



The State of Social Entrepreneurship in the UK

SEFORIS Country Report

Andreana Drencheva & Ute Stephan

Aston Business School

April, 2014



About SEFORIS: Social Enterprise as FORce for more Inclusive and Innovative Societies

SEFORIS is a flagship multi-disciplinary, multi-method international research project on social enterprise funded by the European Commission. Through the generation of robust evidence and internationally leading research, SEFORIS aims to better understand the role that social enterprises play in the EU and beyond in the development and evolutions of inclusive and innovative societies.

SEFORIS will investigate key processes through which social enterprises deliver inclusion and innovation (spanning a range of domains, from organisation and governance, over financing and innovation to behavioural change) as well as the contexts in which social enterprises thrive. In terms of methodology, we will start from policy and social enterprise practitioner questions and challenges together with critically scrutinising existing academic literature. We use this first step to develop theoretical frameworks that then serve as a basis for thinking systematically about innovation and inclusion processes in context. This is followed by field and lab experimentation with social enterprises and in-depth case studies to expand and enrich our understanding of social enterprises. Unique longitudinal survey data will be collected across 9 distinct countries to test new (and at times counterintuitive) hypotheses to reach novel insights and generalizable conclusions. We engage policy makers and social enterprises throughout the research process to ensure that our research is relevant for them and can inform their practice.

The SEFORIS partnership

SEFORIS is a consortium of 12 organisations from 10 countries including Belgium, China, Germany, Hungary, Portugal, Romania, Russia, Spain, Sweden, and the UK.

Academic partners and research institutes:

KU Leuven (Belgium), Hertie School of Governance (Germany), Autonomous University of Barcelona (UAB, Spain), University of Aveiro (Portugal), Centre for Economic and Financial Research (CEFIR, Russia), Stockholm School of Economics (Sweden), Aston Business School (United Kingdom)

Social entrepreneur support and financing organisations

Oksigen Lab (Belgium), i-propeller (Belgium), Non-Profit Incubator (NPI, China), Nonprofit Enterprise and Self-sustainability Team (NESsT, Hungary & Romania), and The Foundation for Social Entrepreneurs - UnLtd (United Kingdom)

Advisors

Organisation for Economic Co-operation and Development (OECD, France), Harvard Business School (HBS, USA) and the European Venture Philanthropy Association (EVPA, Belgium)

Funder

This project has received funding from the European Union's Seventh Framework Programme for research, technological development and demonstration under grant agreement no 613500.



Acknowledgements

We thank Bram Oers, Ira Lardinois and Stephen Miller for helpful comments in preparing this report. All errors remain our own.

Birmingham, UK

April 2014

Contact

Andreana Drencheva
andreana.drencheva@gmail.com

Dr Ute Stephan
u.stephan@aston.ac.uk

Aston Business School
Economics & Strategy Group
Aston University

Aston Triangle, Birmingham B4 7ET, UK

Table of Contents

Executive summary	1
1. Key facts and figures on social entrepreneurship	3
1.1. Definition and common understanding of social enterprise.....	3
1.2. Size of social enterprises.....	3
1.3. Sectors and regions in which social entrepreneurs are active	4
1.3.1. Industrial sector.....	4
1.3.2. Regions.....	5
1.4. Recent developments in social entrepreneurship	6
2. General country context	7
2.1. Number of inhabitants and size of country.....	7
2.2. Top societal challenges in the United Kingdom	7
2.3. Overview of policy, entrepreneurial and voluntary landscapes	8
3. Social enterprises in context.....	10
3.1. Institutional and stakeholder landscape of social enterprises	10
3.2. Linkages between social entrepreneurs and inclusive and innovative societies.....	11
4. Organisation of social enterprises in the market and society	12
4.1. Legal form of social enterprises.....	12
4.2. Operational model of social enterprises.....	12
4.3. Important values for social entrepreneurs.....	13
5. Financing of social enterprises	14
5.1. Sources of revenue and funding for social enterprises	14
5.2. Economic climate	15
5.3. Social investment	15
6. Innovation of social enterprises	16
6.1. Innovation drivers and barriers	16
6.2. Types of innovation	17
6.3. Innovation process	17
7. Impact of social enterprises	18
7.1. Impact measurement: Does it take place?.....	18
7.2. Impact results and dimensions	18
7.3. Social impact trends and developments	18
8. Overview of studies and datasources	19
9. Annex: Operational models explained	20

Executive summary

Social enterprises play an increasingly important role in tackling significant societal issues, delivering public services and creating social impact in entrepreneurial ways.

The United Kingdom SEFORIS country report aims to portray the current state of social enterprises in the UK and the ways in which social enterprises try to create inclusion and innovation within their organisations, in their communities and the wider society. This report is an overview of current affairs, trends, debates, opportunities and challenges based on a number of different academic, policy and practitioner sources.

1. The social enterprise field is very diverse.

Social enterprises in the UK represent a great range in terms of age, size, revenues, location, scope, activities, and legal forms. There is a significant number of mature or large organisations that operate at large scale. Additionally, government interventions and bottom-up innovation from within the sector are stimulating a renewal of the sector with young enterprises. Sixty-eight per cent of participating social enterprises generate revenues through activities in the service sectors. Social enterprises operate in a number of different sectors and regions, however, they are more likely to be found in rural or deprived areas of the country.

2. There is a growing social enterprise support ecosystem.

The number and type of social enterprise intermediaries is growing. There are over 100 such organisations in the UK, including incubators, accelerators, networks, co-working spaces, social impact measurement tools, social investment financial intermediaries, and universities, that provide support for starting up, sustaining, growing, and internationalising social enterprises.

3. Support is becoming more specialised.

Support for social enterprises, including impact investment, is becoming more specialised to meet the needs of a very diverse group of organisations. Specialised intermediaries focus on different sectors (e.g. health, technology, education, energy), regions (e.g. North of England), and types of social entrepreneurs (e.g. women and youth). However, little focused support is available for the different stages of social enterprise development and growth.

4. Financing and funding social enterprises is still a challenge.

Lack of, or limited access to, financing and funding is the most common barrier to starting up, growing and innovating, according to social entrepreneurs in the UK. This is in contrast with commercial enterprises for which access to financing is the 6th biggest perceived barrier to sustainability and growth. Two challenges that underpin this issue are: 1.) lack of understanding of social enterprises among mainstream financial organisations such as banks and 2.) lack of access to high-risk early-stage finance.

5. The impact investment market is growing.

Access to financing should improve with the growth of the social impact investment market in the UK, which reached £202 million with 765 deals made by 29 social investment financial intermediaries in 2012. New and more specialised funds have been launched to invest in specific sectors, outcomes or regions. Additionally, the number of social impact bonds has drastically increased from one in 2011 to 13 in 2013, a number larger than the rest of the world combined.

6. There is increasing pressure and support to demonstrate social impact.

The need to measure and demonstrate social impact is increasing, especially with the implementation of the Public Services (Social Value) Act and the growth of social impact bonds. This is essential for the 52% of social enterprises that trade with the public sector. Recognising this need, more initiatives are focusing on providing impact measurement support and standardising the processes, outcomes, and language of impact measurement.

7. The government remains heavily involved.

Improving the legal form for social enterprises, introducing a tax relief, modifying legal structures, enabling a stronger social enterprise support ecosystem, and creating demand for the services of social enterprises are examples of the government's heavy involvement in the field.

8. Social enterprises catalyse inclusive and innovative activities, practices and societies.

Social enterprises in the UK create and catalyse inclusion and innovation in four different ways.

