

Voluntary and Community Action

Introduction to Social Enterprise

Funding Information Sheet No.8

October 2008

The term 'Social Enterprise' is attracting a lot of attention in recent times. But with its increasing popularity has come less certainty about what exactly a social enterprise is and does. The purpose of this information sheet is to introduce the subject of 'Social Enterprise', to help those who are completely new to the concept get an understanding of the values associated with the term as well as those considering whether or not to become (further) involved.

Funding Information Sheets

The Funding Advice Service has produced a series of Funding Information Sheets on:

- the different types of grants available
- good practice when applying for funding
- sustainable fundraising

These can be downloaded from our website or by contacting our offices.



What is a Social Enterprise?

The Office of the Third Sector defines social enterprise in the following way: *A social enterprise is a business with primarily social objectives whose surpluses are principally reinvested for that purpose in the business or in the community, rather than being driven by the need to maximise profit for shareholders and owners.*

There is much debate as to whether the term *social enterprise* is a name (noun) given to a business or organisation, or whether it is the undertaking of an activity (verb) by an organisation or someone. The truth is that it can be both; but the reality is that people and organisations are more concerned with *doing things* rather than *naming* them! We therefore see *social enterprise* as predominantly an activity, where some organisations may also wish to name themselves as such. Others prefer to describe the term *social enterprise* as a business model rather than an activity.

The main idea behind the term is that where an organisation engages in some form of social enterprise activity, the resulting

product (or service being sold), process (the way in which they produce or sell it) or profit (what happens to the income generated), is social. Social enterprise is not just about making money, it is also about making sure there is a wider social (and/or environmental) benefit as a result of the trading activity. This is sometimes known as the double (or triple) bottom line.

Social enterprises are diverse and can include many forms. Sometimes it can be very confusing to hear people talk about 'social firms', 'co-op' and 'trading arm of a charity'. Social enterprises can also include local community enterprises, mutual organisations such as co-operatives, and small or large-scale organisations operating nationally or internationally. There is no single legal model for social enterprises. They include companies limited by guarantee, industrial and provident societies, and companies limited by shares. It is important to remember that the term *social enterprise* does NOT define a particular kind of legal structure.

Examples of a social enterprise include creating employment and





training opportunities for disadvantaged individuals (e.g. 'The Big Issue' or Jamie Oliver's restaurant 'Fifteen') and charity trading arms/ shops such as Oxfam, Cancer Research etc where profits are made over to supporting each charity's core objectives.

So is social enterprise new? Social enterprise is a buzz-term for an old idea. Many voluntary organisations, community groups and charities have been engaged in trading activities for years which could be

called social enterprise, without using the term to describe their organisation or its activities. One reason why you may have been hearing a lot about social enterprise in recent years is because for many voluntary organisations and community groups it is becoming increasingly important to reduce their grant dependency and look at ways of diversifying income through trading skills, products or services. Many government initiatives and funding

Types of Social Enterprise

Co-Operatives are organised, democratically owned and controlled by their members, who come together to provide a shared service from which they all benefit. There are different types of co-operatives including housing co-operatives, care co-operatives, worker co-operatives, agriculture co-operatives and credit unions.

Social Firms A social firm is a business that provides employment opportunities for people who are disabled and disadvantaged in the labour market, using its market-oriented production of goods and services to pursue a social mission. A significant proportion of a social firm's workforce will be people with a disability or other disadvantage. Social firms aim to pay a market rate wage or salary appropriate to the work, whatever the productive capacity of the workers. In addition, work opportunities, employment rights and obligations should be the same for all employees.

Development Trusts are a type of partnership organisation concerned with the regeneration of an area that offers benefits to the local community; they respond to local needs through a wide range of activities while aiming for long term sustainability and accountability.

Intermediate Labour Market Companies provide training and work experience for the long term unemployed.

Community Businesses are social enterprises that have a strong geographical definition and focus on local markets and services.

