in England and some Welsh bodies (those not solely or mainly under the jurisdiction of the Welsh Assembly Government), are required to consider how the services<sup>48</sup> they commission and procure might improve the economic, social and environmental well-being of the area. This will help to ensure that the full weight of the public sector's purchasing power is directed at achieving social and environmental benefits alongside financial efficiency. As the creation of a wider social impact through trade is at the very heart of the sector, it gives social enterprises an opportunity to demonstrate their strength in delivering social value.

Our survey asked social enterprises whether they were aware of the Act, with 43% of social enterprises indicating that they were aware of it. This proportion rises to 62% of organisations whose main source of income is trade with the public sector.

If the respondent was aware of the Act, the survey asked about its potential impact on improving the likelihood that social enterprises will win contracts. As shown in Figure 20, the findings are equivocal about how social enterprise feel about the impact of the Act, however, at the time of the survey, the Act had only been in force for up to three months. It will be interesting to see how social enterprises view the Act after sufficient time has passed for it to make a difference.

**Figure 20: The potential impact of the Social Value Act**



<sup>48</sup> The Act applies to public service contracts and those public services contracts with only an element of goods or works over the EU threshold. This currently stands at £113,057 for central government and £173,934 for other public bodies.

## Case study: Fusion21

### Buying social – and changing people’s lives.

Fusion21 is an award-winning social enterprise which has a simple premise at its heart: join up spending across organisations; save money; and use some of that money to create jobs for local people. In the past decade, delivering on that collaborative approach has saved over £55m for participating members, created over 1000 permanent jobs, and reinvested over £30m back into local economies.

Founded by seven housing associations in the North West in 2002, Fusion21 has set about continuously improving its model ever since – developing sector-leading procurement standards and frameworks in construction, focusing relentlessly on creating employment for those who are out of work, and bringing ever-greater numbers of partners into the fold. From the original seven members, membership has now grown to 130 across the UK.

Fusion21 have also been pioneers in using social clauses: requiring organisations in a supply chain to commit to training and employing local, long-term unemployed people. Similar work is now being adopted by businesses across sectors as they seek to meet the requirements of the Public Services (Social Value) Act.

Procurement can really change lives, and procurement savings are powering Fusion21’s expanding employment work with NEETs, women into construction, offenders, apprentices and more; creating jobs and wider social value in communities across the UK.

[www.fusion21.co.uk](http://www.fusion21.co.uk)  
@Fusion21SocEnt

“Procurement savings are powering Fusion21’s expanding employment work with NEETs, women into construction, offenders, apprentices and more.”

