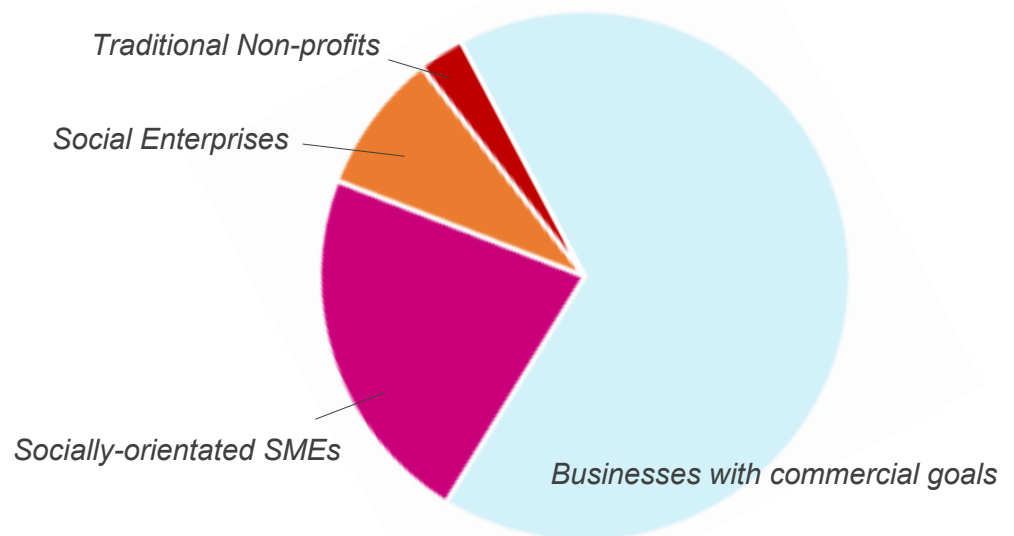


The Power of Social Enterprise Report.

Setting The Scene.

471,000 social enterprises in the UK
employing **1.44 million** people
contributing **3%** of its GDP



Breakdown of UK SMEs by main business purpose

What is the power of a social enterprise? Socially motivated businesses have provided unique and vital responses to the challenges we face as a society. Their innovation, moulded by the changing needs of each generation, have been the driving force for positive social and environmental good, often acting where governments could not or will not. In this report we highlight the economic and labour force argument for social enterprises.

If we look at the UK, SMEs with clear commercial and financial goals represent two-thirds of the small business population. The remaining third is comprised of organisations with social aims at the heart of the business: socially-orientated SMEs (22.1%), traditional non-profits (2.8%) and social enterprises (8.6%). There are an estimated 471,000 social

enterprises in the UK, employing 1.44m people¹. Social enterprises contribute close to 3% of GDP, a value three times higher than the agricultural sector, and accounts for an estimated 5% of total UK employment, equivalent to the numbers employed in the creative industry sector².

The power of social enterprises as catalysts for social development is embedded in their structure; social enterprises use a market-driven approach to support social improvement³, i.e. they use the power of enterprise as a force for good⁴. While this combination of market functionality and social benefit is the strength of social enterprises, it also represents their biggest challenge: establishing a healthy balance between social purpose and commercial viability⁵.

¹ Department for Digital, Culture, Media and Sport and Department for Business, Energy and Industrial Strategy. (2017). *Social Enterprise: Market Trends 2017*. London. ² Social Enterprise UK. (2019). *Government must harness the power of social enterprise to make UK competitive and inclusive finds new research*. London. ³ World Economic Forum. (2018). *Social entrepreneurs can change the world - but these 6 things are holding us back*. Geneva. ⁴ Social Enterprise UK. (2019). *Social Enterprise UK report lifts the lid on the future of British business*. London. ⁵ The Guardian. (2018). *'Social enterprises go bust all the time' - how the sector is tackling its image problem*. London.

Commercial Viability.

