

An Introduction to Social Enterprise



'Social Enterprise' – it is such a common term, used by everyone from politicians to charities to people setting up businesses. But 'social enterprise' can be a confusing concept...

- What exactly is a social enterprise?
- How do I set one up?
- Is my organisation considered to be one already?
- Is social enterprise a legal form?

This fact sheet provides a brief overview of what a social enterprise is and how they fit in with the rest of the voluntary and community sector (VCS) in Southwark.

Definitions

Social Enterprise

One of the biggest areas of confusion when looking at social enterprise is that there is no legal or statutory definition.

There are, however, a number of definitions that are commonly used and are helpful in identifying what a social enterprise looks like:

A business with primarily social objectives whose surpluses are principally reinvested for that purpose in the business or community, rather than being driven by the need to maximise profits for shareholders and owners. (Gov.UK)

Social enterprises are businesses that trade to tackle social problems, improve communities, people's life chances, or the environment. They make their money from selling goods and services in the open market, but they reinvest their profits back into the business or the local community. (Social Enterprise UK)

A social enterprise is a business driven by a social or environmental purpose. As with all business, social enterprises compete to deliver goods and services. The difference is that social purpose is at the very heart of what they do, and the profits they make are reinvested towards achieving that purpose. (School for Social Entrepreneurs)

A social enterprise is a business that has both social and commercial goals. What makes it different from other enterprises is that it places a firm emphasis on tackling social problems. This positive impact is as important to its business objective as any financial bottom line. (Clearly So)

Social Entrepreneurs

Yet another phrase you may have come across along your journey – below are two descriptions that reflect what a social entrepreneur is:

'Individuals with entrepreneurial solutions to social and economic problems.' They 'cover a range from starting small community organisations building social capital and cohesion, right through the scale to major ventures delivering social and economic impact, and including people with breakthrough innovation models.' The Global Social Entrepreneurship Network

A social entrepreneur is someone who works in an entrepreneurial manner, but for public or social benefit, rather than to make money. Social entrepreneurs may work in ethical businesses in the private sector, governmental or public bodies, or the nonprofit and community sector. (School for Social Entrepreneurs)

The term 'Social Enterprise' in fact describes a way of doing things and a mind-set. Just like businesses, social enterprises trade in all sorts of markets: selling goods and services to individuals or to local authorities; charities; government and private businesses. The key difference between a social enterprise and business is that it is socially aware and that all of its profits or surpluses are reinvested back into the social and environmental purposes of the organisation.

The term "social enterprise" shouldn't be confused with private businesses that simply operate in an ethical way, charities that don't do business (or trade very little) or public sector arms-length companies that operate as part of a government department or agency, but has substantial autonomy in how it is managed.

Characteristics

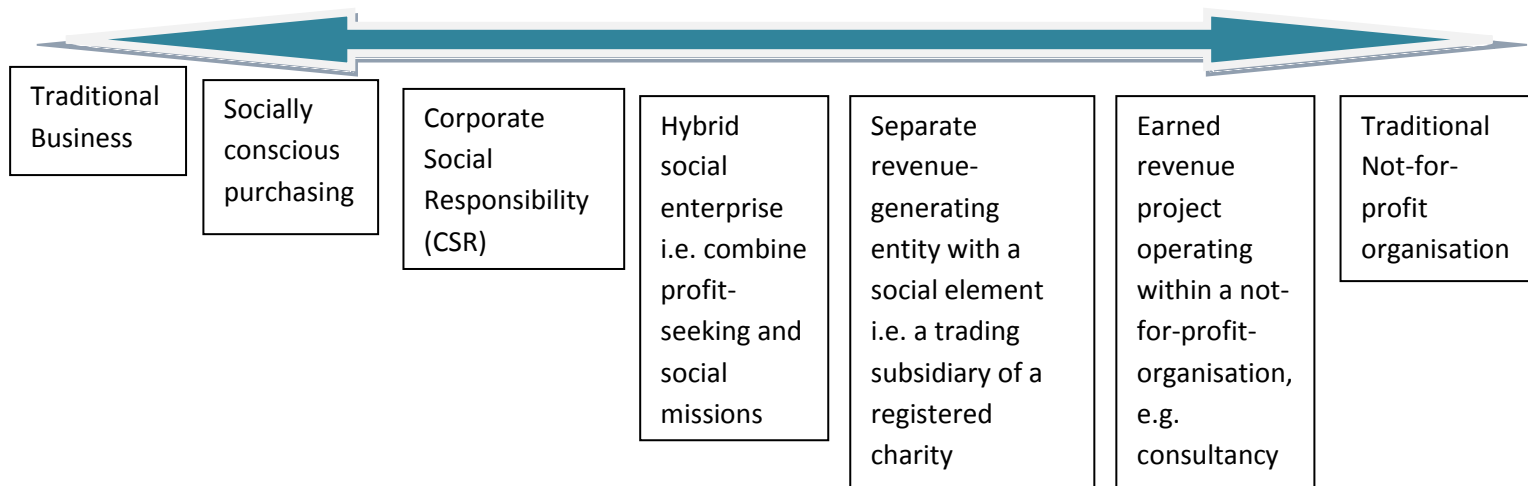
There is not a single legal definition, but all of those definitions that are listed above indicate some key characteristics of social enterprise.