Charity Trading Arms enable charities to meet their objectives in innovative ways.

Social Businesses are non-profit businesses, often set up to support the work of a charity or non-governmental organisation.

Credit Unions are a cooperative financial institution that is owned and controlled by its members. Credit unions provide access to finance to the community. They differ from banks and other financial institutions in that the members who have accounts in the credit union are the owners of the credit union.

Employee-Owned Businesses where all employees control and/or own shares in the company – or have the chance to do so in the future. Employee-Owned Businesses create and preserve jobs as part of economic development strategies.

Housing Associations are independent bodies that provide low cost housing for people in housing need. Any trading surplus is used to maintain existing homes and to help finance new ones. They are now the United Kingdom's major providers of new homes for rent; while many also run shared ownership schemes to help people who cannot afford to buy their own homes outright..

schemes have now been introduced to encourage voluntary organisations and community groups towards social enterprise activities. This is partly driven by the government's desire to encourage groups to contract with public sector agencies to provide public services. The concept of socially responsible business is higher on the agenda, perhaps partly as a result of the branding of social enterprise - in the UK at least.

Social Enterprise and the Voluntary and Community Sector

While some social enterprises start off as businesses, most are in transition from their beginnings as voluntary organisations or community groups, dependent on grants and working to increase their trading income. A report by the National Council for Voluntary Organisations' (NCVO) said that up to 35% of general registered charity income is derived from trading activities.

Given that social enterprise combines the intention of producing a social, environment and/or public benefit with the idea of generating income, it is a logical step for voluntary organisations, community groups or charities (all of which already have a 'social' purpose) wanting to diversify their income base (raise more money and reduce dependence on grant funding) without getting diverted from their organisation's aims and objectives.

There is a lot of interest in social enterprises at the moment and you are likely to come across a lot of examples of successful social enterprises in the media. While these are sources of ideas,

inspiration and learning, it might be best to focus on the context and objectives of the various organisations and note that they may be very different from those of your organisation. It is also important to note that many social enterprises from the start rely on support from grant funding rather than just trading income and this might be the trend for the initial few years before the organisation becomes self sufficient and generates surplus.

A strong and dynamic voluntary and community sector, which gears up and channels people's energy and commitment to tackle problems in innovative ways and provide services to those in need, is a vital part of society. It fully justifies the support it receives by way of donations and grants. An entrepreneurial approach to meeting needs can also involve the provision of a service to a market. It is a mistake however to assume that all voluntary and community sector activities can be transformed into social enterprises. While some of these activities can be become social enterprises, in many cases social enterprise represents an additional tool for addressing social and economic needs.

The concept of the voluntary and community sector becoming more entrepreneurial is widely discussed and promoted. While some groups might be happy to look at importing business management tools to improve, others might choose to remain a voluntary organisation, dependent on volunteers, donations and grants. This is not to necessarily a bad thing, some social needs are best addressed by voluntary organisations.



"DON'T THINK YOU HAVE TO CHOOSE BETWEEN THE CUT AND THRUST OF BUSINESS AND THE WARM GLOW OF WORKING FOR A CHARITY OR IN THE PUBLIC SECTOR, BECAUSE SOCIAL ENTERPRISE REALLY DOES OFFER THE BEST OF BOTH WORLDS."

**JONATHON BLAND,
SOCIAL ENTERPRISE
COALITION**

**SOCIAL
ENTREPRENEUR
AN ENTREPRENEUR
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“A NON-PROFIT THAT IS RUN FOR PROFIT SOUNDS LIKE A CONTRADICTION IN TERMS. BUT IT DOESN'T HAVE TO BE.”
BILL SHORE
SOCIAL ENTREPRENEUR

SOCIAL ECONOMY IS SEEN AS EXISTING BETWEEN THE PRIVATE, MARKET SECTOR ON THE ONE HAND AND THE PUBLIC SECTOR ON THE OTHER AND IS SEPARATE FROM BOTH. IT INCLUDES NOT ONLY SOCIAL ENTERPRISES BUT ALSO VOLUNTARY ORGANISATIONS, FOUNDATIONS, TRADE UNIONS, RELIGIOUS AND FAITH GROUPS, AND HOUSING ASSOCIATIONS.

