

## **What makes a social enterprise a social enterprise?**

This short paper is for anyone who's interested in the main characteristics of a social enterprise - what it is and what it isn't.

It doesn't aim to provide a strict definition, but instead sets out what Social Enterprise UK believes are the critical factors that make an organisation a social enterprise, and how businesses, public bodies and consumers will know one when they see one.

### **Background**

The term 'social enterprise' came about from the recognition that in the UK and across the world, there were organisations using the power of business to bring about social and environmental change without a single term to unite them.

Since the term started being more widely used in the mid 1990s, there has been a lot of discussion (and sometimes confusion) about what social enterprise is, and whether the social enterprise label could be 'hijacked' by businesses that aren't social enterprises, but are keen to pretend they are.

These are valid concerns, and need proper consideration, but not at the risk of restricting the growing social enterprise movement in the UK and around the world, which has already achieved so much. At Social Enterprise UK we feel we must be clear but pragmatic when it comes to defining social enterprise.

At a time when the spotlight is shining more brightly on social enterprise than ever and many are looking to it as the future for social change, those of us in the sector must protect our collective 'brand' and the values we stand for. That is not to say that we shouldn't be open to new ideas and new models which may challenge our pre-conceptions, but align with our values.

When uniting sometimes diverse organisations under a single term, there will inevitably be some divisions. These stem from: social enterprise being a youthful sector; the absence of a single regulator (like the Charity Commission); the absence of one legal form; and organisations arriving at social enterprise from a number of different origins (a charity, entrepreneur-led, a public sector spin out).

This paper explores the key characteristics and discusses where divisions may exist and puts forward practical suggestions to address them. It is also important to note that where divisions exist, they tend to do so at the margins, with the vast majority of social enterprises being in broad agreement about what they stand for and how they do business.

### **The characteristics of a social enterprise**

#### **Social enterprises should:**

- Have a clear social and/or environmental mission set out in their governing documents
- Generate the majority of their income through trade
- Reinvest the majority of their profits
- Be autonomous of state
- Be majority controlled in the interests of the social mission
- Be accountable and transparent

#### **Social and/or environmental mission**

The social enterprise community agrees that the primary aim of all social enterprises must be a social or environmental one. We can't prescribe what constitutes a social or environmental mission. Creating a list of 'approved' social missions would limit the very entrepreneurial spirit we want to encourage and make us closed off to the future.

What we do believe is that an organisation's social mission must be explicit in the organisation's governing documents and that social enterprises should be able to explain and justify the value of the social change they aim to bring about.



## **Trade**

Social enterprises are businesses. So they must generate the majority (more than 50%) of their income through trade. We recognise however, that many start-up businesses of any form need funding to get off the ground and turn to readily available sources. With this in mind we usually expect that within two years of operating, genuine social enterprises generate more than 50% of their income through their own trading activities.

## **Profits**

What a social enterprise does with its profits is a critical way in which social enterprise is distinct from standard businesses. We believe the majority (more than 50%) of an organisation's profits should be reinvested to further its social or environmental mission.

We recognise that reinvesting profits alone does not necessarily equate to the creation of social value, and we acknowledge there are other ways an organisation can extract finance should it choose to. However, we believe that alongside other factors, the reinvestment of profits is a clear indicator that an organisation is not set up primarily for owner or shareholder value.

## **Autonomy**

Social enterprises are autonomous organisations that are independent of the state. However, we recognise that some social enterprises are on a journey to independence. For example, where social enterprises spin-out from the public sector, the social enterprise may operate at arm's length from the public body for a transitional period of time while it establishes itself. We believe that when this occurs it must be for a specified transitional period.

## **Ownership and control**

Ownership and control are essential questions in social enterprise and we believe that ideally social enterprise should be owned and controlled in the interest of its social or environmental mission.

In the cases of social enterprises with shares, the majority of these should be owned in the interest of the social mission. This could be through a golden share issue. A Golden Share is a nominal share which is able to outvote all other shares in certain specified circumstances.

This is becoming increasingly important in times when new models of investment are being explored for social enterprise based on equity and shareholding, and when the government is actively promoting the mutualisation and employee-ownership of public services. And as the social enterprise sector grows and explores new markets, some markets will have high capital requirements.

We acknowledge that shares and equity may well be a critical part of the sector's future and we would not in any way want to limit its potential growth. Where shares in a company are to be sold to raise equity investment, we do not believe that this should account for more than 49% of ownership and the controlling stake of the organisation should be held in the interest of the social or environmental mission.

## **Assets and asset-lock**

Many social enterprises choose to ensure that their assets are legally protected and permanently retained for social or environmental benefit (this means they cannot be bought-out and privatised).

We believe that there are some situations in which having an asset lock is critical for a social enterprise. When it comes to the transfer of public services and public assets to social enterprise, we believe it is essential that these are locked and protected for social or environmental benefit. We believe that an asset-lock can be effective in ensuring that a social enterprise operates in the wider interests of society for perpetuity and is not at risk of sale.

But we recognise that many social enterprises receive no public funds or assets. Some have benefited from considerable personal investment on the part of the entrepreneur and need the money back. Others simply lack knowledge on the technical elements of being a social enterprise at the point of concept, and so adopt a standard company structure without an asset-lock.



While we believe an asset-lock is a desirable feature for all social enterprises, we recognise that there are some cases where it is not required, provided other protections are in place. Should social enterprises at any point like to adopt an asset-lock, but are unsure of what this means for their own personal investment, Social Enterprise UK can advise on how this may be extracted in a fair and ethical way.

### **Accountability and transparency**

As they're organisations operating in the wider interests of society, we believe that transparency and accountability are critical for social enterprises.

While we believe accountable structures are desirable, we recognise that there are many different ways in which organisations can protect their social mission.

Social enterprises that are part of the co-operative movement are accountable to their members – consumers, staff or community members. Other social enterprises take a more traditional 'company' structure with a board of directors that are legally accountable for the organisation's social mission as well as its financial performance.

Some organisations may choose a legal form that is regulated – such as the community interest company (CIC) – to protect their social mission, and they may not choose an additional accountable board.

Other entrepreneurs are attracted to social enterprise because it allows them the flexibility to be responsive and dynamic. So they may choose to have a small number of company directors but no independent board, because their accountability arguably lies with their customers. In these cases and in all other we believe that transparent financial, social and environmental reporting is absolutely essential, allowing the sector, customers, employees and investors to make the judgement on an organisation's social credentials.

### **Further information**

You may be interested in reading two guides - [Social Enterprise Explained](#) and [Start your social enterprise](#). Both are free to download from our website.

### **About Social Enterprise UK**

We are the national body for social enterprise. We are a membership organisation. We offer business support, do research, develop policy, campaign, build networks, share knowledge and understanding, and raise awareness of social enterprise and what it can achieve. We also provide training and consultancy and develop bespoke business and information packages for clients of all kinds.

Our members come from across the social enterprise movement – from local grass-roots 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.

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