

H I D D E N R E V O L U T I O N

SIZE AND SCALE OF SOCIAL ENTERPRISE IN 2018



Social
Enterprise UK





“Social enterprises have the potential to transform lives and communities across the UK and the world. I have seen this first hand through my work leading Miss Macaroon.

We help long term unemployed young people get back to work through our pastry courses, which are funded through the treats we sell to the public and businesses.

As this report demonstrates, social enterprises are quietly revolutionising our economy and offering a new way to do business. They are doing this through being true to the values, innovating and allowing a diverse range of business leaders to come to the fore.

It is time for everyone to recognise the value of our sector and put growing social enterprises at the heart of the UK’s economic strategy.

If we can do this, we can create a better economy that helps future generations to realise their full potential.”

Rosie Ginday

Founder, Miss Macaroon

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H I D D E N R E V O L U T I O N

The social and economic challenges of Victorian Britain fuelled the growth and expansion of the first wave of co-operatives and mutuals, solving social problems through a better way of doing business. Despite our business models being rooted in the past, we have a significant role to play in the future of the country.

We operate in nearly every sector of the economy and represent a great British success story: the world's biggest building society, the world's longest running consumer co-operative, the world's biggest social enterprise sector. We are innovative, profitable and diverse, we pay fair wages and taxes. Already social enterprises are delivering health services across whole counties, utilities across whole countries, and more ethical financial services on a truly national scale.





OUR UNITY

This report demonstrates what unites us as social enterprises and the positive impact we have on the UK economy. Whilst social enterprise as an idea has been acknowledged and promoted for at least 20 years, its origins are much older, and we represent a much larger share of the UK economy than has been previously recognised. Our ownership structures are diverse and how we refer to our organisations may change over time, but fundamentally we all have the following common characteristics:

- We have an *enshrined*¹ primary social or environmental mission;
- We principally direct our surpluses towards that mission²;
- We are independent of government³; and
- We primarily *earn* income through trading, selling goods or services⁴.

We believe that – in an age of mission statements, spin and PR – credibility counts. While any business can make claims about values, in a social enterprise, our commitments are cultural *and* structural. Social enterprises *have to* reinvest profits and *have to* put their social purpose above the pursuit of short term financial gain.

We believe this makes us fundamentally different to mainstream businesses. We are businesses that can be relied upon. To always pursue sustainable and inclusive growth, to always stay connected to our communities, pay our taxes, and consider *value* over the wider, longer-term.

The most frequently cited estimates have suggested there are 70,000 social enterprises, worth £24 billion to the UK economy. Most recent Government estimates have suggested 99,000 social enterprises that collectively employ just over 1 million people. But these figures are out of date or exclude many large social enterprises. Our research shows that the social enterprise sector is a powerful part of the UK economy and has been significantly underestimated.

“Our research shows that the social enterprise sector is a powerful part of the UK economy and has been significantly underestimated.”

¹ This may be through legal form, governing documents or ownership, for instance.
² i.e. more than 50%
³ i.e. autonomous of the state, while they may deliver services on behalf of the public sector
⁴ i.e. more than 50%



OUR FINDINGS

Our new methodology suggests that if large social enterprise are included, such as building societies and many co-operatives, a more realistic and up-to-date estimate of the scale of the sector would be at least 5% greater *in number*.

But critically, ignoring the contribution of potentially around 5,000 larger social enterprises means official estimates of social enterprises' contribution to employment and GDP have been grossly *underestimated*.

In fact, these businesses are, together, worth £60 billion to the UK economy and employ 2 million people. This represents 3% of UK GDP, three times the size of the agriculture industry, and 5% of employment – as many jobs as the creative industries sector.