- First, addressing social issues and removing barriers to inclusion and innovation is often part of their mission and operational model. Based on the most common operational models, social enterprises create products and services that directly address social issues, including those for low-income individuals, and provide support for entrepreneurial and innovative activities.
- Second, the majority of social enterprises employ individuals who experience barriers to enter the labour market, especially in the most deprived areas of the country.
- Third, social enterprises are more representative of our communities, challenge the glass ceiling, and attract population segments that are less likely to participate in commercial entrepreneurship (e.g. disabled individuals).
- Lastly, social enterprises are inclusive and participatory in their ownership, governance, management and innovation practices and give voice to employees, beneficiaries, customers, clients, and even similar organisations that would be considered competitors by commercial entrepreneurs.

1. Key facts and figures on social entrepreneurship

1.1. Definition and common understanding of social enterprise

- Two elements generally characterise social enterprises regardless of legal form: the focus on predominantly social or environmental objectives and acting in an entrepreneurial manner through generating at least part of the organisations' income from trading.¹
- The term "social enterprise" is widely used in the UK by public authorities, academics, media outlets and the general public to refer to a variety of organisations focused on creating social impact or delivering public services. Other terms used to refer to social enterprises are community enterprise, CIC (community interest company), mutual, and social venture.
- The Department for Trade and Industry (DTI) first defined the term "social enterprise" in 2002 in a more specific manner as "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."²
- Social Enterprise UK, the national body for social enterprises, defines "social enterprise" as an autonomous, transparent and accountable organisation with a clear social and/or environmental mission that generates majority of its income through trading and reinvests majority of its profits.³
- There are a variety of legal forms that social enterprises in the UK adopt. The legal form specifically designed for social enterprises is community interest company (CIC). However, social enterprises also operate under eight other legal structures or use combinations of them. These legal structures include being a sole trader or partnership (i.e. not incorporated), incorporated as a limited company or company limited by guarantee, as independent provident society (either for mutual benefit or community benefit), trust, charity, or as a subsidiary of a charity.⁴

1.2. Size of social enterprises

- The number of social enterprises in the UK is ambiguous for two reasons. First, social enterprises operate under a variety of legal forms. Second, the DTI definition of social enterprise has been operationalised differently in four government-sponsored studies.⁵
- Based on the 2012 Small Business Survey, which only includes commercial businesses and not charities, the Cabinet Office estimates that the number of social enterprise employers is between 57 400 and 82 700. Social enterprises defined this way are mostly micro or small enterprises, however, they are a significant economic actor. Including sole traders, social enterprises employ over 2 million people and their turnover is over £169bn.⁶
- Based on a national representative sample, the Global Entrepreneurship Monitor, an international research consortium, estimates that about 4.2% of the UK adult working population is actively involved in socially entrepreneurial start-up activities.⁷

¹ **SELUSI Research Consortium.** 2010. "Social Entrepreneurs as Lead Users for Service Innovation." <http://www.selusi.eu>.

² **Department for Trade and Industry.** 2002. "Social Enterprise: A Strategy for Success." London: Department for Trade and Industry.

³ **Social Enterprise UK.** "About Social Enterprises." <http://www.socialenterprise.org.uk/about/about-social-enterprise>.

⁴ **UnLtd.** "Rooted: Growing Your Own Social Venture: The Extended Online Version." <http://unltd.org.uk/rooted-guide>.

⁵ **Teasdale, Simon, Fergus Lyon, and Robert Baldock.** 2013. "Playing with Numbers: A Methodological Critique of the Social Enterprise Growth Myth." *Journal of Social Entrepreneurship*, DOI:10.1080/19420676.2012.76280.

⁶ **Cabinet Office and BMG Research.** 2013. "Social Enterprise: Market Trends." <https://www.gov.uk/government/publications/social-enterprise-market-trends>. London: Cabinet Office.

⁷ **Terjesen, Siri, Jan Lepoutre, Rachida Justo, and Niels Bosma.** 2011. "Global Entrepreneurship Monitor Report on Social Entrepreneurship: Executive Summary". <http://www.gemconsortium.org/docs/download/376>.

- Based on a national representative sample, the RBS Enterprise Tracker survey, in association with UnLtd, suggests a fifth (19%) of aspiring entrepreneurs would chose to start a social enterprise.⁸
- In 2009 the UK SELUSI survey adopted an inclusive definition of social enterprises, i.e. independent of legal form, and surveyed organisations with a social objective that were also actively trading in the marketplace. It confirmed that social enterprises are a diverse set of organisations ranging from small to large in size with substantial employment generation and annual revenues (see table below). It showed that there is a substantial number of mature organisations operating at scale.

Table 1: Key data – Age, size and revenues of social enterprises in the UK (SELUSI, N=168)⁹

Organisational age	Number of employees	Revenues
30% younger than 4 years	52% 1-9 employees	12% under 80 000 EUR
34% between 5 and 10 years	34% 10-49 employees	27% 80 000 – 199 999 EUR
36% older than 10 years	8% 50-250 employees	27% 200 000 – 499 999 EUR
	18% 250+ employees	15% 500 000 – 999 999 EUR
		19% 1M+ EUR

1.3. Sectors and regions in which social entrepreneurs are active

1.3.1. Industrial sector¹⁰

- Sixty-eight per cent of the social enterprises in the SELUSI survey reported primary revenue generating activities in various service sectors including financial and real-estate, business-related, health, social and community services and education (see graph below).

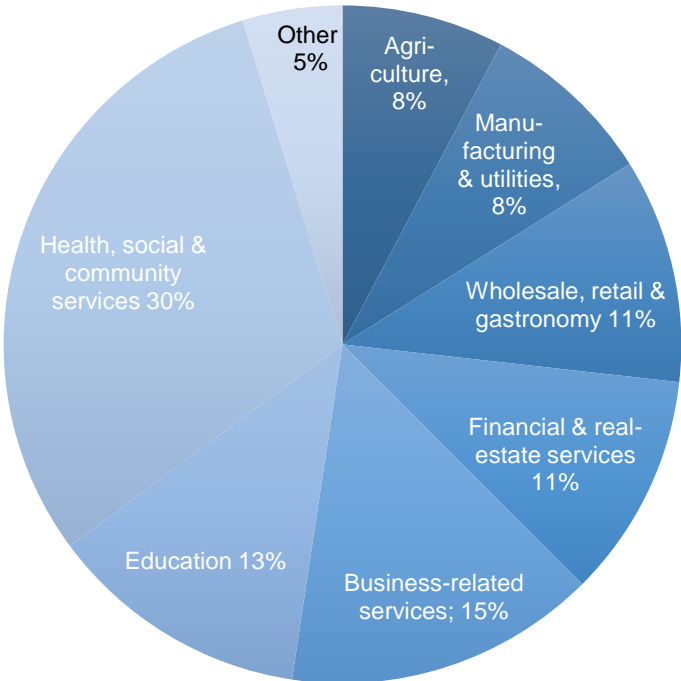


Figure 1: Revenue generating activities of social enterprises in the UK by sector (SELUSI, N=168)

⁸ Populus. 2014. "RBS Enterprise Tracker, in Association with UnLtd: 1st Quarter 2014." http://unltd.org.uk/wp-content/uploads/2014/03/RBS-Youth-Enterprise-Tracker-Summary_1st-Quarter-2014-FINAL.pdf.

