

Social Entrepreneurship in the UK

It is a privilege to introduce to you the Delta Economics report on 'Social Entrepreneurship in the UK'. The report is an insightful analysis of five years of ground breaking research into Social Entrepreneurship. I am particularly pleased that this valuable work is being launched at the Coalition's first Black, Asian and Minority Ethnic (BAME) conference, given that the report shows that social entrepreneurial start ups are significantly more common in BAME communities than in non-BAME communities. It also shows that social entrepreneurial activity approaches, and in some places, exceeds parity between men and women. In both cases this is in marked contrast to mainstream entrepreneurial activity. The finding that social enterprise owner-managers are more common in areas of high Index of Multiple Deprivation contrasts interestingly with that in the NCVO Almanac that found general charities to be most common in the wealthiest neighbourhoods.

As Dr. Harding says: "Not only has the literature on the subject expanded, but also the awareness in policy circles in the UK has grown that social enterprise may hold the key, not only to public service reform but also to regeneration and economic growth as well as a potential solution to some of the world's greatest environmental and social challenges." The Coalition has been working to raise this awareness and recognises the importance of developing the evidence base to show what social enterprise can do and to help make these solutions happen. Delta's report outlines reasons for optimism, including the fact that 11.9% of those engaged in early stage entrepreneurial activity are trying to start a social venture.

The Coalition is committed to building the evidence base on and for social enterprises, by our own work (such as the forthcoming State of Social Enterprise survey of social enterprises affiliated to the Coalition), and by working with others including the Economic and Social Research Council (ESRC), the forthcoming Third Sector Research Centre and independent researchers like Delta Economics. Delta's report highlights the need for:

- Clarity on definitions of social enterprise and social entrepreneurialism for researchers, policy makers and financiers,
- Further work on the barriers faced by social enterprises,
- More research into the social enterprise life cycle; onto how those barriers are overcome and how social enterprises compare with conventional businesses and more traditional philanthropy,
- Adding robust data to the existing case studies.

Delta Economics should be congratulated on their work and Dr. Harding personally on her award from Prowess as Women's Enterprise Researcher of the year. I commend this report to anyone wanting to learn more about social entrepreneurship in the UK. The Coalition looks forward to further work from Delta Economics and other researchers and to continuing support from Barclay's (who sponsored the social entrepreneurship element of the Global Entrepreneurship Monitor from 2003-7 which this work extends) and others to generate and transfer knowledge and understanding to practitioners, financiers and policy makers to improve the environment for social enterprises and so improve their contribution to social and environmental solutions in the UK and around the world.

Jonathan Bland

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Disclaimer

Any GEM data used in this report are compiled by the GEM UK team as part of the annual adult population survey. Their analysis and interpretation are entirely the responsibility of the authors.

Preface

This report focuses on the social entrepreneurs who may grow the social enterprises of the future. In the five years since attempts were first made by the Global Entrepreneurship Monitor to measure the prevalence of entrepreneurial activity in the UK population, we have established: first, that around 3.3% of the UK adult population is engaged in entrepreneurship for social or community purposes; that there are no significant regional differences within the UK and that under-represented groups in enterprise generally (such as women and ethnic minority groupings) are more likely to be engaged in social entrepreneurial activity than they are in mainstream entrepreneurial activity.

There are challenges for the sector in terms of the scalability and financing of social enterprises and, in particular, social entrepreneurs tend to fall back on charitable status as they become more established as a means of ensuring their long-term finance.

Alongside this, the burgeoning literature and practice in the area over the past five years tends to promote social enterprise as a separate business model where profits are re-invested in the company itself in the pursuance of the goals and objectives of the organisation. This approach has also informed policy.

However, a review of the literature and practice in this area suggests a real gap in our understanding of three things: first, the changing nature of social entrepreneurship itself, second, how social entrepreneurs become social enterprises and, third, how social enterprises themselves grow, how they are financed and the challenges they face. There is a desperate lack of data to inform the evidence base both for policy and potential investors. The need for further research is raised as a key recommendation at the end of the report.

Overview of key findings

What is social entrepreneurship?

- Definitions of social entrepreneurship and social enterprise have become more sophisticated during the course of the last five years. Where five years ago the issue of profit and its distribution was highly contested in the sector, there is now a consensus that social entrepreneurs need to pay salaries and hence need external finance while social enterprises will need growth finance in order to expand.
- The report distinguishes between social enterprise, social entrepreneurship and philanthropy arguing that philanthropy is the desire by successful entrepreneurs to “give back” while social entrepreneurs and social enterprise start with a values-based set of operational and organisational goals and grow in order to achieve them.
- A matrix of organisational types measured against governance structure on the one hand and profit motivation on the other allows a more inclusive definition of social entrepreneurship, social enterprise, social business and philanthropy.

