

Time for Social Enterprise

A report from the Social Enterprise
Coalition

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The Social Enterprise Coalition is the UK's national body for social enterprise. The Social Enterprise Coalition represents a wide range of social enterprises, regional and national support networks and other related organisations. As well as showcasing the benefits of social enterprise, and sharing best practice we work closely with our members to inform national policy.

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Introduction

It is widely agreed that the UK needs a more diverse economy that grows from the bottom-up, in order to be sustainable. It also needs a civil society that galvanises communities and neighbourhoods. The Government's Big Society vision hinges on economic reform balanced with support for local and civic life, and these cannot continue to be addressed separately.

Like many others before them, this Government is in danger of tackling social policy and economic policy in isolation from one another. A number of recent government initiatives have been introduced with the intention of rebalancing the economy and promoting economic growth. Such initiatives are designed to promote competitiveness and trade and include the Regional Growth Fund and Local Enterprise Partnerships, reviews of corporate taxation, intellectual property and regulation. Their success is measured in terms of jobs and GDP. Tangential to these are policies designed to engage communities and civil society and realise the Big Society vision. Policies such as the right to buy and right to challenge in the Localism Bill, citizen action initiatives and the mutualisation of public services.

But the world doesn't work in this segmented way and a change in the business environment is needed to ensure the opportunity for change is embedded and the UK becomes truly fertile to social change and innovation. The business environment must be re-weighted in favour of social value. This is the only way to deliver the Big Society. It is time for business leaders to step forward and take their place. So far we have heard much from the charities and local authorities about their role in the Big Society, but the business community has not articulated a role for itself. This is a grave omission. Civil society and business must work together. They can no longer have competing goals as has been the case for much of the last fifty years.

According to Michael Porter in the Harvard Business Review¹ "In recent years business increasingly has been viewed as a major cause of social, environmental, and economic problems. Companies are widely perceived to be prospering at the expense of the broader community... A big part of the problem lies with companies themselves, which remain trapped in an outdated approach to value creation that has emerged over the past few decades. They continue to view value creation narrowly, optimizing short-term financial performance in a bubble while missing the most important customer needs and ignoring the broader influences that determine their longer-term success. How else could companies overlook the wellbeing of their customers, the depletion of natural resources vital to their businesses, the viability of key suppliers, or the economic distress of the communities in which they produce and sell?"

"The presumed trade-offs between economic efficiency and social progress have been institutionalized in decades of policy choices. Businesses must reconnect company success with social progress. Shared value is not social responsibility, philanthropy, or even sustainability, but a new way to achieve economic success. It is not on the margin of what companies do but at the center. We believe that it can give rise to the next major transformation of business thinking."

¹ [Harvard Business Review /2011/01/the-big-idea/creating-shared-value/ar/1](http://www.harvardbusinessreview.com/2011/01/the-big-idea/creating-shared-value/ar/1)

Porter says: "Businesses acting as businesses, not as charitable donors, are the most powerful force for addressing the pressing issues we face. The purpose of the corporation must be redefined as creating shared value, not just profit per se. This will drive the next wave of innovation and productivity growth in the global economy. It will also reshape capitalism and its relationship to society. Perhaps most important of all, learning how to create shared value is our best chance to legitimize business again."

Social Enterprises create this shared value. And the UK's social enterprise movement is a world leader. Yet everywhere social enterprise is so poorly understood that it is conflated with the charitable or voluntary sector. Public debate about the future of civil society has focused on the role of charities and volunteer groups. The language that has developed lumps together 'charities and social enterprises'. But social enterprises are not charities. They are businesses.

Social enterprise in the UK

Social enterprises are businesses driven by a social or environmental mission. They contribute to economic growth but they also benefit people and the planet. There are 62,000 of them in the UK, contributing over £24bn to the economy, employing approximately 800,000 people² Well known [examples](#) of social enterprises include *The Big Issue*, and the fair-trade chocolate company Divine Chocolate.

Social enterprises operate in almost every industry in the UK, from health and social care to renewable energy, from retail to recycling, from employment to sport, from housing to education. Whatever they do, they do it differently from a typical business, because they are driven by a social and/or environmental mission, and they are focused on the community they serve.