Groups who explore the concept of an entrepreneurial voluntary and community sector may decide to adopt new business structures to address social aims. This will result in new governance structures which may mean an organisation becomes incorporated. New organisational structures may mean the development of teams to deliver specific services and new funding structures may mean the organisations seek to increase its level of trading through earned income and providing contracted services.

Characteristics of Social Enterprise

The Social Enterprise Coalition argues that “a social enterprise is not defined by a legal status but by its nature: its social aims and outcomes, the basis on which its social mission is embedded in its structure and governance, and the way it uses the profits it generates through trading activities.”

Voluntary and Community Action have reviewed the many characteristics for a social enterprise and have distilled these to form four key characteristics:

- enterprise orientation with a clearly defined market base
- social aims and values

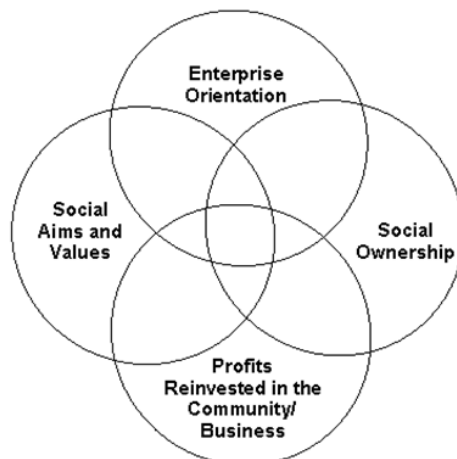
- social ownership
- profits are reinvested in the community/business.

Some social enterprise specialists include the fourth characteristic as part of either social aims or social ownership. Given the importance of, and the sometimes complex arrangements concerning, funding streams for social enterprise activity we have treated this separately.

Enterprise orientation with a clearly defined market base

Most social enterprises are directly involved in producing goods or providing services to a clearly defined and viable market. Some organisations sell goods and services in the market place and develop niche markets. Much of their income comes from trading activities to achieve their goals, financial self-sufficiency and an aim to generate a trading surplus. Organisations need to balance their social and economic aims. They can use their unique features as a social enterprise to advance business development through increased productivity and building customer loyalty.

Most social enterprises strive to use business planning processes, including the review of performance and strategy and have a well focussed business plan in place. They compete on their ability to develop, generate, deploy and exploit their distinctive know-how and competencies. Some social enterprises may actively be involved in partnerships between the community, voluntary, private and public sectors.



Social Aims and Values

Most social enterprises express their values through their social aims and objectives in what they do (through their product and services) and how they do it (organisational practices). Operating in the market place, products and services can address social needs (e.g. Credit Unions), have an impact on communities and the environment (e.g. regeneration) and/or build new relationships between stakeholders (e.g. fair trade).

In common with other organisations, a social enterprise's values and assumptions shape the organisation's culture, which ultimately is a key determinant in the enterprises success or failure. Shared beliefs, assumptions and values function as the glue that holds any organisation together. They are the major sources of an organisations sense of identity, and the major way of defining its distinctive competence. An effective culture is the organisation's primary asset.

Social enterprises are more likely to articulate and debate their values than other types of businesses. Social enterprises are also more likely to be accountable for incorporating their values into their practice. When a social enterprise stops being concerned about its values, it goes into decline.

