



## What is a social enterprise?

Before establishing a social enterprise it is important to understand what makes a social enterprise and how it differs from commercial companies.

### Definition of a Social Enterprise

A social enterprise is 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 profit for shareholders and owners (Department of Trade and Industry (DTI)).

Although the DTI no longer exists, this definition is universally used by government, social enterprises and business support agencies throughout the UK.

Many commercial businesses have social objectives. However, social enterprises are distinctive because their social and /or environmental purpose is central to what they do and they are often owned by representatives of the community they serve. (However, there are always exceptions: social enterprises which trade in the UK and where the profits are used to fund charitable causes abroad don't have ownership by members of the community which is benefitting).

### Characteristics of a Social Enterprise

The key characteristics of a social enterprise are:

- 1) **Social aims and /or environmental aims**

A social enterprise has explicit social and /or environmental aims benefitting the community. The following are typical examples of social and environmental aims:

A focus on community led renewal and regeneration

- Freeing up of local government services and assets
- Provision of local opportunities
- Skills development, vocational training, lifelong learning opportunities and job creation (particularly for those disadvantaged in the labour market)
- Creating accessibility to a better quality of life for disadvantaged members of the community
- Focus on waste minimisation and recycling targets

## 2) Social ownership

Community ownership is a key aspect of a social enterprise. A social enterprise operates under democratic governance ensuring that community needs are met. A social enterprise is not managed or governed by one individual. The main difference between a social enterprise and a commercial enterprise is that there are a number of individuals that manage a social enterprise on behalf of the community it services with the interests of the community at the forefront of

## Facts about Social Enterprise

decision-making.

Decisions are not made for individual profit.

## 3) Trading activities

A social enterprise, like any other business, needs to have a viable trading concern either through the sale of products or services.

It is not necessarily the end users or the community that the social enterprise supports that actually pay for the products or services. For some social enterprises, it is quite common that public sector organisations, commercial companies and other individuals pay for the products or services that will benefit end users or communities. For example, customers in the UK buy Fair Trade products to benefit communities abroad that make those products. This can happen on a local scale to benefit local communities.

## 4) Profit distribution

A social enterprise is a business. It needs to make a profit to compete in the market, to ensure continued survival and to invest in its social or environmental aims. A social enterprise's profit or surplus is reinvested back into the business to sustain community benefit. It is not for personal profit or gain.

## Examples of social enterprises in the

Yorkshire and Humber region include Yoga4UK Ltd, Fresh Pastures, ESP Projects, CREATE and The Lighthouse Group.

The pioneers of social enterprise can be traced back to 1840s Rochdale, where a workers' co-operative was set up to provide high quality but affordable food in response to factory conditions that were considered to be exploitative.

Social enterprises are trading entities that are driven by the need to fulfil social or environmental needs.

- There are 62,000 social enterprises in the UK
- A total contribution of more than £24bn to the UK economy annually
- More than 800,000 people employed in social enterprises

(Source: 2005-2007 data from the Annual Survey of Small Business UK)

Social enterprises operate in several industries throughout the UK, ranging from health and social care to renewable energy, from retail to recycling, from employment to sport and from housing to education, to name a few.

Examples of social enterprises include Jamie Oliver's Fifteen restaurant, the Big Issue, Eden Project, Cafedirect and Divine Chocolate.

In the Yorkshire and Humber region there are approximately 2,000 social enterprises employing 90,000 people contributing 1.5bn to the UK's economy, with 33% of these enterprises operating in the health and social care sector (Source: 2005 data from a survey of Social Enterprises across the UK: Small Business Service).

## Policy Driving Growth

Some key drivers for social enterprise growth can be policies set by government. These govern the types of contract opportunities available from public sector organisations. Larger social enterprises look to meet relevant policies in order to win contracts for future sustainability.

A social enterprise should monitor current policies on a national, regional and local level if this supports the activities it delivers. Examples include environment, health and well-being, crime reduction, neighbourhood management, employment, lifelong learning and education.

However, some social enterprises identify a local need and look to establish a business to fill the gap. Some social enterprises look for commercial opportunities and adapt their business to fulfil a social need.

## Motivation

It is important to ascertain what motivators there are for establishing a social enterprise.

- What you intend to provide?
- Why do you want to do it?
- What do you want to get from it?
- Who will benefit from what you intend to do?
- What benefits will they get?
- Have you got the skills required to make this happen?

## Financial Implications

A key area to assess when establishing a social enterprise are the financial implications:

- How much will it cost to start the enterprise?
- How will you fund this?
- How will you recover these costs?
- Have you set a unit price for goods / services?
- Who will pay for them?
- How much profit do you expect to make?
- What will you do with the profits you make?

## Management Structure

Ask yourself the following questions to evaluate who will control the business and whether this will be a social enterprise with democratic governance:

- Who will manage the Enterprise on a day to day business?
- Who will set the strategy for the Enterprise?
- Will a 'community' be involved in managing the Enterprise?
- How will you involve a community?
- Will you have paid staff and /or volunteers?

## Markets

As with all businesses there needs to be paying customers to create profit. The following questions are important to determine the viability of the business. These should be answered by the feasibility study:

- Is there a clear market for the enterprise?
- Is the market big enough to support you?
- Is the end user able to pay for your goods / services?
- Who else might pay for the enterprise?
- Is anybody else active in the market?
- How can you let the market know about you?
- How will you pay for the marketing?

## Considerations to Make

You will need to identify the:

- Aims and purposes of your organisation
- Financial risk
- Member / community participation
- Protection of assets
- Role of employees
- Level of trading activity

## **Where to go for further help**

[www.gov.uk](http://www.gov.uk)

[www.socialenterprise.org.uk](http://www.socialenterprise.org.uk)

[www.seyh.org.uk](http://www.seyh.org.uk)