“A quarter of social enterprises stated obtaining finance as an obstacle to business success, compared to a fifth of SMEs.”

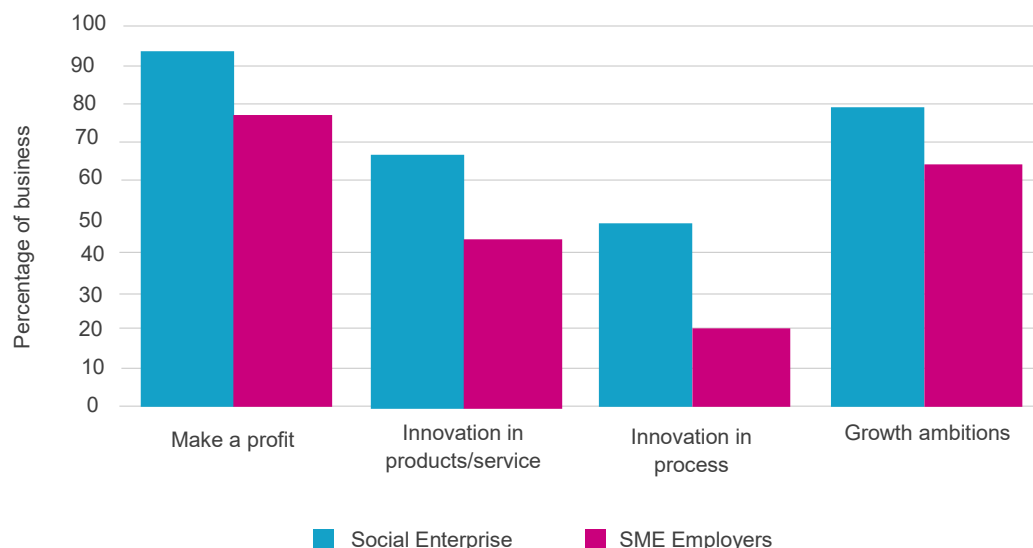
The term ‘social enterprise’ suggests that the social element of the enterprise comes first. While this may be true for the motivations for setting up a social enterprise, without the commercial viability of the enterprise the social element could not be realised. The dynamic of this relationship, between social value and economic viability, is often viewed as a trade-off. The common perception that SMEs are more commercially viable than social enterprises is challenged by a series of indicators, which show social enterprises outperforming SMEs in some indicators of profitability, innovation and growth ambition (see *Business Performance: Social Enterprises VS SME Employers*, next page).

In the year leading up to 2017, a significantly higher proportion of social enterprises (93.2%) made a profit compared to traditional SME employers (76.2%)¹. Social enterprises also reported significantly higher levels of innovation than SMEs; 47.9% of social enterprises reported innovation in their processes and 65.8% reported innovation in their products/services, compared to the SME employer figures of 19.2% and 42.5%, respectively¹. Social enterprises also showed greater levels of growth ambition than SME employers; almost four-fifths of social enterprises reported aims for growth, compared to less than two thirds of SMEs¹.

Despite these positive indicators, social enterprises face a number of challenges, particularly in relation to accessing finance. A higher proportion of social enterprises seek external finance than SMEs (21% compared to 14%) and this difference is more noticeable for those aiming to grow; 39% of social enterprise employers with ambitions to grow said were likely to need external finance, compared to 22% of SME employers that reported growth ambitions¹. Social enterprises also tend to find accessing finance a greater obstacle to business success than SMEs; a quarter of social enterprises stated obtaining finance as an obstacle to business success, compared to a fifth of SMEs. The legal structure of social enterprises can make it challenging to access finance that is available to other companies with social purpose, i.e. traditional non-profits, due to the lack of charitable status². However, due to a lesser dependence on external finance, social enterprises are typically more sustainable and financially robust than charitable companies³.