This new data presents a picture of a sector making a major contribution to the UK economy – way beyond previous estimations about the size of the sector. We believe this requires a fundamental rethinking of how social enterprises are considered as part of mainstream thinking around policymaking and economic strategies e.g. The Industrial Strategy.⁵

As businesses we are driven by our social purpose. With responsibilities beyond narrow profit generation, as a sector we make a much wider societal contribution beyond our economic impact. This has been demonstrated over a range of research:

- Our businesses are fairer, more diverse and serve our customers to a higher standard. For example, social enterprises in health and social care are consistently outperforming both public and private sector counterparts when it comes to patient feedback ratings, staff engagement and service user feedback, national patient surveys and financial performance⁶.

- With different incentives, we bring innovation and new thinking to the sectors where we work. Recent Social Enterprise UK research showed the number of social enterprises introducing a new product or service in the last 12 months stands at 50% compared to SMEs overall which is 33%.⁷
- With our focus on wider society, we are proud to be rooted in our communities, paying our taxes right here in the UK. For example, Britain's top five co-operatives pay more tax than Amazon, Facebook, Apple, Ebay and Starbucks combined.

We have a key role to play in a balanced and diverse economy – from public services, to financial services, to technology. We believe more needs to be done to understand the social enterprise difference and how we can add value across the economy.

OUR FUTURE

We believe this is just the beginning. Our ambitions are high, and we believe well matched by those shaping the future of this country. There is no sector where social enterprise cannot deliver an impact. Reforming capitalism to ensure that our economy works for all is at the top of the political agenda, and we believe the social enterprise sector holds the key.

Today, a new wave of social enterprises are starting up at three times the rate of mainstream businesses. We believe these businesses can, and will flourish. In the years to come, we could have leisure trusts reinvesting profits at the heart of *every* community; equivalents of the 'bank' of the year – Nationwide Building Society – in every sector from manufacturing to fashion and technology or community owned energy in every town. Mutually owned rail franchises on every track. We could build co-operative tech giants.

“Reforming capitalism to ensure that our economy works for all is at the top of the political agenda, and we believe the social enterprise sector holds the key.”

“With our scale, and potential to help Government achieve its ambitions, we cannot be ignored.”

⁵ HM Government, (2017), The Industrial Strategy, https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/664563/industrial-strategy-white-paper-web-readyversion.pdf

⁶ SEUK's own analysis of i.e. <https://www.england.nhs.uk/publication/friends-and-family-test-data-april-2017/> and <http://www.nhsstaffsurveys.com/Page/1006/Latest-Results/2016-Results/> and more

⁷ Social Enterprise UK, *Future of Business – State of Social Enterprise*, 2017



OUR AMBITION

We want to put the case and the potential for a more inclusive economy to the heart of Government. We are offering a new partnership to Government and Parliament: to build a better society and a stronger economy.

We want Whitehall and Westminster to acknowledge the power and potential of social enterprise. With our scale, and potential to help Government achieve its ambitions, we cannot be ignored.

We propose six ways in which Government and Parliament can support and accelerate the growth of social enterprise and a more inclusive economy:

- **Public services:** ensure better value for money for taxpayers through more public services delivered with values at their heart, where Government recognises that wider social benefits matter and mutuals, charities, co-operatives and social enterprises play a much greater role in delivery.⁸ The

Government should aim for all public sector procurement to be influenced by social value by 2025, up from the 9% currently influenced according to Chris White's review of the Public Services (Social Value) Act.⁹

- **Regulation:** introduce company law that gives greater regard to the social potential of business and investment as well as more joined-up and smarter regulation from a better resourced FCA, Charity Commission and Companies House. The Government should also review legislation and regulation to ensure that companies are required to encourage diverse representation in their governance and management.
- **Dormant assets:** direct £2 billion of untapped dormant assets, such as unclaimed insurance and pension funds, towards enabling communities to take greater control of their local economies and make it easier for savers to invest for a social purpose¹⁰.