Key findings from the data

- 5.8% of the UK adult population of working age is engaged in early stage entrepreneurial activity. This is some 2 million people and 11.9% (or 238,000 people) of these are trying to start a social venture.
- 35% of all nascent early stage entrepreneurs, those who have been involved with start-up activity for up to three months, are social entrepreneurs
- 5.5% of all established business owners in the UK are social owner-managers.
- There are no significant differences generally between men and women in terms of either social entrepreneurial start-up activity or owner-manager activity. This contrasts with mainstream activity where men are twice as likely to be entrepreneurs as women.
- However, men in the youngest age group (18-24) are substantially more likely to be starting some form of social enterprise activity compared to women (5.6% compared to 3.1% respectively).
- Social entrepreneurial start-ups amongst the Black and Minority Ethnic (BAME) communities are higher than for the white community. For example, 3.8% of White respondents were engaged in some form of start up social entrepreneurial activity compared to 8.9% of those from mixed ethnic origins, 6.7% of those from the Indian sub-continent and 10.5% of those from the Black African and Caribbean communities.
- Recreation, Education and Support and Care Services dominate social entrepreneurial start-up and owner-manager activity.
- Social entrepreneurs have very positive attitudes towards entrepreneurship and are more positive than the UK population as a whole. They are not as confident as their mainstream counterparts, however, and do appear to be less confident as their activity becomes more established.

- 55% of start-ups expect their entity to have charitable status, although some 13% are set up as companies (such as community interest companies).
- Just 34% of social start-ups and 24% of social owner-managers receive greater than 50% of their funding from public sources. Some 43% of social owner-managed entities have a commercial revenue stream.

Key implications

The research in 2007 has summarised the results of the past five years, incorporated a literature review and cases and lays out the foundations for further research in the area given the substantial policy interest in building the evidence base. It is argued that:

- Over the five years the definition of social entrepreneurship and social enterprise has become less clear: it is now important for both policy makers and investors to understand that “for profit” social businesses deliver value financially and socially as well as not-for-profit entities. This requires a more inclusive approach to public policy to ensure that all types of social enterprise are catered for through adequate access to finance and coaching and mentoring.
- Research has focused on social policy and case studies with GEM UK over the past five years being the only attempt to measure the scale and size of activity in the UK. It is now important to build a more robust evidence base of social enterprises themselves to establish the challenges they face as they grow in terms of finance, markets and perceptions. This should be gender and regionally disaggregated across the UK.
- Although attrition between social start-ups and levels of social owner-management, levels of business closure amongst the social entrepreneurial community are nearly twice those in the general UK population. This suggests that mentoring and coaching as well as access to finance through the growth process are important.
- Finally, social entrepreneurs use similar patterns of finance to mainstream entrepreneurs to fund their businesses and interestingly are nearly twice as likely at the owner-manager stage to attempt to access equity finance. Indeed, the proportion of social entrepreneurs that use charitable or public sector sources for financing their activity appears relatively low. This suggests a need to recognise that social enterprises have similar financial needs to their mainstream counterparts.
- However, even though social owner managers are less likely than their mainstream counterparts to fail to gain access to finance because of business planning or management team issues, they are far more likely to fail to gain access to finance because of the nature of the business. This suggests that the sector needs to improve how it communicates the investable diversity of the sector to investment audiences.

Social entrepreneurship, innovation and regeneration: how our understanding has changed

The growth in interest in social entrepreneurship and social enterprise has increased exponentially since the first social entrepreneurship monitor was published in 2004. As was reported then, "Much of the literature, commentary and discussion of social entrepreneurship and social enterprise has, at its base, a frustration that awareness of it as a primary driver for change for good is so limited."

In the intervening four years, not only has the literature on the subject expanded, but also the awareness in policy circles in the UK has grown that social enterprise may hold the key, not only to public service reform but also to regeneration and economic growth as well as a potential solution to some of the world's greatest environmental and social challenges. The understanding that there is a need for more research in the area has resulted in a dedicated programme to be run through the Economic and Social Research Council; and the focus on social, community and environmental goals amongst mainstream, profit making entrepreneurial businesses has increased. As one interviewee argued, "there's no doubt that the number of social enterprises is increasing. We estimate that one in twenty businesses now classifies itself as a social enterprise."

Although measurements and maps of social enterprise in the UK and beyond have improved there is still a long way to go before there are consistent and longitudinal data available across countries that allows us to understand both the scale of social entrepreneurship and social enterprise and the issues and challenges that social enterprises in particular face when growing their businesses. There is plenty of qualitative material to suggest that social entrepreneurship is important as a driver of social reform¹ and there is a body of literature providing cases of how it has contributed to the professionalisation of public services such as health, education and social work and welfare programmes in the US and the UK as well as in less developed regions of the world². There is a long-standing literature that points to the importance of social entrepreneurship as a phenomenon in social life and as a feature of Corporate Social Responsibility³ and there are cases to teach how to become a good social entrepreneur as a for-profit or a not-for-profit firm and to measure the social impact of the enterprise⁴.

However, the process by which entrepreneurs a) decide on a socially-oriented business model and b) grow is less well understood. As was recently reported at the World Entrepreneurship Summit, the whole area is suffering from a paucity of quantitative and comparative survey data⁵. One of the reasons for this lack of data is arguably because it is hard to define social entrepreneurship in such a way that isolates the relatively small-scale, often voluntary or charitable, work that individuals do to make a social difference, from a social entrepreneur who may go on to establish a high turnover social enterprise.