The main characteristics of social enterprise are:

1. Have a clear social and/or environmental mission set out in their governing documents
2. Generate 50% or more of their income through trade or selling goods and services
3. Reinvest the majority of their profits back into the social enterprise's operations
4. Be independent of state/local authorities
5. Be majority controlled in the interests of the social mission rather than shareholders

You may have other things you would add to this list...

The Social Enterprise Continuum



Adapted from the BC Centre for Social Enterprise, 2010

Whether you are setting up a social enterprise or changing the way you work in your organisation, there are a number of advantages and disadvantages to setting up a social enterprise, (some of which will vary depending upon the legal form you choose):

Advantages/ Benefits

- Provides unrestricted earned income
- Reduces reliance on traditional funding sources
- Allows for financial self-sufficiency
- Offers more freedom to respond to community needs
- Provides more flexibility in providing existing services
- Could broaden support for your organisation
- Could empower beneficiaries to insist on better services (as they pay for them) giving them a voice in what they buy
- May enhance credibility with other funders, possible beneficiaries, current beneficiaries and stakeholders
- May help sharpen the organisational management skills:
 - Increased focus on impact
 - Improve research, planning and marketing skills
 - Expand most effective services
 - Stop or transfer weaker or duplicative services
- Flexibility to add new services that meet emerging or growing needs
- Provides opportunity for local people to gain employment
- Brings positive change to people and communities
- Profits/surpluses are ploughed back into the organisation – this can be used to develop new products/services/activities
- Flexibility of being able to trade commercially whilst fulfilling social aims
- Highlighting the social and environmental credentials of the service could give a competitive edge in some market places.

Disadvantages/ Barriers

- Choosing the right legal status – some may feel they lose the not-for-profit status
- Risk of the board, staff, volunteers, beneficiaries and other stakeholders will oppose efforts to generate income or charge for services
- Time and money required to start a new venture or make changes to a current organisation
- Fear (unrealised) that generating income will reduce funding/contributions from other sources
- Lack of business skills within the organisation
- No quick return on investment of money, time and energy
- Fear of financial and/or reputational risks and of compromising the mission
- Challenge of managing the possibility of rapid growth
- Challenge of entering a new way of working – culture change within the organisation
- Have to compete in the commercial market and face the same challenges and risks common to all businesses
- Need to be competitive and attract new ‘customers’
- Requirement to manage the ‘multiple bottom line’ – financial, social and environmental – can result in unique challenges
- Certain controls and restrictions may need to be defined in the governing document.

Legal Forms

‘A social or community enterprise may use almost any type of structure, either unincorporated or incorporated. Most are likely to register as a community interest company (CIC), ordinary (non-CIC) company limited by guarantee or company limited by shares, community benefit industrial and provident society or prescribed community benefit society.’ (Russell-Cooke Voluntary Sector Legal Handbook, 3rd edition)

It is important to remember that social enterprise is NOT a legal form in itself. Social enterprise is a way of working that can be in the form of number of different legal structures. An organisation must choose the legal structure that best fits the work it wants to carry out and the way in which it can be financially sustainable.

