



Business Productivity Review – Government call for evidence Social Enterprise UK July 2018

About Social Enterprise UK

We are the largest network of certified social enterprises in the UK and the leading global authority on social enterprises. Together with our members we are the voice for the sector. We raise awareness through our advocacy and campaigns and build the evidence base for social enterprises through our research. We have led public policy for 15 years, helping pass the Social Value Act, and are a strategic partner to government. We exist to increase the profile of the sector and build the markets for our members - working with some of the UK's biggest companies to support them to bring social enterprises into their supply chains. Our members reflect the diversity of the sector ranging from local grass-roots organisations to multi-million-pound businesses. We see social enterprise as the future of business.

www.socialenterprise.org.uk

What is a social enterprise?

Social enterprises are business which trade for a social purpose that reinvest or donate over half their profits to further this social or environmental mission. They are an increasingly important part of the UK economy contributing £24 billion and employing nearly a million people. Estimates are there are between 70,000 and 80,000 in the UK. Research carried out by Social Enterprise UK, the membership body for the sector, shows they are outperforming traditional businesses when it comes to start-up rates, turnover growth and innovation. They are also ahead of the pack when it comes to workforce diversity and pay. For more information and statistics see Social Enterprise UK's State of Social Enterprise Report – The Future of Business - <https://www.socialenterprise.org.uk/the-future-of-business-state-of-social-enterprise-survey-2017>



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Executive Summary

There is strong evidence that social enterprises have higher levels of productivity than other private businesses. This is despite the fact that they are often working in deprived communities or sectors, such as health or social care, which have traditionally struggled to boost their productivity. They do this through a number of ways:

- Empowering staff and giving them greater ownership of the company and its future.
- Creating more diverse organisations which make better decisions
- Social enterprises think on long time scales than other businesses, meaning that they invest more in their staff, technology and new products.
- They are more innovative than their peers, because they have to both deliver a financial return *and* a social impact. This requires productivity improvements in order to achieve both compared with other businesses.

Social enterprises are not only good for society and the environment, but critical to the government's efforts to boost productivity, delivering a Global Britain and ensuring a higher standard of living.

The government cannot expect to see a see-change in productivity without changing the fundamental unit of the economy – business. As the Call for Evidence highlighted, the UK is one of the most open and competitive markets in the world. According to the World Bank, the UK is ranked 7th in the world for ease of doing business. The government is right, therefore, to look at individual businesses as the source of the productivity puzzle.

In our submission we outline a number of ways that the government could back social enterprises and deliver its aspiration of a more productive economy.



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The UK's Productivity Challenge

Broadly speaking we agree with the way that the Call for Evidence has identified low productivity businesses. But we would argue that definitions of productivity need to be broader than that referenced in this paper. Whilst the basic definition of productivity (i.e. more output for the same or less level of input) – this doesn't highlight the positive and negative externalities that the rush for productivity can create. The issue is not only "How do we become more productive" but "Productive for whom?"

Many businesses find ways to boost their "productivity" but do so in ways that negatively impact on society and the environment. Holding off investment in new technology till the last possible moment, polluting the environment or cutting pay for staff are all ways that productivity can be boosted in a narrow sense, without benefiting society. [The Industrial Strategy](#) highlighted the need for productivity to come through high levels of employment and without damaging our environment. There is a particular risk that unless businesses are reformed, that increased productivity may lead to increased profitability for shareholders without significant increases in pay. [As economists have noted](#), even before the financial crash, productivity increases were not leading to increases in wages for staff. In the UK, real productivity grew by 114% between 1972 and 2010 but wages only grew by 72% over the same period.

Social enterprises are essentially about creating as many positive externalities as possible and reducing the negative. By creating a "positive spillover" from the way that they carry out their activities, social enterprises boost productivity in a way that fits with the government's Industrial Strategy. Social enterprises don't need to be steered towards supporting staff and helping the environment. They are already working in a way which is sensitive to these needs.

The government's Call for Evidence could benefit from taking a social value approach to productivity, rather than just working on the basis of outputs. The government already has an agreed definition of social value through the [Public Services \(Social Value\) Act 2012](#) which can be used as a framework to make sure that productivity improvements are delivering genuine benefits to society and the environment.

We agree with the Call for Evidence that, in general terms, exporting is beneficial to productivity improvements. According to our research [The Future of Business](#) – State of Social Enterprise Survey 2017 – around 13% of social enterprises are exporting. 18% of social enterprises work outside of the UK. [Research](#) that we undertook with the British



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Council in 2013 found that social enterprises that were exporting were experiencing higher level of growth. The government could do more to support social enterprises which want to export and ensure that they are included in efforts to develop Global Britain.