- **Public investment:** ensure that Treasury and Department for Business, Energy and Industrial Strategy investments in business, infrastructure, innovation and productivity shape a more inclusive economy.
- **Public awareness:** work with the education system to mainstream social enterprise, mutuality and co-operation in business schools, in primary, secondary, higher, further and tertiary education so that we encourage the social entrepreneurs of tomorrow.
- **Taxation:** initiate a Comprehensive Review of how the tax system, from business rates to investment relief and from VAT to corporation tax and banking levies, rewards entrepreneurs and businesses driven by a social mission and who direct their profit to purpose, not shareholders.

OUR COMMITMENT

We are also determined to do what we can to accelerate the growth of the sector and will work together on:

- **Talent** – attracting the brightest and best, and most socially conscious, talent to see social enterprise as the natural home for their careers.
- **Public awareness** – raising awareness of social enterprise with our customers and members, ensuring they know why doing business with a social enterprise is supporting a more inclusive society.
- **Making the case** – building the evidence base for social enterprise, our economic, environmental and social contribution and demonstrating the difference we make.
- **Investment** – supporting and growing smaller social enterprises through new partnerships, joint ventures, and bringing more and more social enterprises into our own multi-million pound supply chains.

- **Knowledge** – sharing our expertise, experience and knowledge through new and existing social enterprise networks for wider benefit.

We hope this report encourages leaders across Government, business and the public sector to see the value of social enterprise as a tangible solution to many of the most significant challenges we face today – from public service reform to our wider economic system and rebuilding public trust in business as a force for good.

We are here to make a difference. We are the future of business.

Lord Victor Adebowale
Chair, Social Enterprise UK

David Roberts
Chair, Nationwide

Steve Murrells
Chief Executive, Co-op Group



Lord Victor Adebowale



David Roberts



Steve Murrells

⁸ Speech from Chancellor of the Duchy of Lancaster: <https://www.gov.uk/government/speeches/chancellor-of-the-duchy-of-lancaster-speech-to-reform>

⁹ Social Enterprise UK, (2017), *Our Money Our Future*: <https://www.socialenterprise.org.uk/Handlers/Download.ashx?IDMF=64e3d07b-ef79-42b1-bc5e-064d5e51fb91>

¹⁰ DCMS Press Release (2017) <https://www.gov.uk/government/news/2-billion-boost-set-to-transform-charity-and-voluntary-sector-funding>

THE RESEARCH

I have long thought that the prevalence and potential of social enterprise has been underestimated in our economy. I and others have made previous efforts to better understand the contribution of these businesses which are set up for a social purpose. So this research takes into account and learns from methodologies from previous research. But crucially, and unlike most other research in this space, our analysis is underpinned by access to actual data of UK businesses.

Building on existing approaches and through access to this data, we can gain a more accurate picture of this significant part of the UK economy than ever before. We can get a sense of the whole scale of the sector and not just the small and medium sized enterprises in our midst.

These businesses deliver vital services to millions of people every day.

Our analysis estimates that social enterprises are worth billions more to the UK economy than previously considered. It seems that social enterprises make a similar contribution to economic life in the UK as the creative industries sector, for example. I hope that our approach can be built, modified and improved upon in future to provide a better understanding of the contribution of these companies to the UK, so they are no longer underestimated.

Dr Rebecca Harding
Independent Economist





THE FINDINGS

Our new methodology suggests that by including large social enterprises, such as building societies and many co-operatives, in estimates of the scale and contribution of the sector, then a realistic and up-to-date estimate of the scale of the sector would be at least 5% greater than previous estimates. It could be as much as over 100,000 social enterprises, if government estimates of small and medium enterprises are used as a baseline.

But critically, ignoring the contribution of potentially around 5,000 larger social enterprises means official estimates of social enterprises' contribution to employment and GDP have been grossly *underestimated*. In fact, these businesses are, together, probably worth at least £50 billion to the UK economy and employ over 2 million people. This represents up to 3% of UK GDP and over 5% of employment, two or three times the size of the agriculture industry and as many jobs as the creative industries sector.