Unincorporated forms

If a social enterprise remains unincorporated, as a sole trader or partnership, its profits will be taxed as income of the individuals involved. They would normally be treated as self-employed and be required to use self-assessment to calculate the income tax and national insurance contributions applicable to any profits taken out of the business. Unincorporated associations may be similarly treated for tax purposes, although many are liable for corporation tax on their income and must register with HM Revenue and Customs (HMRC) for this purpose.’ (A Guide to Legal Forms for Social Enterprise. Department for Business, Innovation & Skills (BIS), November 2011)

Incorporated forms

Incorporation means that the organisation has its own legal identity, and can therefore enter into contractual arrangements in the name of the company, not the name of the individuals on the governing body. This provides the individuals on your board with a limited liability.

Therefore, the triggers for incorporation are often that an organisation is taking on high/er risks.

The following are some examples of things an organisation might do which would increase the risks associated with it:

- Taking on a lease;

- Buying a freehold property;
- Taking on employees;
- Raising finance;
- Entering into contracts;
- Risk management related to your product or service (for example child care or food services).

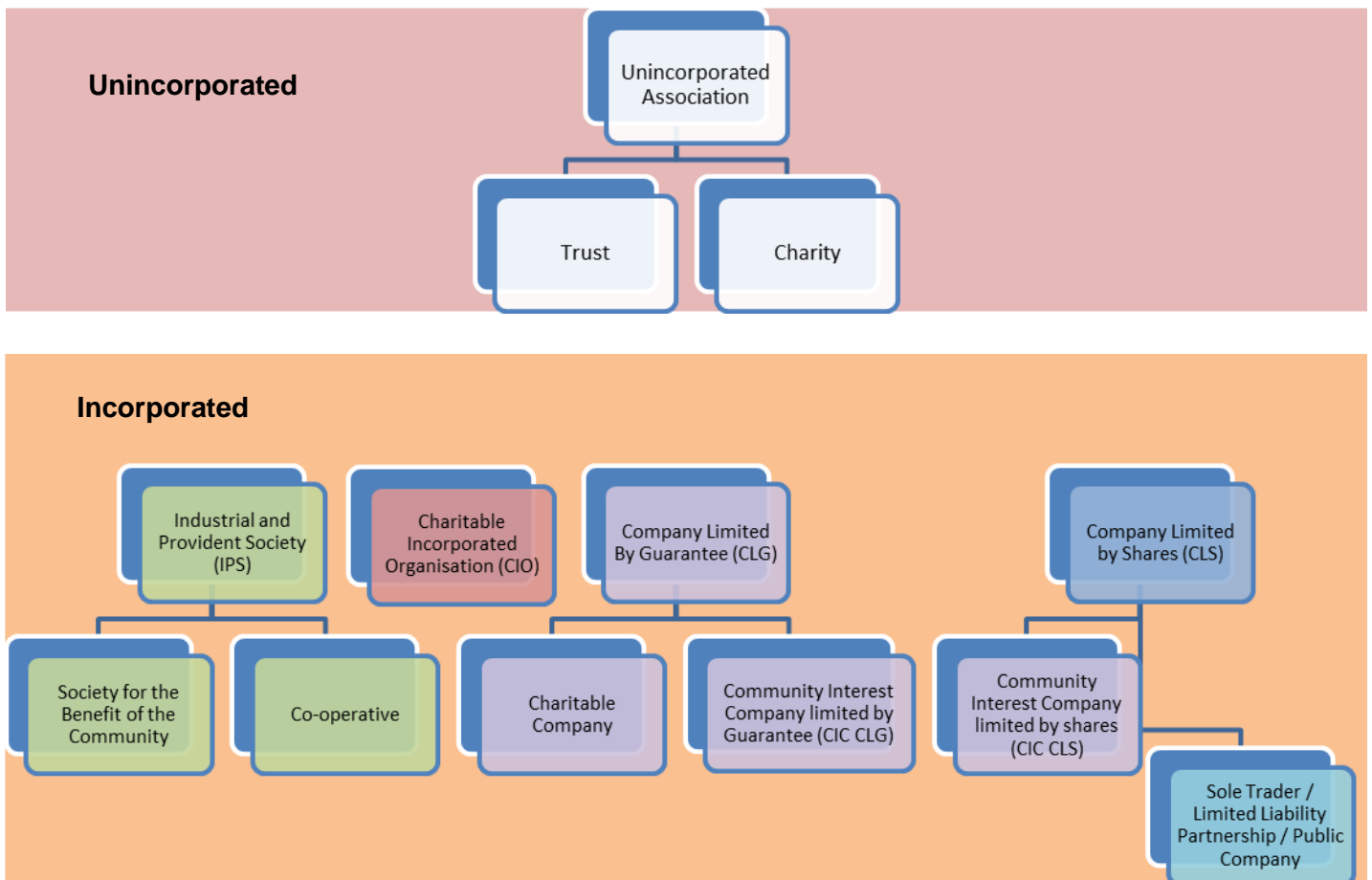
Incorporation is a form of risk management but there are other others e.g. insurance, which may be suitable in some cases, in addition to or instead of incorporation.