⁹ SELUSI Research Consortium. 2010. "Social Entrepreneurs as Lead Users for Service Innovation." <http://www.selusi.eu>.

¹⁰ Ibid.

- Social enterprises in the SELUSI survey focused their social impact activities across a wide range of social sectors (see graph below).

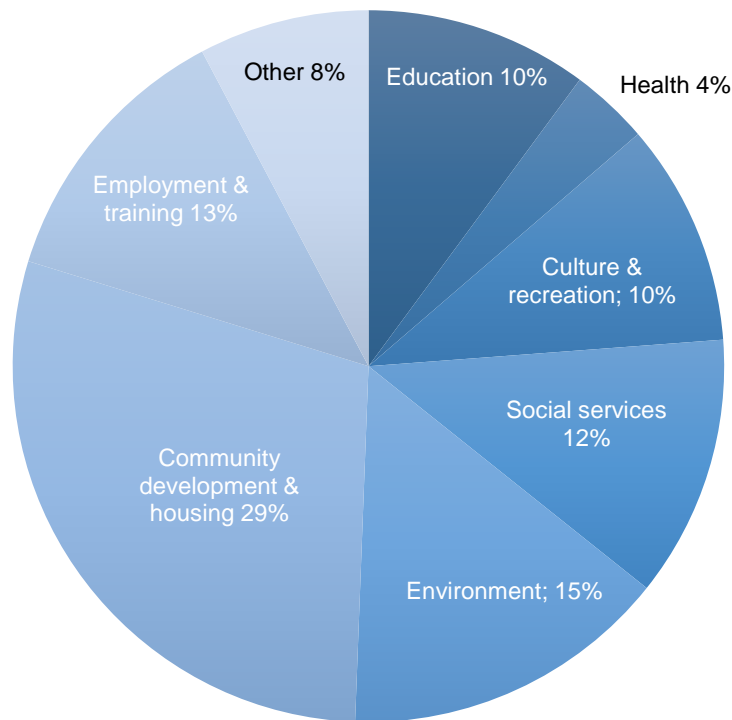


Figure 2: Impact generating activities of social enterprises in the UK by sector (SELUSI, N=168)

1.3.2. Regions

- Social enterprises are more likely to be found in the deprived or rural areas of the country, according to the State of Social Enterprises Survey 2013 conducted by Social Enterprise UK.¹¹
- The relationship between social entrepreneurship activity and deprivation is not straight forward and some evidence shows that setting up social enterprises in the most deprived areas of the country is still challenging.¹²
- Geographically, there is a higher proportion of social enterprises in London, the North East and the South West.
- Majority of social enterprises work locally: 23% in their community; 15% in one local authority; 15% in several local authorities; 21% on a national level; and 11% export or licence their offering.¹³

¹¹ **Social Enterprise UK.** 2013. "The People's Business: State of Social Enterprise Survey 2013." http://www.socialenterprise.org.uk/uploads/files/2013/07/the_peoples_business.pdf.

¹² **Levie, Jonathan, and Mark Hart.** 2011. "Business and Social Entrepreneurs in the UK: Gender, Context and Commitment." *International Journal of Gender and Entrepreneurship*, 3(3): 200–217.

¹³ **Social Enterprise UK.** 2013. "The People's Business: State of Social Enterprise Survey 2013." http://www.socialenterprise.org.uk/uploads/files/2013/07/the_peoples_business.pdf.

1.4. Recent developments in social entrepreneurship

- The implementation of the Public Services (Social Value) Act began in January 2013. The Act requires that all public authorities consider how their procurement might improve the social, environmental and economic well-being of their communities, thus increasing demand for the offering of social enterprises. The Act will also put pressure on social enterprises to demonstrate their social impact in clear terms.
- Support for social enterprises is becoming more specialised and focused on different regions (e.g. North of England); sectors (e.g. education, technology, health, public services, corporate social venturing); and types of social entrepreneurs (e.g. women and youth). Similar specialisation is occurring in the social impact investment market. This demonstrates that the field is maturing and support organisations and the market are recognising its diversity.
- The UK government has introduced a 30% tax relief to encourage investment in social enterprises. In particular, it is intended to stimulate unsecured investments to asset-locked bodies (such as charities and community interest companies). Alongside this tax relief, the government also reformed the CIC limited by shares legal structure, removing the dividend cap and leaving just an aggregate cap that limits total dividend payments to 35% of profits. This is intended to enable CICs to reward investors whilst ensuring a large majority of profits are retained and used for their social purposes.
- A growing number of policies and initiatives encourages public service spin-offs: 65 spin-offs currently deliver around £1bn of public services. These spin-offs are often employee-owned mutuals, and thus another example of the diversity of the field and the inclusive and participatory practices of social enterprises.¹⁴
- Universities are increasingly more involved in the field. Social entrepreneurship is covered in a variety of relevant modules and some universities are working on embedding social entrepreneurship across the curriculum. Universities also provide support services to social entrepreneurs from their student bodies and communities.

¹⁴ **Cabinet Office.** 2014. "Interactive Map of Public Service Mutuals." <http://mutuals.cabinetoffice.gov.uk/interactive-map-public-service-mutuals>.

2. General country context

2.1. Number of inhabitants and size of country

Table 2: Number of inhabitants and size of country

Number of inhabitants	63.7 million (30/06/2012)	
Size of country	243 610 km ² / 94 058 mi ²	

2.2. Top societal challenges in the United Kingdom

Table 3: Top societal challenges in the United Kingdom

Poverty and financial insecurity
<ul style="list-style-type: none"> - The number of multi-deprived households (i.e. those lacking three or more items or activities seen as necessities by the public) has doubled from 14% in 1983 to 33% in 2012. - 33% of adults cannot pay unexpected costs of £500 and 30% of adults cannot afford to make regular payments into a pension.¹⁵ - 11% of UK households experience fuel poverty.¹⁶
Aging population
<ul style="list-style-type: none"> - £10bn per year will be needed for every additional one million people over working age for state benefits and pensions. Additionally, providing health services to a person over 85 years is around three times more expensive than for a person between 65 and 74 years.¹⁷ - 5% to 16% of individuals over 65 years report loneliness and 12% report social isolation.¹⁸
Youth unemployment
<ul style="list-style-type: none"> - The youth unemployment rate for the last quarter of 2013 was 19.9% and 28% of unemployed 16-24-year-olds were unemployed for over 12 months.¹⁹ - Youth unemployment has serious short- and long-term implications on future employment, earnings potential and health.²⁰
Health inequality
<ul style="list-style-type: none"> - Inequality in illness accounts for £31-33bn of productivity losses, £20-32bn of lost taxes and higher welfare payments, and £5.5bn of additional healthcare costs.²¹

¹⁵ **Poverty and Social Exclusion.** 2013. "The Impoverishment of the UK." http://www.poverty.ac.uk/sites/default/files/attachments/The_Impoverishment_of_the_UK_PSE_UK_first_results_summary_report_March_28.pdf.

¹⁶ **Department of Energy & Climate Change.** 2013. "Fuel Poverty Report – Updated August 2013." https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/226985/fuel_poverty_report_2013.pdf.

¹⁷ **Parliament.** 2010. "Value for Money in Public Services: The Aging Population." <http://www.parliament.uk/business/publications/research/key-issues-for-the-new-parliament/value-for-money-in-public-services/the-ageing-population>.

¹⁸ **Social Care Institute for Excellence.** 2011. "Preventing Loneliness and Social Isolation: Interventions and Outcomes." <http://www.scie.org.uk/publications/briefings/files/briefing39.pdf>.