THE METHODOLOGY

The most frequently cited previous estimates of the size and scale of social enterprises have suggested there are 70,000 of these businesses, worth £24 billion to the UK economy. Most recent Government estimates have suggested 99,000 social enterprises that collectively employ just over 1 million people¹¹.

But Government estimates of the number of social enterprises have been based on the Small Business Survey (SBS), the BEIS flagship survey of small and medium sized enterprises¹², which does not include large social enterprises. Estimates of social enterprises' contribution to GDP have not been updated for over five years and excluded large social enterprises with 250 or more employees, which are likely to be significant in terms of numbers employed and turnover. Another estimate, often quoted, of social enterprises' £24 billion contribution to the UK economy goes back more than a decade and is also based only on SME data.

The approach developed in this report builds on all the above research and explores company data with the aim of establishing a more accurate assessment of the economic contribution of these organisations. In practice, the vast majority of social enterprises take the form of a Company Limited by Guarantee, often with charitable purpose, Community Interest Company or Co-operative or Community Benefit Society. But data for each of these forms is not held in one place or consistently, with data on societies and mutuals held by the Financial Conduct Authority separately from that held by Companies House. We have therefore used a combination of the following datasets:

- Bureau van Dyke FAME database. This is a record of all companies registered with Companies House in the UK and currently trading, including Community Interest Companies (CICs) Companies Limited by Guarantee (CLG), charities and some mutuals.

- Co-operatives UK open data; and
- Building Societies Association member data.

Data from the Bureau van Dyke FAME database is available by sector and region and includes balance sheet and profit and loss data. The legal structure of each business on the database is also available. In our analysis we have only included companies that are registered in the UK, and companies that were actively trading in the last full year of their accounts. The final data was collected predominantly after 31st December 2017.

The crucial part of our methodology, therefore, was to identify the number of large social enterprises missed by the SBS studies. Our analysis of the data with regard to those CICs, CLGs and charities with employees suggests that around 4% of CICs, 9% of CLGs and 4% of charities with staff employ over 250 employees. If this is accurate, we can, for the first time, make a prudent assumption that around 5% of social enterprises have been discounted from previous research.

If we take government estimates of SME social enterprises to be the best available total estimate, despite legitimate concerns held by some experts about the sample size and composition, there would likely be around 5,000 large social enterprises not captured by the BEIS research.

While this would represent only a relatively small change to the Government's own estimate of the total *number* of social enterprises, it is clear that estimating the combined turnover and jobs of social enterprise only on the basis of the small and medium social enterprises is problematic. A prudent estimate of the total number of social enterprise jobs can be made on the basis of assuming that every large social enterprise employs just 251 staff. If our analysis of the proportion of social enterprises which are large is correct, then total employment in the social enterprise sector would be over 2 million people, far more than BEIS's estimate of just over 1 million people employed by social enterprises (as well as 41,000 working owners and partners).

Similarly, an estimate of total turnover can be made on the best available data from other sources on the average turnover of social enterprises. Social Enterprise UK's own survey suggests a mean turnover of around £2 million. It should be noted that the composition of this sample appears to be very different to the SBS studies and is likely a more accurate reflection of the actual social enterprise population in the UK.

We also recognise that this average may be skewed by one or two large enterprises. While this is, in a way, what we are trying to show with this research, we can nevertheless ensure we are making a prudent estimate and not overclaiming by taking a trimmed mean (5% removed at either end of the spectrum) to generate a figure of £572,449. By comparison, the SBS 2016 reports that the mean turnover of UK SME employers is £1,129,893¹³.