There is a variety of legal forms to pick from including:

- Company Limited by Guarantee
- Community Interest Company (CIC) by guarantee or by shares
- Cooperative
- Community Benefit Society's (Bencoms)

Most social enterprises will operate as a business from the very beginning often picking one of the legal forms above. Others will evolve from charities out of a need to diversify income and survive away from grant funding.

Many charities (registered and unregistered) have started to look at ways to generate unrestricted income through more social enterprise like methods such as charging for services, offering consultancy, selling products etc. Some become charitable companies; others may have a trading arm.



The diagram above shows the different legal forms and where they sit – some are more appropriate for the social enterprise mind-set than others.

For more information about different legal forms, see the [Community Southwark website - Resources](#)

Examples of Social Enterprise

- [Jamie Oliver's Fifteen](#)
- [The Co-Operative](#)
- [Divine Chocolate](#)
- [Eden Project](#)
- [The Big Issue](#)
- [Unity Kitchen](#)
- [Fusion](#)
- [No. 178](#)
- [Brigade](#)
- [Coin Street Community Builders](#)

Resources

- The Russell-Cooke Voluntary Sector Legal Handbook, 3rd Edition: Directory of Social Change
- [TUPE: HR's worst nightmare unraveled](#), Chris Stephens for CIPD
- [A Guide to Legal Forms for Social Enterprise](#). Department for Business, Innovation & Skills (BIS), November 2011
- [What makes a social enterprise a social enterprise?](#) Social Enterprise UK, April 2012.
- [Social Enterprise Explained](#) Social Enterprise UK, April 2011

Support

If you would like any support with setting up a social enterprise or any other issues facing your organisation, please contact the Development Team at Community Southwark: development@communitysouthwark.org or 020 7358 7020.

[Community Catalysts](#) and [Community Southwark](#) are working together to support local people to develop the micro-market of support and care options in Southwark. If you would like support with micro-enterprise, please check our website: <http://communitysouthwark.org/cas-services/support-small-care-groups>

The following links are to support and resources specifically for social enterprise and small businesses:

- [British Library](#)
- [Brixton Impact Hub](#)
- [BTEG Opening Doors programme](#)
- [Business in the Community](#)
- [City Business Library](#)
- [Community Shares](#)
- [Co-operative Enterprise Hub](#)
- [Co-operatives UK](#)
- [Global Social Entrepreneur Network](#)
- [Guardian Sustainable Business Network](#)
- [HATCH Incubator](#)
- [Locality](#)
- [Olmec](#)
- [One Planet Ventures](#)
- [School for Social Entrepreneurs](#)
- [Social Enterprise UK](#)
- [Unltd social entrepreneurs programme](#)
- [Westminster Hub](#)