## 6.4 Finance and social enterprise

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

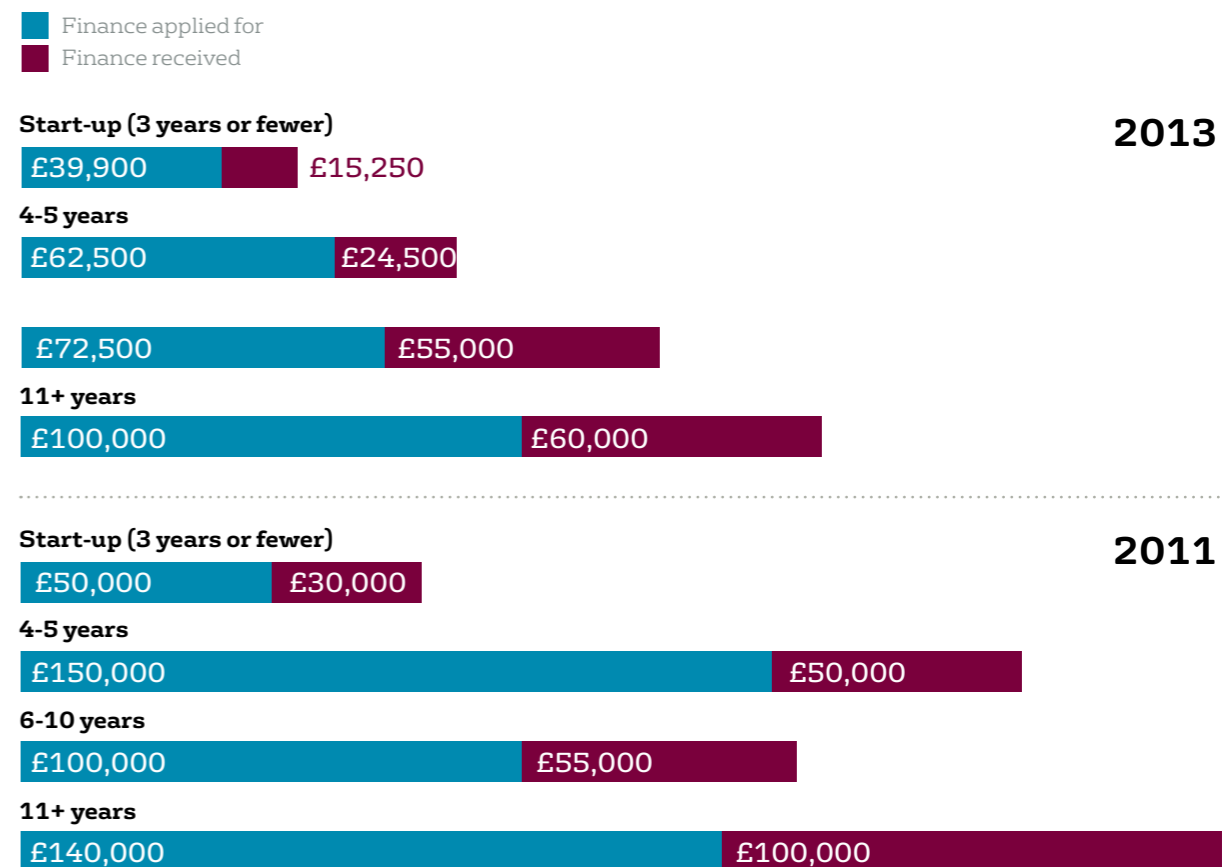
Close to half (48%) of all organisations surveyed report having applied for new sources of finance for their organisation in the past 12 months, broadly equivalent to the proportion reported in the 2011 survey (47%). This outstrips the proportion of SMEs who sought finance by two to one (24% of SMEs sought finance<sup>49</sup>), which is a similar ratio to the 2011 comparison with SMEs

(26% of SMEs sought finance)<sup>50</sup>. As an additional indicator of social enterprises’ greater appetite for finance, the mean amount of finance that social enterprises applied for was £403,088 compared with £294,000 for SMEs<sup>51</sup>.

### Amount of finance applied for and received

The most frequent amount sought (25%), ranged between £10,000 and £50,000. The median amount sought by all social enterprises was £58,000, lower than the 2011 median of £100,000. As Figure 21 shows, the median amount sought in 2013 is lower across all ages of social enterprises, compared to 2011. Perhaps unsurprisingly, this meant that the median amount of finance received in 2013 (£30,000) was also half of the 2011 median of £60,000.

Figure 21: Median amount of finance applied for and received based on length of operation



49 BMG Research, *Small Business Survey 2012: SME Employers*, Department for Business, Innovation & Skills (March 2013).

50 IFF Research, *Small Business Survey 2010*, Department for Business, Innovation & Skills (April 2011).

51 BMG Research, *Small Business Survey 2012: SME Employers*, Department for Business, Innovation & Skills (March 2013).

However, as Figure 22 demonstrates, when the different types of finance are separated out from one another the amount of finance applied for and received changes significantly. Notably, compared with the previous survey findings, we can see that the median amount applied for and received for loans and mortgages is considerably lower in 2013 than 2011, although interestingly, the median amount of equity is significantly higher in 2013.