11 It should be noted that the government's own estimates of small and medium sized social enterprises appear to include a significant number of 'private' businesses that don't take CLG, charity, CIC or co-operative forms. However, various estimates over many years have suggest at least 70,000 social enterprises in the UK and NCVO aggregations of CICs, CLGs and societies also suggested around 70,000 'social companies'. https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/644266/MarketTrends2017report_final_sept2017.pdf

12 https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/644266/MarketTrends2017report_final_sept2017.pdf

13 https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/634991/small-business-survey-2016-sme-employers-report-data.csv/preview

25%
OF SOCIAL ENTERPRISES
ARE UNDER 3 YEARS OLD

58%
OF SOCIAL ENTERPRISES
ARE ANTICIPATING AN
INCREASE IN TURNOVER
IN THE NEXT 12 MONTHS

BIGGER
THAN THE AGRICULTURAL
SECTOR

36%
OF SOCIAL ENTERPRISES
HAVE A DIRECTOR WITH
A DISABILITY

PREVIOUS RESEARCH

We recognise that the SBS sample and SEUK samples are potentially very different. But they are, however, the best available estimates of a) the total number of social enterprises in the UK and b) their average turnover, using consistent defining criteria, if not samples. On this basis, combined total turnover across all social enterprises in the UK could be estimated at over £59 billion. This is at least twice previous estimates.

To sense check these findings, we can take data from Co-operatives UK and Building Societies Association (BSA) research that suggest these businesses' combined turnover is around £36 billion and £10 billion,¹⁴ respectively. Professor Fergus Lyon has pointed out that NCVO data on large charities have a combined turnover of £25 billion with £10.7bn of this being voluntary or non-trading income. This suggests at least £15 billion of social enterprise activity in the charity sector. Together, these turnovers are worth at least £60 billion, providing us with some reassurance that our £59 billion estimate is reasonable and prudent.

As well as their economic impact, these businesses are shaping markets for the better and leading the way to better business. Their value and contribution go far beyond the economic, impressive as that is. The evidence tells that they create good jobs, pay more equitably; work more often in the greatest areas of need; prove more resilient yet more innovative than other businesses and pay their fair share of taxes¹⁵.

All the available evidence – from a range of sources brought together for the first time here – points to social enterprises creating a disproportionately positive impact and making a critical contribution to social, environmental and economic life in the UK.

Economic Value

- 47% of social enterprises grew their turnover in the last 12 months, compared to 34% of UK businesses.¹⁶
- 25% of social enterprises are under 3 years old, which is three times the proportion of start-ups compared to other businesses (8%).¹⁷
- Businesses that embrace social priorities on average perform better.¹⁸
- Compared to UK businesses overall, more social enterprises generated a profit over the last year.¹⁹
- The growth rate of brands identified as “responsible” is nearly double that of conventional brands.²⁰
- There is increasing evidence of a correlation between mission-led business and earnings outperformance.²¹

Innovation and Dynamism

- Social enterprises can be incredibly innovative: The number of social enterprises introducing a new product or service in the last 12 months stands at 50%. Among SMEs it has fallen to 33%.²² Social enterprise employers are more likely to innovate than SME employers.²³
- 58% of social enterprises are anticipating an increase in turnover in the next 12 months, 26% expect their turnover to stay the same, and only 8% are predicting a decrease. This is noticeably higher than their SME equivalents: 40% of whom anticipate an increase, 47% to stay the same, and 10% a decrease.²⁴ Social enterprise employers are more likely to report a positive longer-term outlook, expecting growth over the next three years.²⁵

Tax and Spend

- The wider inclusive economy contributes more in tax than private companies without a social purpose. Britain's top 5 co-operatives pay more tax than Amazon, Facebook, Apple, Ebay and Starbucks.
- the wider social economy is more likely to give back to the local area. Customer owned retailers invest twice as much of their profit in local areas as their competitors.²⁶

Diversity

- 89% of social enterprise leadership teams have a female director and 41% of leaders are women, significantly ahead of both mainstream SMEs (20%) and big business (7% of FTSE 100).²⁷
- 34% of social enterprises have Black Asian Minority Ethnic representation and the proportion of social enterprises led by a member of a Black and Minority Ethnic community is 12%, much higher than SMEs more widely (5%).²⁸
- 36% of social enterprises have a director with a disability. More than two-thirds are supporting individuals from disadvantaged groups, and more than four in ten employ them.²⁹