Time for Social Enterprise

The FT has spoken of 'a growing sense that both the state and the market have become too big and too powerful, and that local and civic life need more support'.³ A number of indicators show that people, organizations and companies are ready for social enterprise to play a bigger role than ever before as a driver for social and economic change.

Research by the Social Enterprise Coalition has uncovered a large appetite among the general public for more employee-owned businesses and more business methods used to tackle social problems⁴. Young people come out in the research as optimistic about businesses tackling social problems, and all age groups say they have lost faith in the UK's traditional business community.

² (2005-2007 data from the Annual Survey of Small Business UK).

³ Comment/Opinion, Financial Times, 6 October 2010

⁴ Social Enterprise Coalition, British Public Ready for the New Economy, November 2010

Last year RBS set up a social enterprise frontline banking team. And O2 launched a bespoke mobile phone package for social enterprises, saying: “These days, building your business around making the world fairer, safer, happier or greener doesn't just boost morale, it can boost your profile and your profits too. This is the age of Social Enterprise, and O2 UK is welcoming it with open arms. We want to do our bit to make things better for companies that are doing their bit to make things better for everyone.”⁵

The Social Enterprise Coalition has been working with social enterprises, governments and businesses since its inception to improve the environment for social enterprise. During the last General Election our members outlined a manifesto that would result in a policy framework that could bring about the exponential growth of social enterprise in the UK. Many of the policy initiatives we called for are now underway.

But Government and public services are not the ‘holy grail’ for the social enterprise movement. The next step is for the business community to get ready for social enterprise. Government and the social enterprise movement need to work together with business leaders to address how we merge civic and business need; political and economic leadership. Governments, consumers and businesses working together can use their power to bring about the Big Society.

For this to happen, business leaders and the workforce have to understand social enterprise and what it can do. They need to know why the appetite for social enterprise is growing among the people who are already wise to it.

For this report we asked the business and social enterprise leaders, bankers and investors who support social enterprise in their day-to-day work, what is it about social enterprise that is getting so many people excited? Why do they think the time for social enterprise has come? Their answers are outlined below:

The investor

“In the media there are currently a lot of interpretations and discussions of what the ‘Big Society’ is all about. What people are perceiving is that they go to work and do a 9 or 10 hour-day and then they are expected to come home and run a local Scout-group or participate in running a library. And it’s all too much to juggle. People are time-poor. But they can be a lot more efficient with money.

There are four things you can do with money: earn it, spend it, give it, save it. People need to be taught to make sure they are efficient with these four activities. Every transaction we make in our day-to-day lives can have a positive impact on the environment and our communities. At the moment we are looking for as much short-term growth as we can: earn as much as you can; spend it, invest it, and if you have something left at the end of your day or of your portfolio or at the end of your life, you give it away. It is a 2-dimensional view of the world. Social enterprise offers a much more exciting prospect. This is the way the Big Society can work. Where everything we do in our lives has the potential to benefit others.

⁵ O2 website

People already do huge amounts and are often not recognized for what they do. The Big Society risks putting the onus on them to do more. They could be more efficient. What is needed is for them to be taught to achieve more with what they do with their money.”

The social enterprise employer

We spoke to the Chief Executive of a community transport social enterprise. His business employs mechanics and drivers. He said: “our employees report that they feel very positive about the contribution they are making to society through working at a social enterprise. We don’t pay any more than any other bus company – in fact we pay less than some. We never have to advertise and we have a waiting list of people who want to work for us. I believe it’s because they know that by working for us, they are making a real contribution to the communities where they live. People who aren’t used to being on committees - who aren’t necessarily middle class men and women – they are hugely motivated by the value of being part of something – part of a movement. It’s very exciting and makes people productive. We invest profits from our commercial work in the areas where they are generated – and this is a huge motivator in itself. You don’t need to be on committees to feel empowered and part of the social enterprise movement’.

The Social Entrepreneur in healthcare

We asked a social entrepreneur working in healthcare what we need to do to make sure social enterprise can thrive:

“The question is, do you provide a proposition that makes sense to an investor? Social enterprises do. Social enterprises are the same as any other business. There’s no such thing as growth without capital. We need to be careful that social enterprises aren’t viewed by the banking community as a bunch of hippies. Many large businesses that are social enterprises are doing phenomenally well- by anyone’s measures.