It is worth noting that the median amount applied for is lower than the minimum investment thresholds of many of the specialist social investment or finance intermediaries. This supports other research identifying the need for smaller-scale, patient, risky, unsecured lending

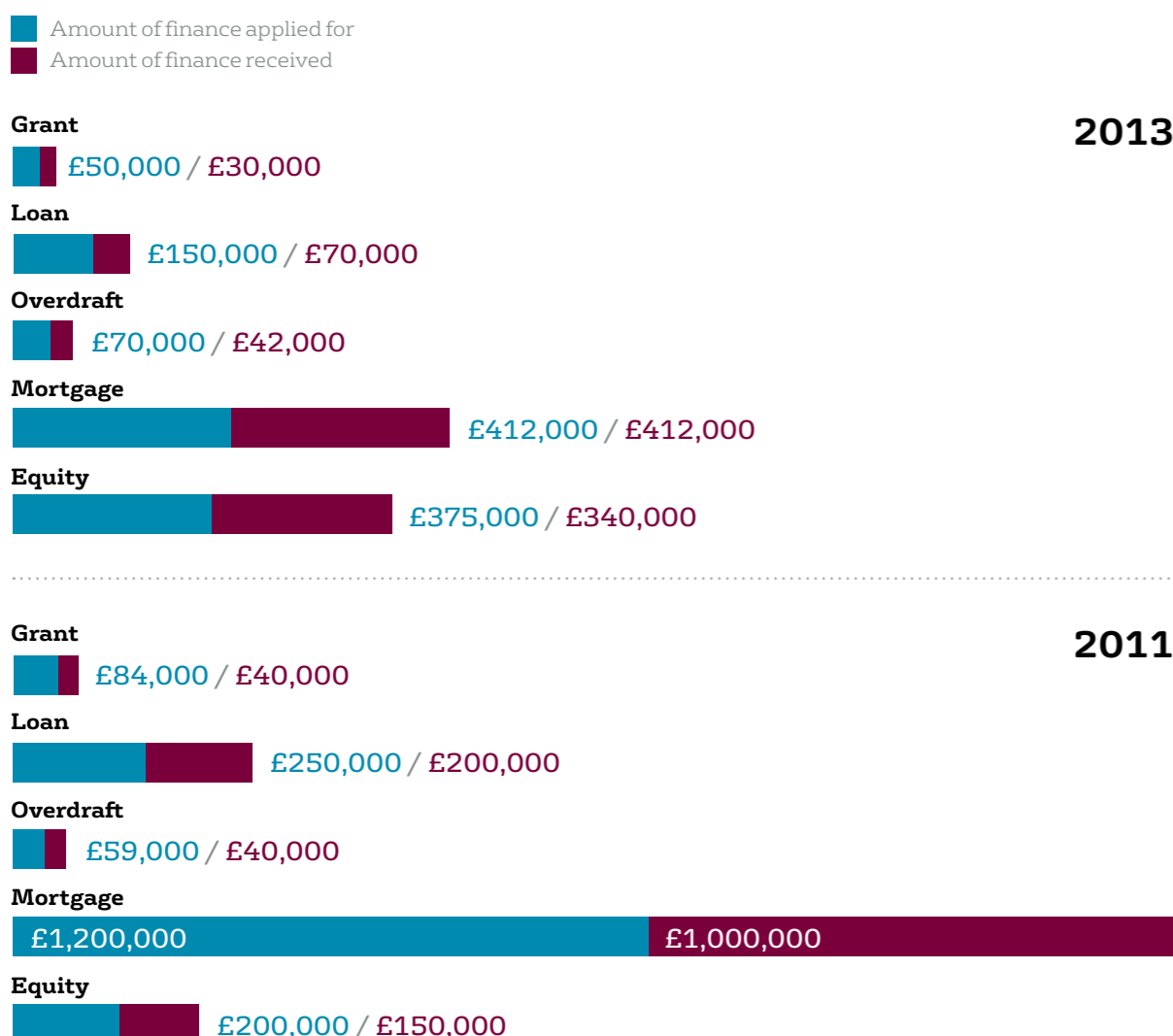
for social enterprises. It can be argued that perhaps some of the financial and investment structures have fallen out of step with the actual needs of the sector.

Start-up social enterprises trading for three years or less are more likely to apply for finance than older social enterprises (55% vs 45%), but not to find it (39% vs 57%).