¹⁹ **House of Commons Library.** 2014. "Youth Unemployment Statistics." <http://www.parliament.uk/business/publications/research/briefing-papers/SN05871/youth-unemployment-statistics>.

²⁰ **The Work Foundation.** 2012. "Short-term Crisis – Long-term Problem? Addressing the Youth Unemployment Challenge." http://www.theworkfoundation.com/downloadpublication/report/314_short-term%20crisis_long_term_problem.pdf.

²¹ **Marmot, Michael, Jessica Allen, Peter Goldblatt, Tammy Boyce, Di McNeish, Mike Grady, and Ilaria Geddes.** 2010. "Fair Society, Healthy Lives: The Marmot Review." London: UCL Institute of Health Equity. Retrieved from <http://www.instituteoftheequity.org/projects/fair-society-healthy-lives-the-marmot-review> on March 14, 2014.

2.3. Overview of policy, entrepreneurial and voluntary landscapes

Table 4 below provides details on the general country context within which social enterprises in the UK are embedded. Social enterprises operate at the intersection of the public, private and voluntary sector, thus we characterise the UK in terms of its overall policy, entrepreneurial and voluntary landscapes. Section 3 extends this analysis to profiling specific stakeholders.

- **Policy landscape:** The general policy landscape is overall favourable for social enterprises in the UK. In particular, social expenditures as percent of national GDP are one indicator capturing how active governments are in terms of providing social services. The creation of social enterprises is often seen to be motivated by social need associated with a lack of social service provision by government. Although at later stages, operating and scaling social enterprises often partner effectively with government. Social entrepreneurial activity is enabled by stable country contexts and a strong rule of law. Such country contexts allow greater predictability and thus facilitate future-looking investments of effort and resources such as the creation of an enterprise.²²
- **Entrepreneurial landscape:** Compared to other innovation-driven economies, the UK can be characterised as a country with average commercial entrepreneurial activity, measured by the share of working age individuals engaged in starting a business. Cultural support of entrepreneurship in the UK is also broadly average (again relative to other developed, innovation-driving countries). Evidence suggests that there are mutual positive spill-over effects from social to commercial entrepreneurship and vice-versa²³, thus the entrepreneurial landscape in the UK is likely encouraging social entrepreneurship. Yet the international comparison suggests that while the UK is a country broadly supportive of enterprise, other developed nations are even more so.
- **Voluntary landscape:** There is a large voluntary sector in the UK as detailed in Table 4 below. International comparisons date back to 1995-2000 and depict the UK voluntary sector as average in size relative to other developed countries. The UK had a voluntary sector workforce (combining paid staff and volunteers) of 8.5% of the working population, which is lower than the Netherlands, Belgium, Ireland and the U.S, but higher than countries such as Israel, France, Norway, Sweden, Australia, Germany, Finland, Austria and Spain.²⁴ The voluntary sector is often seen as a breeding ground and supporting social enterprises, yet academic research on the links between voluntary sector and social enterprises is scarce and the two sectors might also be crowding each other out.

²² Estrin, Saul, Tomasz Mickiewicz, and Ute Stephan. 2013. "Entrepreneurship, Social Capital, and Institutions: Social and Commercial Entrepreneurship Across Nations." *Entrepreneurship Theory and Practice* 37 (3): 479–504.

²³ *Ibid.*

²⁴ Salamon, Lester M., S. Wojciech Sokolowski, and Associates. 2004. *Global Civil Society: Dimensions of the Nonprofit Sector*, Volume Two. Bloomfield, CT: Kumarian Press. http://ccss.jhu.edu/wp-content/uploads/downloads/2013/02/Comparative-data-Tables_2004_FORMATTED_2.2013.pdf.

Table 4: Landscapes overview for the UK

Policy Landscape	Entrepreneurial Landscape ²⁵	Voluntary Landscape
<p>SOCIAL EXPENDITURES²⁶ 23.8% of GDP (slightly higher than average score)</p> <p>POLITICAL STABILITY AND ABSENCE OF VIOLENCE²⁷ Rank 60 (0=lowest; 100=highest, lower than average score)</p> <p>RULE OF LAW²⁸ Rank 93 (0=weakest; 100=strongest, slightly higher than average score)</p>	<p>GEM ENTREPRENEURIAL ACTIVITY SCORES</p> <ul style="list-style-type: none"> - Total early-stage entrepreneurial activity (average score) - Nascent entrepreneurship rate (average score) - New business ownership rate (average score) - Employee entrepreneurial activity²⁹ (average score) <p>GEM ENTREPRENEURIAL ASPIRATIONS SCORES</p> <ul style="list-style-type: none"> - International orientation (average score) - New product early-stage entrepreneurial activity (average score) - Growth expectations (average score) <p>GEM ENTREPRENEURIAL ATTITUDES AND CULTURAL SUPPORT SCORES</p> <ul style="list-style-type: none"> - Perceived entrepreneurial capabilities (average score) - Fear of failure (average score) - Entrepreneurship seen as a desirable career choice (average score) - Media attention for entrepreneurship (average score) - Belief in high status of successful entrepreneurs (high score) 	<p>VOLUNTARY ORGANISATIONS³⁰</p> <ul style="list-style-type: none"> - 161 266 independent active voluntary organisations employ 2.7% of the UK workforce and generate £11.8bn of UK GVA. - They engage in a broad range of activities: socio-economic, socio-cultural, health and well-being, education, religion, sports. - The largest number of organisations focus on social services, culture and recreation, and religion. - The largest number of organisations aim to benefit children and youth, the general public, and the elderly. <p>INDIVIDUAL VOLUNTEERING³¹</p> <ul style="list-style-type: none"> - 72% of the population of England volunteered regularly in the past year (either formally or informally) - 74% of the population of England regularly give to charity

Note: GEM stands for Global Entrepreneurship Monitor. High GEM score is 1SD above the mean for innovation-driven economies with available data. Low GEM score is 1SD below the mean for innovation-driven economies with available data. The scores indicate nationwide attitudes, activities and characteristics which have a positive or negative influence on entrepreneurship.

²⁵ **Global Entrepreneurship Monitor** 2013. "Global Entrepreneurship Monitor 2013 Global Report." <http://gemconsortium.org/docs/download/3106>.

²⁶ The UK's public social expenditures are slightly higher than the average of all OECD countries which is 21.9%. OECD countries are a set of mostly highly developed economies. **Organisation for Economic Co-operation and Development**. 2013. "Social and Welfare Issues: Social Expenditure Database." <http://www.oecd.org/social/expenditure.htm>.

²⁷ The UK receives lower scores on political stability and the absence of violence compared to OECD countries (which are collectively ranked at 75). **World Bank**. 2012. "Worldwide Governance Indicators." <http://info.worldbank.org/governance/wgi/index.aspx#home>.

²⁸ The UK's rule of law is stronger compared to OECD countries (which are collectively ranked at 87). **Ibid**.

²⁹ **Global Entrepreneurship Monitor**. 2011. "Global Entrepreneurship Monitor 2011 Global Report." <http://gemconsortium.org/docs/download/2409>.

³⁰ **NCVO UK Civil Society Almanac**. 2014. "Voluntary Sector Statistics." <http://data.ncvo.org.uk/category/almanac/voluntary-sector>.

³¹ **Cabinet Office**. 2013. "2012-13 Community Life Survey." <http://communitylife.cabinetoffice.gov.uk/explore-the-data.html>.