I’m old enough to remember a time when maximizing short-term shareholder value was not what business was all about and we need to get back to that mindset. The current mindset only seemed to come about in the 1980’s. Before then businessmen and women were very aware that sustainability creates longer-term maximum value.

Imagine if 100 years ago business leaders and political leaders had got together and consciously organized our business landscape. Would they have said: “Right, we’re going to organize ourselves and create some value – some wealth. Then we will take an increasingly large chunk of that wealth and pay it in taxes to the Government. Then we will take the other part of that wealth and pay it in insurance contributions, pension contributions to financial institutions..They will then use it to buy the enterprises in which we work, they will own our enterprises and we will all work for them.

I don’t think this would have been their intention, but this is exactly what has happened. Almost 96% of our GDP is owned by financial institutions or by the state. There is something fundamentally wrong with that. Logically, those of us who work in enterprise who understand enterprise and can put its longterm interests first because they are in tune with our interests

and the interests of the communities in which we work, are not in control of that any more. And the decisions of control and ownership are made either by those who control the state or control financial institutions, who for very valid reasons of their own logical interests make decisions that are at odds with the longer-term interests of those businesses and the communities they serve. And that is the root-cause of our problems. We now have an opportunity to rebalance this state of affairs. There is nothing wrong with the state, there is nothing wrong with financial institutions, but there needs to be a rebalancing in favour of those who do the work and the consuming when it comes to enterprises. This is what social enterprise is all about.

The Business School teacher:

I think things have changed. Business students do seem to have a different outlook. People still want to make money of course, they still want to make a profit, but there is an increasingly ethical edge to what they want to do. In our recent research more than 90% of the students doing our MSc in Management expressed an interest in social enterprise alongside wanting to make a profit from their work.

The charity investor

Legislation in place is counter-intuitive to favouring our communities. Charities are a classic example of organisations that should not be espousing profit maximization at any cost but you try to get a charitable foundation to invest in a social enterprise and you can't as it doesn't count as an eligible investment. Look at pension funds. Trustee legislation is always about valuing profit maximization. Their assets and their pension funds are invested where there is most return.

Charity trustees are not bound to maximize beneficiary value – they are only bound to minimize risk. You are better off as a charity trustee doing nothing than trying to change the world. If there was something in the laws of charity trustees that meant you should aim to maximize the good that you do it would have a profound effect. If we are to rebalance the economy we must increase the share of businesses with social aims.

The retail banker

I've spent a long time in community banking. And there are many of us asking where did it all go wrong and what can we do to put it right? There was a time when a sense of community was embedded in all that we did. The concern that a bank manager would have for people that he knew in the neighbourhood – that was part of the banking life that I started in the 1970's and there is no doubt among bankers that it's been lost. Playing a part in the community, supporting family businesses, helping communities build capital. Those are the things that made banking a profession to be envied and made banking sustainable in the UK. That sense of engagement has been lost in the last 15-20 years. We all realize that we

need to go back to that mindset and we are already seeing evidence of that happening in retail banking.

Family businesses often have great social impact and social value and they need to be embraced by the social enterprise movement. They are often well-established in their communities and work for longterm value in those communities as they feed them and keep them going.

The businessman

We're at a 'real tipping point' in that the Big Society can raise consumer awareness and public perception of social enterprise to generate consumer pull towards a different way of doing things. We have had times of great excess for more than 20 years. I'm not just talking about corporations – I'm talking about individuals as well who have learned to think 'I want it now- I should have it now'. It has had a profound effect on the way that we work and the way that we do things. But there are large organisations that have had a huge realisation – that ultimately, social value needs to be at the heart of any corporation and to work alongside shareholder value – increased public understanding and a real consumer pull is what will make more organizations turn down that road.

Cultural change is what's needed more than anything else, driving social aims into every business. We as consumers and as a workforce have to use our purchasing and buying power to press that.