### Type of finance

As shown in Figure 23 the most common type of finance applied for – by a considerable margin – was grant funding, with 89% of respondents applying. Overall, the findings are similar to the findings from the 2011 survey.

**Figure 22: Median amount of finance applied for and received, by type of finance**



**Figure 23: Percentage of social enterprises that applied for finance based on type of finance and success rates**

Type of finance applied for	% of social enterprises	Received all of finance applied for	Received some of finance applied for
Grant	89%	31%	39%
Loan	20%	52%	9%
Overdraft	13%	61%	9%
Leasing/HP	7%	86%	n/a
Mortgage	4%	73%	n/a
Equity	3%	38%	15%
Other	7%	53%	17%

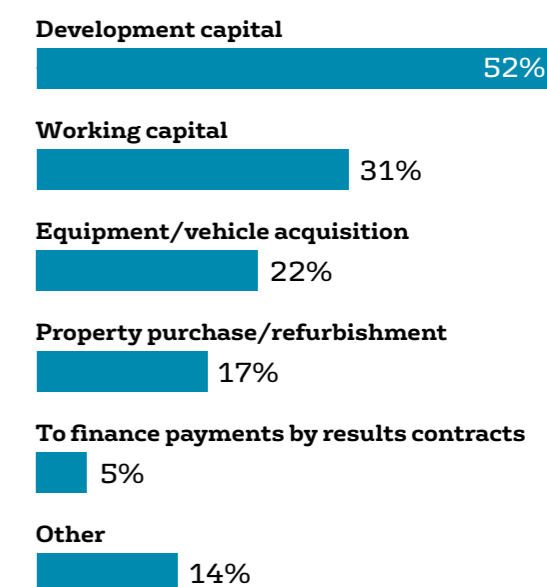
(Respondents could indicate more than one objective)

Figure 23 also shows the success rate of applications: those applying for grants were the most likely to be successful with 70% of social enterprises receiving all or some of the finance, followed by applications for overdrafts (70%<sup>52</sup>) and loans (61%<sup>53</sup>). The success rate of applications for grant funding, overdrafts and loans have all increased, to varying degrees, from 2011 findings, which were 60%, 52% and 58%, respectively.

**What finance was for:** The survey also asked social enterprises about the purpose of the finance they applied for, as set out in Figure 24. The majority (52%) of social enterprises were seeking development capital – to fund growth or new services and products, with just under a third of those social enterprises seeking working capital to manage cash flow (31%). This is very similar to the 2011 and 2009 survey findings, where development capital is consistently stated as the primary purpose for seeking finance for most social enterprises (48% and 44%, respectively). However, working capital features more highly than in previous surveys – it was

only the fourth most popular purpose in 2011 (23%) and third in 2009 (25%) demonstrating a growing need. This could in part be a reflection of the changing public service agenda focusing on outcomes-based payment contracts.

**Figure 24: Purpose of finance**



<sup>52</sup> Combined figure of social enterprises that received all of the finance and social enterprises that received some of the finance.  
<sup>53</sup> Combined figure of social enterprises that received all of the finance and social enterprises that received some of the finance.



# 7.0

## Conclusion

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This report has presented the findings of the State of Social Enterprise Survey 2013 – the largest survey of social enterprises in the UK. It has aimed to explore the rich landscape of social enterprise – understanding the scope and scale of the sector in the UK economy, examining in greater depth how social enterprises operate in their markets, and exploring who leads social enterprises and what difference they are trying to make. It has also looked closely at their role in public sector service delivery, and identified those factors that help or hinder them.

- **The research has found a sector attracting entrepreneurs in greater than ever numbers**, even in a difficult economic climate. In each of the three State of Social Enterprise Surveys, the proportion of start-ups has increased.
- **Social enterprises are earning their money through trade** – trade with the general public, trade with both the public and private sectors and, increasingly, with each other – and reinvesting their profits back into their social missions.