3. Social enterprises in context

This section extends the description of the general country context (Section 2).

3.1. Institutional and stakeholder landscape of social enterprises

- **Policy makers**

The UK public sector reform promotes the creation of social enterprises, including employee-owned mutuals, to develop and deliver public services. The government is heavily involved in the social enterprise sector: from improving the legal infrastructure to creating new financial tools and providing support for public service spin-offs and social enterprise intermediaries.

- **Voluntary organisations**

Non-profit organisations are becoming more entrepreneurial in search of new ways to achieve their social missions. More of the voluntary sector's income is generated through trading than from donations and investment, thus blurring the boundaries between social enterprises and charities.³² Additionally, some of the most prominent social entrepreneurship support organisations, such as Nesta, UnLtd and Nominent Trust, are registered as charities.

- **Commercial organisations**

Supporting social entrepreneurship, especially in the early stages, is becoming a part of commercial organisations' CSR practices and sometimes even their strategic approach to growth (e.g. Telefonica's Think Big initiative and Wayra UnLtd accelerator). More importantly, commercial organisations include social enterprises in their supply chains and almost half of the social enterprises surveyed by Social Enterprise UK trade with the private sector.³³

- **Social entrepreneurship support organisations**

There are over 100 social entrepreneurship support organisations in the UK³⁴, including incubators, accelerators, networks, special co-working spaces, and social investment financial intermediaries, and universities, that provide support for starting up, sustaining, growing, and internationalising social enterprises. Support for social enterprises is becoming more specialised to meet the needs of a very diverse group of organisations.

- **Academic world**

Social entrepreneurship is covered in a variety of relevant modules in many universities and some universities are working on embedding social entrepreneurship across the curriculum. Many university enterprise centres host a variety of events and programmes to educate and engage the student body and staff members on the topic. Universities also provide support

³² **NCVO UK Civil Society Almanac**. 2014. "Voluntary Sector Statistics." <http://data.ncvo.org.uk/category/almanac/voluntary-sector>.

³³ **Social Enterprise UK**. 2013. "The People's Business: State of Social Enterprise Survey 2013." http://www.socialenterprise.org.uk/uploads/files/2013/07/the_peoples_business.pdf.

³⁴ **Shanmugalingam, Cynthia, Jack Graham, Simon Tucker, and Geoff Mulgan**. 2011. "Growing Social Ventures: The Role of Intermediaries and Investors: Who They Are, What They Do, and What They Could Become." <http://www.nesta.org.uk/publications/growing-social-ventures>.

services to social entrepreneurs from amongst their staff, student bodies and communities. Over half of all English universities are involved in the UnLtd SEE Change programme, which aims to embed support for social entrepreneurs in the Higher Education (HE) sector.

- **Media**

Specialised digital media outlets such as the Guardian Social Enterprise Professional Network and Pioneers Post cover the newest legislature, trends, developments and debates in the field of social entrepreneurship and give voice to social entrepreneurs.

- **General public**

Trade with the general public is the most common source of income for social enterprises surveyed by Social Enterprise UK. It is a source of income for 63% of interviewed social enterprises and the main source of income for 32% of social enterprises.³⁵

- **Grassroots movements**

A number of online and offline grassroots communities are emerging to support social entrepreneurs and help them solve specific challenges. Communities such as Good for Nothing and MakeSense bring individuals with diverse skillsets to support social entrepreneurs through ideation, problem-solving and development.

3.2. Linkages between social entrepreneurs and inclusive and innovative societies

- Social enterprises create opportunities for inclusion by the nature of their mission. Their social impact activities are often in the areas of economic, social and community development; employment and training; and social services.³⁶ For example, The Big Issue aims to help homeless people to take control of their lives, while Evenbreak connects disabled individuals with employers.
- Social enterprises create employment opportunities for disadvantaged individuals. The majority of social enterprises (52%) actively employ people disadvantaged in the labour market (e.g. long-term unemployed, ex-offenders or disabled). Social enterprises are also more likely to operate in the deprived communities where 40% of their employees are disadvantaged in the labour market.³⁷
- As organisational forms, social enterprises are more representative of our communities, and create opportunities for innovation and entrepreneurial engagement by population segments that are less involved in commercial entrepreneurship. For example, social enterprises are more likely to be led by women or disabled individuals and their leadership teams are more inclusive in terms of gender and ethnicity compared to commercial enterprises.³⁸
- The SELUSI survey also found social enterprises to be more inclusive and participatory in their ownership, management and innovation practices.³⁹

³⁵ **Social Enterprise UK.** 2013. "The People's Business: State of Social Enterprise Survey 2013. " http://www.socialenterprise.org.uk/uploads/files/2013/07/the_peoples_business.pdf.

³⁶ **SELUSI Research Consortium.** 2010. "Social Entrepreneurs as Lead Users for Service Innovation." <http://www.selusi.eu>.

³⁷ **Social Enterprise UK.** 2013. "The People's Business: State of Social Enterprise Survey 2013. " http://www.socialenterprise.org.uk/uploads/files/2013/07/the_peoples_business.pdf.

³⁸ **Ibid.**

³⁹ **SELUSI Research Consortium.** 2010. "Social Entrepreneurs as Lead Users for Service Innovation." <http://www.selusi.eu>.

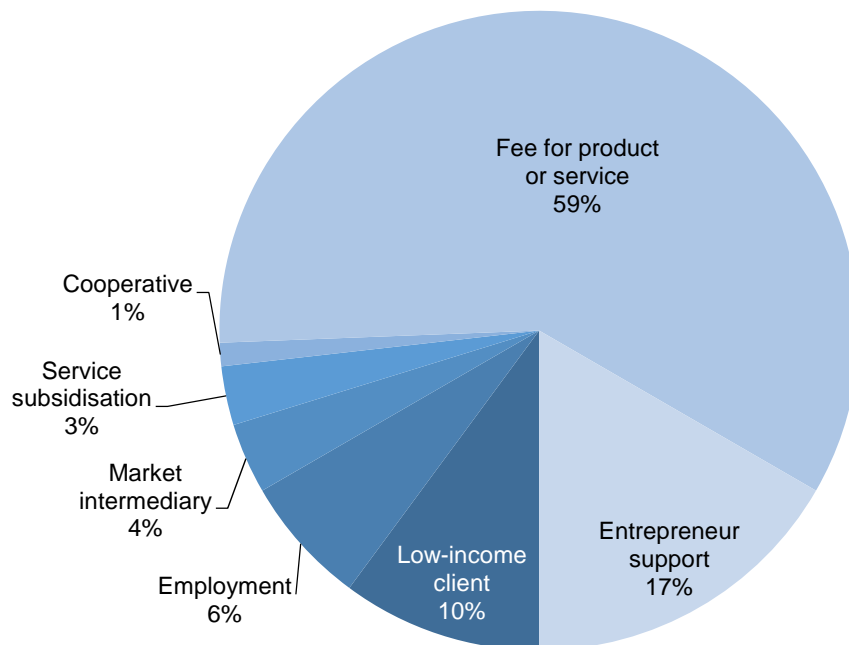
4. Organisation of social enterprises in the market and society

4.1. Legal form of social enterprises

- Social enterprises can operate under a number of different legal forms and determining the most common ones is difficult for two reasons. First, social enterprises may operate under a combination of legal forms which allows them to be flexible, efficient and innovative in their efforts. Second, social enterprises can operate under a charity status, however, national data is collected separately for the private and the voluntary sector, thus certain legal forms are excluded from specific databases by design.
- Based on the 2012 Small Business Survey, which excludes charities, the most popular forms for social enterprises are private limited company (30.8%), sole proprietorship (28.8%), partnership (13.3), company limited by guarantee (7.8%), community interest company (4.9%), and independent provident society (3.2%).⁴⁰
- There are 8 666 registered community interest companies, the legal form specifically designed for social enterprises. However, the legal form poses limitations to growth and access to finance. The changes to the community interest company limited by shares aim to address the issue by removing the dividend cap.⁴¹

4.2. Operational model of social enterprises

- The most common operational models in the UK are fee for product/service, entrepreneurial support and low-income client, which further demonstrates how social enterprises support disadvantaged groups by creating products and services that directly create social impact or stimulate entrepreneurial and innovative efforts.