We do not believe that weak productivity is overall caused by weak domestic markets, however. As noted by the World Bank, the UK is the 7th easiest place to do business. We have very open markets and a recent enquiry by the House of Lords into [Competition and State Aid](#), found that the UK spent far less on State Aid than European competitors. As a consequence, it cannot be argued that the UK is preventing competition or is overly protecting businesses from fair competition.

Social enterprises are increasing levels of productivity despite working in some of the most deprived parts of the country, where we would assume that markets would be weaker. Over half of all social enterprises are working in the most deprived areas (i.e. those in the bottom quartile of deprivation).

16% of social enterprises work in health and social care and 11% in education – areas where productivity per worker has gone backwards according to [analysis](#) undertaken by the Department for Business, Innovation and Skills in 2012.

There is something about the structure of private businesses that is holding back their productivity, not the markets that they operating in.

Characteristics of high productivity businesses

Evidence suggests that high employee engagement, innovation, a long term perspective and diversity are critical to productivity improvements. Social enterprises have demonstrated all of these characteristics and for this reason are outperforming their peers in the rest of the private sector.

Employee engagement

Evidence suggests that high levels of employee engagement are important in delivering productivity increases. One of the ways that social enterprises seek to do this is through sharing ownership of the business with their employees and customers. There are over 7,000 co-operatives working in the UK according to [Co-operatives UK](#), they are worth over £36bn a year. However, shared ownership is not just limited to co-operatives. Many social





enterprises are companies (or community interest companies) limited by share, with those shares held by employees.

Research commissioned by HMRC in 2007 by [Oxera](#) found that shared ownership boosted productivity by 2.5% over the long run. The compounding effect of this if more UK businesses involved shared ownership models would be considerable.

We have also successfully seen waves of Public Service Mutuals, which are social enterprises owned by their staff, which are increased their productivity. [Research](#) commissioned by the Department for Digital, Culture, Media and Sport and carried out by Social Enterprise UK found that these mutual were using more flexible ways of working to boost productivity compared with their peers. The advantage of being a social enterprise to increase employee engagement has been backed up by deeper analysis of our members working in health and social care.

Innovation

The Industrial Strategy referred to “ideas” as being one of the pillars of productivity. Innovation is central to productivity, whether that is through developing new products, improving processes or finding new ways to sell to your market. The Call for Evidence references innovation as “behaviours associated with growth” but we would argue that it needs to be given greater prominence.

As the Industrial Strategy highlights the key role that innovation both within companies and outside companies (e.g. universities) plays in productivity growth.

Social enterprises are more innovative than their private sector peers. Half of all social enterprises were introducing a new product or services in the last 12 months according to our [Future of Business](#) research, compared with 33% of SMEs. Social enterprises have to be more innovative because they have to deliver on a “triple bottom line”. This bottom line is not only financial (i.e. profitability) but also social and environmental impact. This means having to find new ways to do business and make a profit at the same time. Non-social enterprise small businesses do not have the same pressure to innovate which hampers their productivity. Having a social mission may seem like a “barrier” to business, but meeting multiple challenges through their business model makes social enterprises more productive than their peers. The government needs to move away from seeing social and environmental missions as a “luxury” but as a way to boost productivity through forcing businesses to think more innovatively.



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Social enterprise models also reduce the risk that productivity improvements will merely create higher profits without leading to improvements for employees and for society as a whole. This creates a virtuous circle which is the aim of the government's Industrial Strategy.

Longer term horizon

The Call for Evidence does not consider long term thinking as a feature of a high productive business, but evidence suggests that businesses which think long term are more successful than their peers.

Research by [McKinsey Global Institute](#) found that short-term thinking was destroying value and creating poor economic performance. Although this research is focused on the United States, it has lessons for the United Kingdom too. From 2001-2014, long-term thinking firms grew 47% more on average than other businesses. Long-term thinking businesses also added more jobs than others. If the entire US market had been thinking long term, McKinsey extrapolates that this could have added 8m jobs to the US economy. One of the pillars of the government's Industrial Strategy is job creation – so this finding is particularly important. Long-term businesses also invested 50% more in R&D over the period, compared with their peers. Another pillar of the Industrial Strategy is boosting R&D, so long-term thinking could benefit this approach as well.

Social enterprises think long term. This is because they are not just here to create profit but they have to deliver a social mission. In most cases changing society and the environment for the better takes a long period of time. By encouraging more businesses to think about their impact on society and environment, the government could make these businesses more productive by making them think longer term.

Diversity

Another characteristic that has not been referenced in the Call for Evidence is the need for diversity. Group-think can hold businesses back and make them less productive. Research by [MCSI](#) has found that gender-diverse boards, for example, experienced an increase in productivity of 1.2% above the median between 2012-2016. Some of this can be explained by these businesses adopting better talent management, but women in leadership positions contribute far more than just improving HR practices.