- **Social enterprises are led and managed by people as diverse as the communities they serve** and can increasingly demonstrate the difference they are making; they are also an increasingly important employer in many of the most deprived areas of the country.
- **Social enterprises still face serious challenges** from public sector procurement and commissioning practice, and in accessing finance.
- **Social enterprises are not immune to difficult economic times** but are proving resilient, and are more optimistic about future growth than their mainstream counterparts.

## Recommendations

**Public Service Delivery:** Smaller social enterprises are finding it more difficult to secure work in the public sector than their larger counterparts – the reasons for this are well known (business development capacity, balance sheet, contract size and structure), but changes to commissioning and procurement remain crucial if we want to see public service markets with genuinely plural provision. We recommend the following:

- Government should implement the Public Services (Social Value) Act to its full effect, and both demonstrate and promote good practice from the centre.
- Government should consider open-book accounting in the commissioning and contracting process to aid transparency, mitigate risk and promote effective partnerships.
- Commissioners should be allowed to take track record into account: performance under previous contracts should be explicitly weighed up, with authorities able to take relevant positive & negative information into account 'a priori' (in selection phase).

**Markets:** This survey confirms that social enterprises' main source of income is from trading with the general public, and that trading with the private sector is on the increase. The diverse markets they operate in need to be recognised and factored in by policymakers looking at business support, access to finance and procurement. We recommend:

- All organisations in the private, public and social sectors alike should seek to maximise the social impact they can have through 'buying social' in their supply chain, utilising existing spend with social enterprises.
- Social investment and finance intermediaries should focus equal attention on developing products that support these social enterprises as much as those engaged in public service delivery.
- Policymakers and support organisations should increase business support provision that focuses on marketing, sales and communications.

**Finance:** Access to finance remains the key barrier for social enterprises, but it is an ever-evolving landscape of need and provision which requires constant review: social enterprises require working capital more, but are asking for less than in previous years; grants remain important, but are the primary source of income for no more than 9%; new investment products are emerging constantly. We recommend:

- Policymakers and investors should recognise that grants and 'softer' social investment (which is patient and risky) remain critical parts of the mix for many social enterprises, and design financial products and support programmes to reflect this reality.
- Increasing direct support and information for social enterprises that focuses on the practical transition from internal finance capability to external finance readiness.
- Greater transparency of information and examples of deals from social investors, to allow for better navigation, understanding and improved accessibility for social enterprises seeking finance.

**Employment:** Local Enterprise Partnerships and local authorities should take note of the employment contribution of social enterprises – over half seek to employ those disadvantaged from the labour market, rising to almost two-thirds in the most deprived areas. It should be increasingly clear to policy and decision-makers that local investment into social enterprise is one that repays – with job creation at its heart. We recommend:

- All Local Enterprise Partnerships should include social enterprise as a key element of their growth strategies and prospectuses.
- Housing associations, local authorities and social enterprise networks working in deprived areas should work together to build local social enterprise ecosystems with employment at their core.

**Further research:** This report highlights some areas which warrant further in-depth, specialist research, which SEUK will seek to pursue in partnership.

- The survey findings highlight an interesting disparity between the experiences of women and BAME-led social enterprises – groups which appear to find accessing and securing finance more challenging than their male and non-BAME led counterparts. Further research profiling the experience of different groups in their search for finance would be valuable to ensure that the social investment market is

developing in a fair and accessible way for all groups.

- These findings again demonstrate how social enterprises purposely reinvest back into the communities they serve and to further their social impact. It is vital that we do not lose sight of the economic impact being made through this reinvestment – at an individual, community, local and national level, positively affecting the public purse. Further research attempting to track this economic impact in more depth would help create a fuller picture of that economic contribution.

## Annex A

	2013	2011	2009
Company Limited by Guarantee (CLG)	51%	54%	59%
Industrial and Provident Society (IPS)	19%	24%	37%
Community Interest Company (CIC)	17%	10%	17%
Company Limited by Shares (CLS)	12%	12%	7%
Partnership	2%		
Sole proprietorship	2%		
Limited Company	1%		
PLC	1%		
Other/Don't know/Not provided	11%		

NB – CICs are either also a CLG or CLS which accounts for the total being over 100%

## 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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