⁴⁰ Cabinet Office and BMG Research. 2013. "Social Enterprise: Market Trends." <https://www.gov.uk/government/publications/social-enterprise-market-trends>. London: Cabinet Office.

⁴¹ Office of the Regulator of Community Interest Companies. 2013. "Changes to the Dividend and Interest Caps." <https://www.gov.uk/government/news/changes-to-the-dividend-and-interest-caps>.

Figure 3: Operational models of social enterprises in the UK (SELUSI, N=168)

Note: See Annex for explanation of the different models.

4.3. Important values for social entrepreneurs

- Reflective of their values⁴², social entrepreneurs are inclusive in their enterprises and tend to adopt more participatory management practices: less top-down decision-making, more involvement and consultation of employees, and instituting a smaller salary spread than is conventional amongst commercial businesses.
- Compared to a representative sample of UK self-employed individuals, UK social entrepreneurs display: stronger self-direction, stimulation and achievement values; similar power, benevolence and universalism values; and lower tradition, conformity, security, and hedonism values. These values reflect that social entrepreneurs in the UK are more open to change, experimentation and proactivity, and less concerned with fitting into societal traditions and norms⁴³.
- Social entrepreneurs' participatory management practices and values do not hinder the entrepreneurial orientation of their enterprises. On average, UK social entrepreneurs tend to be innovative, experimental, risk-taking and highly proactive in introducing products and services ahead of similar organisations (see also Figure 5).⁴⁴

⁴² **Stephan, Ute, Marieke Huysentruyt and Suncica Vuijc.** 2010." Opportunity recognition and the value(s) of social entrepreneurs." Paper presented at NYU Stern Annual Social Entrepreneurship Conference, November 3-5, 2010.

⁴³ **Ibid.**

⁴⁴ **SELUSI Research Consortium.** 2010. "Social Entrepreneurs as Lead Users for Service Innovation." <http://www.selusi.eu>.

5. Financing of social enterprises

5.1. Sources of revenue and funding for social enterprises

- Sale of products or services is the most significant source of capital (63%) for social enterprises in the UK. The second most significant source of capital (24%) is grants.⁴⁵ See figure 4 below.

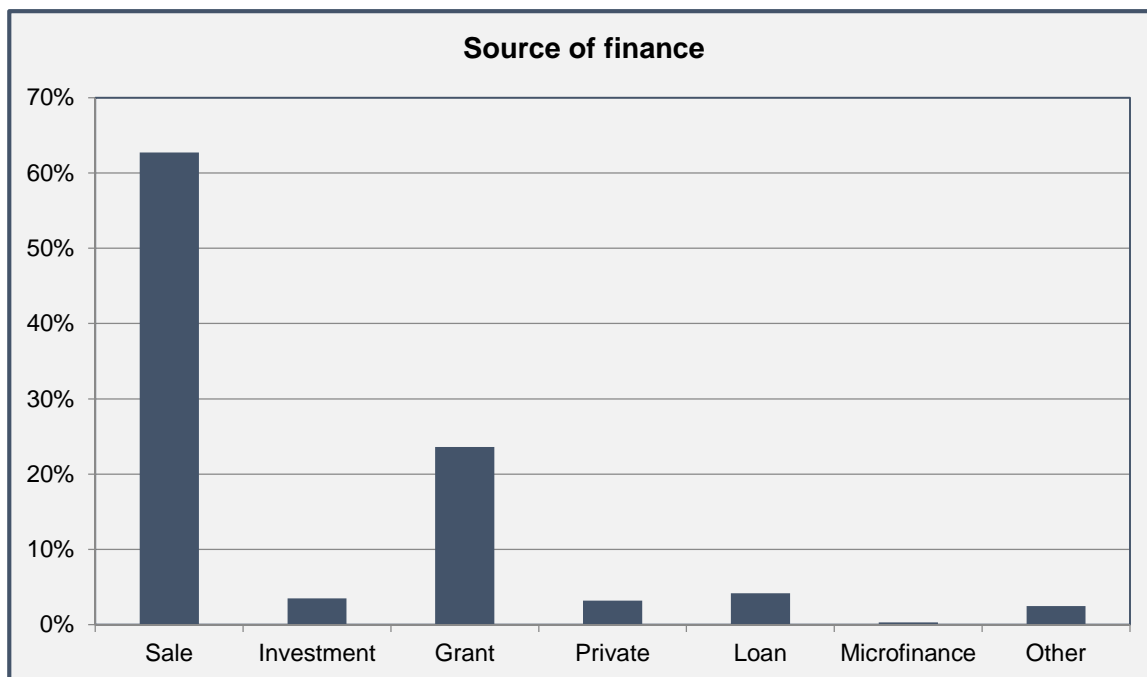


Figure 4: Sources of revenue for social enterprises in the UK (SELUSI, N=166)

- More than half of social enterprises (52%) trade with the public sector and for 23% of social enterprises in the UK that is the main source of revenue. The number of social enterprises that are commissioned to deliver public services and the volume of such work is expected to increase with the implementation of the Public Services (Social Value) Act.
- More social enterprises seek external sources of financing compared to commercial enterprises and they apply for larger amounts of financing.⁴⁶
- Lack of, or poor access to, finance is still perceived as the single most significant barrier for starting up, sustainability and growth by social entrepreneurs. This is in contrast with commercial enterprises for which access to financing is the 6th biggest barrier to sustainability and growth. One of the issues raised among start-up social enterprises is the lack of understanding of social enterprises among banks.⁴⁷

⁴⁵ SELUSI Research Consortium. 2010. "Social Entrepreneurs as Lead Users for Service Innovation." <http://www.selusi.eu>.

⁴⁶ Social Enterprise UK. 2013. "The People's Business: State of Social Enterprise Survey 2013." http://www.socialenterprise.org.uk/uploads/files/2013/07/the_peoples_business.pdf.