14 Co-operatives UK, (2018), <http://reports.uk.coop/economy2018/>

15 Social Enterprise UK (2017), *The Future of Business – The State of Social Enterprise Survey 2017*: <https://www.socialenterprise.org.uk/the-future-of-business-state-of-social-enterprise-survey-2017>

16 ibid

17 ibid

18 Mission-Led Business Review, (2016), https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/574687/Advisory_Panel_Report_-_Mission-led_Business.pdf

19 https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/644266/MarketTrends2017report_final_sept2017.pdf

20 *When social responsibility leads to growth: The European Grocery Market*; Smits, Vismans, van Zon and Wood; BCG Perspectives; (2015).

21 https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/574687/Advisory_Panel_Report_-_Mission-led_Business.pdf

22 Mission-Led Business Review, (2016), https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/574687/Advisory_Panel_Report_-_Mission-led_Business.pdf

23 DCMS and BEIS, (2017), *Social Enterprise: Market Trends 2017*: https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/644266/MarketTrends2017report_final_sept2017.pdf

24 Social Enterprise UK (2017), *The Future of Business – The State of Social Enterprise Survey 2017*: <https://www.socialenterprise.org.uk/the-future-of-business-state-of-social-enterprise-survey-2017>

25 https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/644266/MarketTrends2017report_final_sept2017.pdf

26 Co-operatives UK, (2017), <http://reports.uk.coop/economy2017/>

27 Social Enterprise UK, *Future of Business – State of Social Enterprise*, 2017

28 ibid

29 <https://www.socialenterprise.org.uk/Handlers/Download.ashx?IDMF=a1051b2c-21a4-461a-896c-aca6701cc441>



Public Services

- Social enterprises delivering health and social care are consistently receiving Good or Excellent ratings from the Care Quality Commission and performing, on average better than both public and private sector counterparts when it comes to Friends and Family ratings, staff engagement and service user feedback, national patient surveys and financial performance.³⁰

Consumer Choice and Satisfaction

- Consumers also seem to be enthused by the wider inclusive economy. 73% of consumers agree they are more likely to buy from or engage with a business with a purpose beyond profit.³¹

Employee Satisfaction

- For prospective employees, the values and impact of employers now rate equal to salary and other benefits in evaluating opportunities and employees have been shown to be more engaged and productive when personal motivation to make a difference is aligned with a job description.³²



“We must try to influence everyone running a business that there is a better way to do business.. Rather than getting rich and then solve the world’s problems why don’t we combine the two and through the course of business, rather than charity, each make a positive difference?”

This is the mission of Belu and the 100,000 social enterprises that are working across the UK.

What I love about social enterprise is this joining together of people around positive intent. Every problem can be an opportunity. Rather than telling people they are bad, we need to align people around the good that can happen. We are using the power of business to deliver a better world for everyone.

Any business can make a difference, but they need the support and encouragement of government to have the biggest possible impact. I hope that this report will encourage a greater recognition of the value of social enterprises.”

Karen Lynch

Chief Executive, Belu

³⁰ SEUK’s own analysis of i.e. <https://www.england.nhs.uk/publication/friends-and-family-test-data-april-2017/> and <http://www.nhsstaffsurveys.com/Page/1006/Latest-Results/2016-Results/> and more

³¹ UnLtd

³² Mission led business review – On a Mission in the UK Economy – Current state of play, vision and recommendations from the advisory panel to the Mission-led Business Review 2016

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We are the national body for social enterprise. Our members come from across the social enterprise movement – from local grassroots organisations to multi-million pound businesses, as well as the private and public sectors. Together with our members we are the voice for social enterprise. We believe that social enterprise is our best chance of creating a fairer world and protecting the planet.

Join us and support our work.

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