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Social enterprises are more diverse than their peers. 41% of social enterprise leaders (e.g. directors) are female compared with 20% for SMEs. 12% of social enterprise leaders are BAME compared with just 5% in the SME. This is holding companies back and preventing them from becoming world beaters.

In part because they are more diverse, over 70% of social enterprises consider themselves to have strong or very strong people management capabilities according to our [Future of Business](#) research.

Supporting more social businesses

The evidence base that social enterprises deliver more productive and successful businesses is clear. We agree with the Call for Evidence that having access to networks and business support is critical to success.

Social Enterprise UK is itself a business support and advice organisation. We have over 1500 members across the UK. Over 62% of our members joined because of the networking opportunities and nearly 60% because of business opportunities (e.g. connections, referrals and information).

Our work has found that access to business support is often due to time pressures and geographical reach. 16% of social enterprises report that time pressures is one of the Top 10 barriers to their success, for example.

The government can support this through funding the development and maintenance of regional networks as well as encouraging higher levels of digital delivery which are more adaptable to the needs of businesses. Social Enterprise UK has been providing more support through webinars which means that small organisations do not need to travel but can still access the support that they need.

We have also developed strong local networks, such as through our [Social Enterprise Places](#) scheme. Our [impact report](#) has found that Social Enterprise Places have led to more connected organisations, which the Call for Evidence has highlighted as one of the characteristics of a highly productive business.

The government could do more to strengthen this programme and support local and regional networks such as Social Enterprise Places so that they can become more effective.



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The success of Social Enterprise Places has been in part due to the leadership and support of local authorities. In some areas, such as Oxford, we have had the support of Local Enterprise Partnerships. But many Local Enterprise Partnerships do not have representation from social enterprises and as are not doing enough to support social enterprises, despite the benefits they bring. In other areas, local authorities would like to do more but struggle to get the support that they need. The government could do more to give targeted funding to local authorities and LEPs to develop strong networks for social enterprises. This should be done in collaboration with national membership organisations, such as Social Enterprise UK, so that lessons can be learnt and shared across the board. In Scotland, the Scottish Government has invested in networking social enterprises more effectively and ensuring that social enterprises can get support and advice alongside their private sector peers. The [Social Enterprise Census 2017](#) for Scotland found that the number of social enterprises was growing and that their overall income was growing, rising to £3.8bn. This highlights the value of strong business support.

Social value

The government can also back social enterprises and more productive businesses through public procurement. The government spends over £200bn a year yet a lot of this is not linked to positive social outcomes and providers are not measured on their innovation or productivity.

The Public Services (Social Value) Act is a big opportunity for the government to improve productivity by measuring a wider conception of value than just financial cost. By using the power of the public purse to support social enterprises which have higher levels of productivity, the government can improve the overall productivity of the economy.

Unfortunately, only 33% of councils are using social value effectively and only 13% of CCGs according to [research by SEUK](#). We support the government's [announcement](#) that social value will be used to cover major procurement, but there is a danger that if the level of value for consideration is too high, that it will not influence SME behavior. This will mean that the long tail of lower productivity businesses is not encouraged to become more social. We would urge the government to ensure that not just major procurement, but **all** procurements consider social value so that we make the most of this legislation.



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Tax reform

As highlighted above by Oxera's research into tax reliefs for shared ownership models, tax reliefs can help to boost productivity. We would argue that more could be done through the tax system to make companies more social and thus more productive. This could be done through reform to the Corporation Tax regime to reward those businesses which are social enterprises and have long-term thinking. As social enterprises reinvest their profits back into their businesses and their community, this is a virtuous circle which would help to deliver the Industrial Strategy.

There could be similar reforms to business rates to ensure that social enterprises benefit from higher levels of rate relief, encouraging more businesses to think socially.

Conclusion

Social enterprises are more productive than their peers because:

- They focus on the long-term than traditional private businesses
- They are more diverse than their peers
- They are more innovative than their peers
- They have more engaged employees

If the government wants to back social enterprises it needs to do so across the spectrum with reforms across a number of areas including:

- Supporting more effective business networks
- Using public procurement to support social enterprises and encouraging other businesses to adapt to more social models
- Reforming the tax system so that social enterprises are rewarded for their positive impacts on society, environment and the economy.

If the government is prepared to do this and back social enterprise fully, then the evidence is clear that this would help to solve the productivity puzzle and boost the effectiveness of UK companies. The government must not ignore the importance of company structure when it comes to economic success. Without reforming the fundamental unit of the economy, the government cannot achieve its ambitions, which we share, set out in the Industrial Strategy.



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