Social Ownership

Many social enterprises are also characterised by their social ownership. The organisational practices of a social enterprise explore:

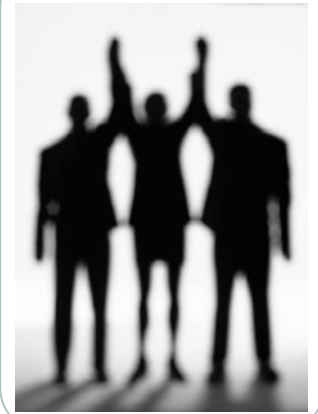
- who owns, controls and benefits from the value created by the enterprise (e.g. member control in co-operatives)
- their employment practices, i.e. who is employed, job designs, rewards, etc (e.g. forming partnerships in development trusts and employing disabled people in social firms)
- the distribution of profits and the relationships between the different stakeholders.

The governance structure of social enterprises are based on greater participation by stakeholder groups (e.g. employees, users, clients, local community groups etc) or by trustees/directors who control the organisation on behalf of a wider group of stakeholders. They are accountable to their members, stakeholders and the wider community for its social, environmental or economic impact.

Social enterprises are a legal entity, such as a charitable company with its structure set out in its rules or memorandum and articles of association. It is incorporated using one of four forms of incorporation:

- Industrial and Provident Society
- Community Interest Company
- Company limited by guarantee
- Company limited by shares (used by employee owned businesses).

Organisations may also be registered charities. The structure is based around business units/ teams responsible for developing and delivering particular products and services.



THIRD SECTOR IS DEFINED BY GOVERNMENT AS NON-GOVERNMENTAL ORGANISATIONS THAT ARE VALUE-DRIVEN AND WHICH PRINCIPALLY REINVEST THEIR SURPLUSES TO FURTHER SOCIAL, ENVIRONMENTAL OR CULTURAL OBJECTIVES. IT INCLUDES VOLUNTARY ORGANISATIONS, COMMUNITY GROUPS, CHARITIES, SOCIAL ENTERPRISES, COOPERATIVES AND MUTUALS.

Profits are Reinvested in the Community/Business

Social enterprises re-invest their profits/surpluses in the business or in the community, rather than being driven by the need to maximise profit for shareholders and owners. Earning income is often referred to as a “social enterprise” activity. With the changing funding climate, generating or earning income is increasingly becoming an important source of funding for voluntary organisations and community groups. Earned income can be ‘trading’ (selling skills, goods and/or services in the open market) and/or ‘contracting’ (tendering to deliver goods or services, service level agreements [SLA’s] with government, contracts through European funding programmes, Learning Skills Council etc) as well as interest earned through investment (e.g. bank interest), subscriptions and membership fees, sales, service charges and other earned income.

Profits or surpluses remain with the organisation and are principally reinvested in the business to achieve its social objectives, either distributed as profit sharing to stakeholders or used for the benefit of the community. The governance arrangements of a social enterprise

ensure assets and profits are permanently retained within the organisation and are used solely for community benefit (asset lock).

Typically social enterprises rely on the market and sales for income, with little or no income derived from grants or donations after the initial start up period. Social enterprises strive for more than 50% (and aspires to 75%) of its turnover from earned income, including the sale of products and services. They are a viable trading concern, making a surplus or profit from trading. Social enterprises seek over time to become financially self-sufficient by relying completely on earned income. They adopt strategies to build up a revenue earning asset base. Most apply full cost recovery to all (or most) of their activities, except those it might regard as a *loss leader* or where they want to develop or access new markets.

Social enterprises have a lot to offer to the voluntary and community sector in terms of bringing vital income, wealth and empowerment to communities and moving towards sustainability. It's just a matter of exploring the possibilities...



Voluntary and Community Action

Bossard House
West Street
Leighton Buzzard
Bedfordshire LU7 1DA

Tel: 01525 850559
Fax: 01525 376281
mail@action-centralbeds.org.uk
www.action-centralbeds.org.uk

How can our Funding Advice Service help?

Help and support on issues mentioned in this information sheet is available from Voluntary and Community Action.

If you want to know more, want further information or interested in exploring social enterprise activities, please contact our Funding Adviser on 01525 850559 for further help.