The Co-operative leader

“What we need is a rebalancing of our economy towards a greater emphasis on cooperation and mutual forms of enterprise, teaching this as an alternative to the shareholder model in schools and colleges. We are likely to see more new forms of mutual ownership and consumers getting together to form consumer coops in the future. For example in energy, in some places consumers are using their collective purchasing power to navigate turbulent times as we move through peak oil and towards sustainable forms of energy. You are going to see more consumers getting together – it's happening already in Chicago. Consumers band together and buy from the energy producers. They use their collective purchasing power to bargain. You will see energy co-operatives emerge as producer co-operatives, using hydrogen technology and other forms of sustainable technology.

And look at cuts to the housing budget. We need new mechanisms for providing affordable housing – this will mean we will probably see communities getting land into community land trusts, and more land being held for the benefit of community. Residents can't afford the whole of a property but they can afford a stake. These ownership models are likely to grow.

For this to be supported politically, the Department for Business, Innovation and Skills needs to ensure that 'Big Society is a mainstream thing, not a public sector reform thing.'”

The social enterprise campaigner

The question is, how do we position social enterprise in a wider economic debate, e.g. in terms of increasing growth. How do we build on existing scale? And when the UK is competing with emerging economies, it needs to be understood that it is the very ideas we are creating that are for export.

I get ten phonecalls a week asking whether my organization can play host to international delegations who want to see what the UK social enterprise movement is achieving. These are often from China and South Korea, from all the countries across the developing world. It's a bit like a country that wants to build a telephone infrastructure saying 'we're not interested in landlines. We want to go straight to mobile technology-only.

And building huge public services that are driven by the state is only going to create burdens for them that they can't sustain. They are looking to develop a sustainable economy that can meet their needs as their populations and their economies develop. The UK is the world leader and must export our knowledge and ideas. The British Council is working to do this in 17 territories across the globe. We have an export opportunity that is in huge demand. But we need to make sure we are taking advantage of it in our own countries.

But this is not just about public sector reform. And social enterprise doesn't belong in 'civil society' or the charity sector, but in the world of enterprise, innovation and business. Social Enterprises are fundamentally businesses with values. Social Enterprises mustn't be conflated with charities. They are significant businesses that can help diversify and rebuild our economy. And this is what we desperately need.

The vast majority of co-ops are free-market enterprises. The co-op Group that owns Co-operative stores and the Co-operative bank has a £12billion annual turnover.

I'm really optimistic that the best people, the best performers, want more than to go to work, make some money and go home again. We have learned so much from the environmental movement and the time for social enterprise is now.

Consumers

We have also asked consumers some questions about the way they want to live and work in the future. These are some of the things they have told us:

In a public attitudes survey carried out for this report:

- 52% of people said that they want to make a positive difference to society or the environment through their work. 65% of those aged 18-25 said this was the case while only 44% of over55's said this was the case.
- But one in three people said that the organization they work for only cares about generating profit for their owners or shareholders.
- Almost one in three 18-25 year olds (30%) say they would take a pay cut to do something more rewarding compared with only 19% of those aged 55+

In a public attitudes survey carried out by the Social Enterprise Coalition in November The YouGov (3) survey revealed that young adults living in Britain have a greater desire to see a

new approach to business than older people. Full-time students, more than any other group believe that more business people should use their skills to ease society's woes, (82% compared to 70% of those who are retired).

The research also suggested that young adults are more aware of the behaviour of companies. A third of those aged 18-24 know of a business that is having a positive effect on their community (30%), double the number of those aged 45 plus (14%).

Conclusion

In light of these interviews and a review of the recent policy environment, the Social Enterprise Coalition is making a series of short and long-term recommendations. These are:

The Government sets up a national social enterprise taskforce to integrate social and economic policy to ensure we get the greatest value from all public spending.

Charities, social enterprises, research institutions and Government work towards a standardisation of how we measure social value and how businesses are expected to report it.

The social enterprise movement, consumer organizations and Government work together to produce a business and consumer education strategy to ensure that the workforce and consumers can choose social value when they spend, save, earn and give.

Educators incorporate social value in the education system so that the consumers, workforce and entrepreneurs of the future tackle their spending decisions in a 'whole-systems' way.