¹ Department for Digital, Culture, Media and Sport and Department for Business, Energy and Industrial Strategy. (2017). *Social Enterprise: Market Trends 2017*. London. ² The Guardian. (2018). *'Social enterprises go bust all the time' - how the sector is tackling its image problem*. London. ³ Social Enterprise UK. (2019). *Social Enterprise UK report lifts the lid on the future of British business*. London.

93.2% made a profit compared to 76.2% of traditional SME employers



Business Performance: Social Enterprises VS SME Employers

In further relation to finance, almost one fifth of small and medium social enterprises receive income from Europe¹, which helps to explain why 28% of social enterprises describe the UK's exit from the EU as an obstacle to the success of their business². There is therefore a need to support social enterprises against the reduction of income from Europe. This could happen through tailored business support with a specific focus on the transition away from European funding, particularly as social enterprises tend to engage well with business support.

Despite the obstacles to growth faced by social enterprises, when social enterprises grow they are more likely to be profitable, resulting in improvements in commercial viability. With every increase in turnover band, a higher proportion of social enterprises are profitable. With a turnover between 0-£10k just over one quarter of social enterprises make a profit, increasing to 38% for those between £10k and

£50k turnover, and increasing further to over half of social enterprises in the £50-100k turnover band making a profit. In the most deprived areas social enterprises are more likely to be profitable; 42% of social enterprises in the lowest turnover band in the most deprived areas made a profit and 45% broke even, with only 13% making a loss, compared to 28% of micro social enterprises (in all areas) making a profit, 39% breaking even and 33% making a loss¹.

¹ Social Enterprise UK. (2019). *Trading for Good*. London. ² Department for Digital, Culture, Media and Sport and Department for Business, Energy and Industrial Strategy. (2017). *Social Enterprise: Market Trends 2017*. London.

Equal Employment.

Social enterprises

=

Inclusive employment

economy through jobs and spending². The positive impact of this is even greater given that one third of social enterprises operate in the most deprived areas, compared to only 13% of SMEs³.

The inclusivity of social enterprise employment practices is its main strength. Across the UK, 59% of social enterprises have at least one employee who is considered to be 'disadvantaged in the labour market', rising to two thirds in the most deprived areas⁴. Adding to this, 44% of social enterprises employ people from disadvantaged groups¹, with the most common group being long-term unemployed (representing over 20% of social enterprise employment from disadvantaged groups) followed by people with mental illness and learning difficulties (both representing more than 15%)¹.

In addition to employing local people from disadvantaged areas, social enterprises also redress gender and ethnicity imbalances through their employment practices. Over half of social enterprises have female-dominated workforces, with 9% employing women only. In terms of leadership, 41% of social enterprises are led by women, compared to 20% of SMEs¹. BAME leadership in social enterprises also more closely reflects the UK's BAME population than BAME leadership in SMEs: 12% of social enterprises are BAME-led, aligning to the UK population where the BAME population represents 12.9% of the total population, compared to 5% in SMEs¹. The inclusive employment practices in social enterprises translates to the inclusive growth that they promote.

The main difference between the employment practices of SME and social enterprises is in the type of people that they employ. Social enterprises seek to make a difference through the people that they employ: more than a quarter of social enterprises state that creating employment opportunities is one of their key objectives¹.

In almost four fifths (79%) of social enterprises, local staff represent more than half of their workforce, and 58% state that their entire workforce is made up of local staff. Only 5% of social enterprises report having no staff from the local area¹. Employing people from the local community provides a ripple effect to the local

¹ Social Enterprise UK. (2019). *The Future of Business State of Social Enterprise Survey 2017*. London. ² Social Enterprise UK. (2019). *Trading for Good*. London. ³ Department for Digital, Culture, Media and Sport and Department for Business, Energy and Industrial Strategy. (2017). *Social Enterprise: Market Trends 2017*. London. ⁴ Joseph Rowntree Foundation. (2017). *Cities, the social economy and inclusive growth: a practice review*. London.