⁴⁷ *Ibid.*

5.2. Economic climate

- In 2013, social enterprises surveyed by Social Enterprise UK perceived the economic climate as the second most significant barrier to their sustainability and growth. This is especially the case for organisations with a turnover above £1 million. This is a dramatic difference from 2011 when economic climate ranked 11th, mentioned by only 8% of social enterprises as a barrier. It indicates that the financial crisis impacts UK social enterprises with a time delay.
- Considering that the public sector is a main source of revenue for social enterprises, it is important to note the impact of budget cuts in the last few years and the risks for social enterprises. In fact, 61% of social enterprises that trade primarily with the public sector have diversified into new markets in the past 12 months compared with 38% of other social enterprises.⁴⁸

5.3. Social investment

- Social impact investment is not a new concept in the UK: a number of established organisations have been investing for social impact and managing investment for about a decade (e.g. Investing for Good, Bridges Ventures, Key Fund, FSEGroup, Truestone Impact, Social Enterprise Investment Fund).
- The social impact investment market grew by a quarter in 2012 to reach £202m with 765 deals made by 29 social investment financial intermediaries.⁴⁹
- Big Society Capital was launched by the UK government in 2012 with a fund of £600m to support social investment intermediaries.
- More recently, new and more specialised funds have been launched to invest in specific sectors, outcomes or regions: City of London Corporation Social Investment Fund (£20 million), Social Incubator Fund (£10 million), Nesta Impact Investment Fund (£25 million), Impact Ventures UK Fund, and The Big Energy Idea.
- The number of social impact bonds, i.e. outcome-based contracts between public sector bodies and social enterprises, has drastically increased from one in 2011 to 13 in 2013, a number larger than the rest of the world combined. These social impact bonds involve about 40 organisations.⁵⁰
- Despite the growth of the market, the challenge for social enterprises is still access to high-risk early-stage finance above £50 000.⁵¹
- The UK government introduced a 30% social investment tax relief in April 2014 to encourage unsecured investment to asset-locked entities such as charities and community interest companies.

⁴⁸ **Social Enterprise UK.** 2013. "The People's Business: State of Social Enterprise Survey 2013. " http://www.socialenterprise.org.uk/uploads/files/2013/07/the_peoples_business.pdf.

⁴⁹ **Cabinet Office.** 2013. "Background Analysis on the UK Social Investment Market."

https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/277861/Background_analysis_on_the_UK_social_investment_market.pdf.

⁵⁰ **HM Government.** 2013. "Growing the Social Investment Market: 2013 Progress Report."

https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/205295/Social_Investment_Strategy_Update_2013.pdf.

⁵¹ **Howells, Grace, Stephen Miller, and Tom Fox.** 2012. "Attracting Early-Stage Social Investment." London: UnLtd. http://unltd.org.uk/wp-content/uploads/2013/01/UnLtd_Research_Publication_Number6_bvc_nocrops.pdf.

6. Innovation of social enterprises

6.1. Innovation drivers and barriers⁵²

Social enterprises are more involved in innovative activities such as creating new or significantly improved products, services and processes, compared to commercial enterprises:

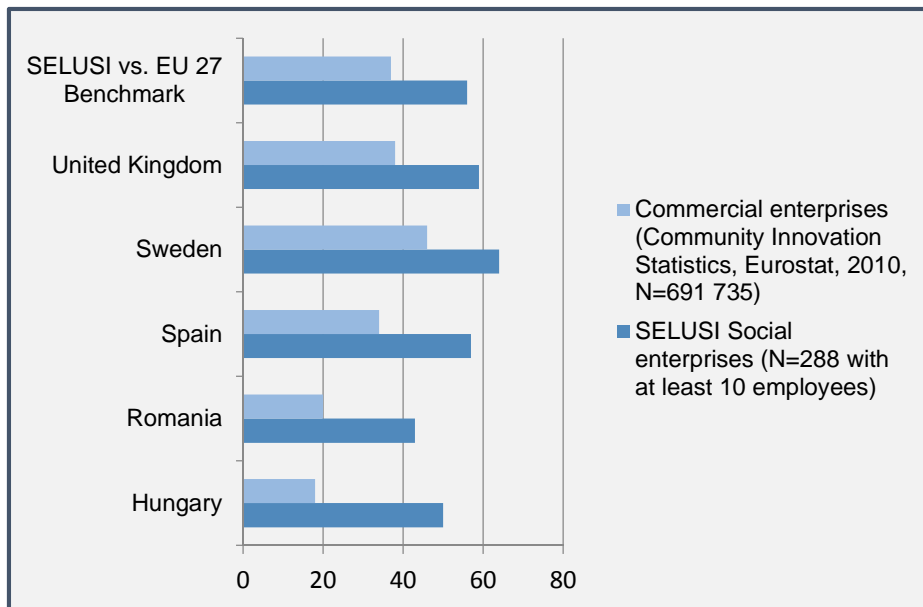


Figure 5: Per cent of organisations that introduced new-to-the-market innovations (SELUSI and Eurostat)

- The main driver for innovation among social enterprises in the UK is **to achieve social and environmental goals** (78%), such as increasing the quality of social impact, spreading social impact or reducing environmental impact. This driver is mentioned significantly more often in the UK than in the other SELUSI countries (Hungary, Romania, Spain and Sweden).



Figure 6: Innovation drivers for social enterprises in the UK (SELUSI, N=164)

⁵² SELUSI Research Consortium. 2010. "Social Entrepreneurs as Lead Users for Service Innovation." <http://www.selusi.eu>.

- The second most common driver is **to increase the enterprise's financial sustainability and expand its market** (44%). This clearly demonstrates the dual nature of social enterprises to create social impact in self-sustainable manner.
- The third driver for innovation is **to increase the range/quality of products and services** (37%), which is the most common driver among commercial enterprises.

However, social enterprises also experience barriers to innovation:

- **Cost-related innovation barriers** (much like with commercial enterprises) are the most frequently mentioned (34.7%). One third of the respondents experienced problems with availability of finance or high costs.
- **Internal barriers** are the second most common (20.4%). This category includes problems such as lack of time available, lack of capabilities within the team or internal resistance to change.
- **Regulation-related** (12%) and **market-related barriers** (7.8%) are less cited.

6.2. Types of innovation⁵³

- Social enterprises in the UK predominantly innovate in the areas of **processes** (67%) and **services** (62%).
- The majority (60%) of social enterprises in the UK introduce radical, new to the market innovations.
- Innovations have a relatively high impact on both financial and social performance of social enterprises in the UK.

6.3. Innovation process⁵⁴

To develop and introduce their innovations, social enterprises collaborate with a diverse range of organisations and individuals. The most common collaborators for UK social enterprises are:

- Pure non-profit organisations (29%)
- Public sector organisations (27%)
- Pure for-profit organisations (20%)

Such diverse collaboration once again demonstrates the participatory and inclusive practices of social enterprises.

⁵³ SELUSI Research Consortium. 2010. "Social Entrepreneurs as Lead Users for Service Innovation." <http://www.selusi.eu>.

⁵⁴ Ibid.

7. Impact of social enterprises

7.1. Impact measurement: Does it take place?

- The majority of social enterprises (68%) indicate that they measure their social impact to a greater (32%) or lesser extent (36%). The figure is greater for social start-ups (74%) and social enterprises whose main source of income is the public sector (76%). This shows that impact measurement can be a competitive advantage and, for some organisations, even a necessity to win public contracts.⁵⁵
- While demonstrating impact is often essential to work with the public sector, it is a challenge for social enterprises for a number of reasons. First, it is intrinsically difficult for those social enterprises with preventative work or long-term outcomes to measure impact for the length of the contract. Second, impact measurement may be time consuming and expensive, which is a particular challenge for smaller enterprises. Additionally, the number of social impact measurement tools is growing, however, social enterprises do not always have the capabilities to select the right tool or the resources to implement such measurement.⁵⁶
- There is evidence that impact measurement has additional benefits for social ventures: motivating staff and serving beneficiaries better.⁵⁷⁵⁸

7.2. Impact results and dimensions

- The most common primary social impact indicators among the social enterprises in the SELUSI survey in the UK are the number of beneficiaries served and the number of beneficiaries employed.
- The most common secondary social impact indicator among the social enterprises in the SELUSI survey in the UK is the number of individuals empowered.⁵⁹

7.3. Social impact trends and developments

- Social enterprises that work with the public sector will increasingly face the need to demonstrate their social impact, especially with the growth of social impact bonds and the implementation of the Public Services (Social Value) Act.
- The number of social impact measurement tools is growing, however, they vary in quality.
- There is a trend to standardise impact measurement in terms of both process and outcomes and create a common language. Two collaborative initiatives demonstrate this trend:
 - Investing for Good, New Philanthropy Capital, SROI Network and Big Society Capital have created the Outcome Matrix, a tool that measure social impact on an individual, community and societal level. It is already used by a number of social investment financial intermediaries and considered for use by government departments.⁶⁰
 - Eight organisations collaborate to manage and deliver Inspiring Impact, an initiative that aims to make high quality social impact measurement the norm by 2022.⁶¹

⁵⁵ **Social Enterprise UK.** 2013. "The People's Business: State of Social Enterprise Survey 2013." http://www.socialenterprise.org.uk/uploads/files/2013/07/the_peoples_business.pdf.