These positive indicators are more prominent in smaller social enterprises. Large social enterprises are less likely to seek an impact through who they employ compared to small and medium-sized social enterprises¹. This translates into their employment practices, with large social enterprises being 21 percentage points less likely to employ 100% of their workforce than the local area compared to small social enterprises¹. In addition, the inclusive leadership of smaller social enterprises does not translate into the same levels at the top of larger organisations: small social enterprises are 49% women-led and 21% BAME-led, in comparison to 35% and 5%, respectively, in large social enterprises¹.

Social enterprises also tend to boast a fair and equitable wage structure. Almost 80% of social

enterprises report that they pay a living wage to their employees, and the ratio of average ratio between the average of highest paid to lowest paid was 2.7:1, reported in the State of Social Enterprise 2017 survey, compared to 129:1 in FTSE 100 companies^{2,3}.

From this evidence, there appears to be a trade-off between profitability and inclusive growth; larger social enterprises are more likely to be profitable and have less inclusive employment practices, compared to their smaller counterparts. It is not clear whether a sweet spot or optimal equilibrium exists. However, a potential solution is to support social enterprises to grow in a more inclusive way. This may come in the form of introducing leadership and management support for leaders of small social enterprises, to support social enterprises to grow whilst maintaining the positive impact of local and diverse employment profiles, i.e. promote inclusive growth.

49%

of SME social enterprises are women-led



35%

compared to traditional SMEs



21%

of SME social enterprises are BAME led



5%

compared to traditional SMEs



¹ Social Enterprise UK. (2019). *Trading for Good*. London. ² Social Enterprise UK. (2019). *The Future of Business State of Social Enterprise Survey 2017*. London. ³ Social Enterprise UK. (2019). *Social Enterprise UK report lifts the lid on the future of British business*. London.

Conclusions.

“The common perception that SMEs are more commercially viable than social enterprises is challenged by a series of indicators, which show social enterprises outperforming SMEs.”

The benefits of social enterprise are clear; social enterprises have more inclusive employment practices and simultaneously outperform their SME counterparts in relation to a number of business performance indicators. Social enterprises perform particularly well in the areas they are needed most; social enterprises in deprived areas are more likely to be profitable¹ and are more likely to employ people from disadvantaged groups than social enterprises and SMEs in less deprived areas².

Despite these positive indications, a trade-off between social impact and business performance may exist, with larger social enterprises performing better in business performance measures than their smaller counterparts, whilst also having less inclusive employment practices.

More can be done to:

1. Ensure that the benefits of small social enterprises continue through to larger scale social enterprises.
2. Ensure and improve the business performance and financial sustainability of social enterprises.

A key solution to supporting social enterprises can be to provide tailored business support, particularly as social enterprises appear to engage well with information and advice; from survey results displayed in Social Enterprise: Market Trends (Department for Business, Energy and Industrial Strategy), social enterprises employers demonstrated a greater level of engagement with business support than their SME counterparts. Social enterprises included in the study indicated a demand for advice on issues such as business growth (25%), increasing productivity (22%) and the development management/leadership practices (12%), demonstrating a significantly higher level of interest in this type of support in comparison to SME employers³.

¹ Social Enterprise UK. (2019). *Trading for Good*. London. ² Joseph Rowntree Foundation. (2017). *Cities, the social economy and inclusive growth: a practice review*. London. ³ Department for Digital, Culture, Media and Sport and Department for Business, Energy and Industrial Strategy. (2017). *Social Enterprise: Market Trends 2017*. London.



PNE Group are enterprise experts, passionately pursuing innovative ways to enable positive social and economic change where we work. Our areas of practice include enterprise consultancy, programme management and evaluation, and grant management, for large businesses, third -sector organisations and government. Additionally, we provide start -up and business support across the North East of England through PNE Enterprise; professional development and management qualifications through PNE Development; manage a property portfolio of commercial lets through North East Workspace; and provide digital enterprise solutions through PNE Digital.

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