⁵⁶ **SELUSI Research Consortium.** 2010. "Social Entrepreneurs as Lead Users for Service Innovation." <http://www.selusi.eu>.

⁵⁷ **Davies, Anna, and Rachel Schon.** 2013. "Bridging the Divide: Social Entrepreneurs and Commissioners on Public Sector Contracting." London: Young Foundation. <http://youngfoundation.org/wp-content/uploads/2013/12/Bridging-the-Divide.pdf>.

⁵⁸ **Stephan, Ute, Malcolm Patterson and Ciara Kelly.** 2013. "Business-driven social change: A systematic review of the evidence." London, ON: Network for Business Sustainability (nbs.net) <http://nbs.net/wp-content/uploads/NBS-Systematic-Review-Social-Change1.pdf>

⁵⁹ **SELUSI Research Consortium.** 2010. "Social Entrepreneurs as Lead Users for Service Innovation." <http://www.selusi.eu>.

⁶⁰ **The Good Investor.** 2013. "Outcome matrix." <http://goodinvestor.co.uk/outcomes-matrix/>.

⁶¹ **Inspiring Impact.** <http://inspiringimpact.org/>.

8. Overview of studies and datasources

- **Cabinet Office & BMG Research.** 2013. "Social Enterprise: Market Trends." London: Cabinet Office. Retrieved from <https://www.gov.uk/government/publications/social-enterprise-market-trends> on 14/03/2014.
- **Davies, Anna, and Rachel Schon.** 2013. "*Bridging the Divide: Social Entrepreneurs and Commissioners on Public Sector Contracting.*" London: The Young Foundation. Retrieved from <http://youngfoundation.org/wp-content/uploads/2013/12/Bridging-the-Divide.pdf> on 14/03/2014.
- **Estrin, Saul, Tomasz Mickiewicz, and Ute Stephan.** 2013. "Entrepreneurship, Social Capital, and Institutions: Social and Commercial Entrepreneurship across Nations." *Entrepreneurship Theory and Practice* 37 (3): 479–504.
- **HM Government.** 2013. "Growing the Social Investment Market: 2013 Progress Update." Retrieved from https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/205295/Social_Investment_Strategy_Update_2013.pdf on 14/03/2014.
- **Howells, Grace, Stephen Miller, and Tom Fox.** 2012. "Attracting Early-Stage Social Investment." London: UnLtd. Retrieved from http://unltd.org.uk/wp-content/uploads/2013/01/UnLtd_Research_Publication_Number6_bvc_nocrops.pdf on 14/03/2014.
- **Levie, Jonathan, and Mark Hart.** 2011. "Business and Social Entrepreneurs in the UK: Gender, Context and Commitment." *International Journal of Gender and Entrepreneurship*, 3(3): 200–217.
- **SELUSI Research Consortium.** 2010. "Social Entrepreneurs as Lead Users for Service Innovation." Retrieved from <http://www.selusi.eu> on 14/03/2014.
- **Shanmugalingam, Cynthia, Jack Graham, Simon Tucker, and Geoff Mulgan.** 2011. "Growing Social Ventures: The Role of Intermediaries and Investors: Who They Are, What They Do, and What They Could Become." London: The Young Foundation and Nesta. Retrieved from <http://www.nesta.org.uk/publications/growing-social-ventures> on 21/04/2014.
- **Social Enterprise UK.** 2013. "The People's Business: State of Social Enterprise Survey 2013." http://www.socialenterprise.org.uk/uploads/files/2013/07/the_peoples_business.pdf.
- **Stephan, Ute, Malcolm Patterson and Ciara Kelly.** 2013. "Business-driven social change: A systematic review of the evidence." London, ON: Network for Business Sustainability (nbs.net) <http://nbs.net/wp-content/uploads/NBS-Systematic-Review-Social-Change1.pdf>
- **Stephan, Ute, Marieke Huysentruyt and Suncica Vuijc.** 2010. "Opportunity recognition and the value(s) of social entrepreneurs." Paper presented at *NYU Stern Annual Social Entrepreneurship Conference*, November 3-5, 2010.
- **Teasdale, Simon, Fergus Lyon, and Robert Baldock.** 2013. "Playing with Numbers: A Methodological Critique of the Social Enterprise Growth Myth." *Journal of Social Entrepreneurship*, DOI: 10.1080/19420676.2012.762800.
- **Terjesen, Siri, Jan Lepoutre, Rachida Justo, and Neils Bosma.** 2011. "Global Entrepreneurship Monitor Report on Social Entrepreneurship: Executive Summary." Retrieved from <http://www.gemconsortium.org/docs/download/376> on 14/03/2014.

9. Annex: Operational models explained

Operational models describe how social enterprises align social and economic value creation⁶².

1. Employment model

The organisation provides employment opportunities and job training to its target population or people with high barriers to employment.

2. Cooperative model

The organisation provides direct benefits to its target population or clients through member services: market information, technical assistance, collective bargaining power, economies of bulk purchase, access to products and services, etc.

3. Market intermediary model

The organization provides services to its target population or clients, usually small producers to help them access markets.

4. Entrepreneur support model

Similar to the market intermediary model, the organisation sells business support and/or financial services to its target population or clients, which are self-employed individuals or firms. Its mission centers on facilitating the financial security of its clients by supporting their entrepreneurial activities.

5. Fee for service and/or product model

The organisation commercialises its social services and/or products, and sells them directly to the target population or clients, individuals, firms, communities, or to a third party player.

6. Low-income client model

The low-income client model is a variation of the fee for service and/or product model. The organisation designs and sells services specifically to low-income clients.

7. Service subsidisation model

The organisation sells products or services to an external market and uses the income it generates to fund its social programmes. Social and business activities may only align weakly.

8. Organisational support model

The organisational support model is similar to service subsidisation model, but the business activities are separate from the social programmes through different legal entities.

⁶² Based on **Alter, Sutia K.** 2006. "Social enterprise models and their mission and money relationships." In *Social Entrepreneurship: New Models of Sustainable Social Change*, edited by A Nicholls, 205–232. Oxford: Oxford University Press.



KU LEUVEN


Aston Business School

Hertie School
of Governance


UAB
Universitat Autònoma de Barcelona



UnLtd 


OKSIGEN LAB
for social entrepreneurship


iPROPELLER
OPEN INNOVATION

NPI initiative



This project has received funding from the European Union's Seventh Framework Programme for research, technological development and demonstration under grant agreement no 613500.