1 See for example, Bornstein, D. (2004): "How to change the world: social entrepreneurs and the power of new ideas" Oxford, Oxford University Press.

2 Pomerantz, M (2003): "The Business of Social Entrepreneurship in a down economy" In Business March/April 2004, Vol 25, Issue 2

3 Dees, G. (1994): "Social Enterprises: private initiatives for the common good." Harvard Business School case study, November. Dees, J. Gregory, Battle-Anderson, B. and Wei, J. (2004): "Scaling social impact strategies for spreading social innovations." Stanford Social Innovation Review (1), No 4, Spring 2004, 24-32. Putnam, D (2004): Social Entrepreneurs, New Statesman, Issue 4674 p 26. Dholakia, N. and Dholakia, R (1975): "Marketing Planning in Social Enterprises." European Journal of Marketing Volume 9, Issue 3. Wooster, M. (1995): "Doing good for profit" American Enterprise July/August 1995, Issue 4, p 97

4 Emerson, J., Wachowicz, J., and Chun, S. (2001): "Social Return on Investment (SROI): Exploring aspects of value creation" HBS Working Knowledge <http://hbswk.hbs.edu> Boschee, J. (1995): "Social Entrepreneurs" Across the Board March 1995, volume 32, Issue 3, p20. See also the New Economics Foundation, www.neweconomics.org.

12 www.ashoka.org

5 The World Commission on Social Entrepreneurship: financing social innovation. This is a year-long project launched at the World Entrepreneurship Summit (www.wes08.net) in January 2008 that is gathering information globally on the challenges that social entrepreneurs face when trying to access start-up and growth finance. The interim findings will be available in September 2008 and the full report in January 2009 and the 2009 World Entrepreneurship Summit. More information from www.deltaeconomics.com.

Focus of the report

This report examines key writings from the literature and attempts a synthesis that does two things: first, distinguishes social entrepreneurship and social enterprise from philanthropy. This has become a major obstacle to developments in thinking with considerable confusion in practice and the literature. Second, it develops a matrix which allows the funding and profit distribution models of socially motivated structures to be understood. In short, it argues that Foundations, Trusts and the emerging model of social business requires some form of philanthropy. However, social enterprises that emerge from social enterprise activity start with value creation at their core and require growth and investment in order to achieve their goals.

It goes on to look at the existing evidence base using the 2007 adult population survey from the Global Entrepreneurship Monitor. It finds that social entrepreneurship is an important phenomenon in the UK entrepreneurial landscape with some 35% of all nascent entrepreneurship motivated by social or community objectives. Geographical differences are generally not statistically significant but there are important differences between demographic groups: for example women are more likely proportionately to be motivated by social or community goals than by profit and ethnic minority groupings are also more likely than their white British counterparts to be social entrepreneurs.

Finally, the weakness of the evidence base as it currently stands is emphasised and implications for the sector, for policy and for further research are drawn out of the analysis.

Although GEM has helped provide baseline data over the last five years on social entrepreneurship, we know very little about social enterprises – how they grow, the challenges they face, their governance structures and their sources of finance – on a systematic basis. We know even less about those social enterprises, or social businesses, with a for-profit motivation but who nevertheless serve community, social and environmental goals.

GEM does not pick up an expansion in the sector, largely because it is a study of individuals. However, there is evidence that the supply-side is growing with increased activity and interest around different financing models for this very specific group of businesses. This suggests that the demand-side (the number of businesses) is also growing yet we do not know much about it at all.

It appears that the sector has the capacity to expand yet without the evidence base present, it is difficult to assess accurately suitable policy or private sector interventions to address any market failures that might enable the sector to accelerate its growth. Given the challenges that the world faces in terms of climate change and the urgent need for regeneration and economic development, this is a weakness that is too urgent to ignore.

Towards some definitions:

What we can learn from the literature and cases

Entrepreneurship has tremendous power to transform and change society. The conventional view is that entrepreneurship is about mainstream start-up businesses and the contribution that they make to economic growth. However, if we are to harness the role that all entrepreneurial activity plays then entrepreneurship should be conceived more broadly as it has a wider applicability to important social concerns and may even be a better driver of regeneration and employment in deprived communities than orthodox activity⁶.

Social entrepreneurship

One individual interviewed for the purposes of this report argued that it was best not to define social entrepreneurship, social entrepreneurs or social enterprise as the area is not only highly debated but also emotionally charged. However, since this document is essentially reporting on measurement attempts, it is important to classify what we are measuring. This also helps us understand how terminology over the past few years has changed.

As reported in 2004, social entrepreneurs are the entrepreneurs who, “recognise that a part of society is stuck and provide new ways to get it unstuck”⁷. They act as change agents in the social sector”: they innovate and act according to the desire to create and sustain social value and consider themselves to be accountable “to the constituencies they serve for the outcomes they achieve”. In short, they are “one species within the genus ‘entrepreneur’. They are entrepreneurs with a social mission”⁸.

⁶ The social entrepreneurship monitor of 2004 found that unemployed people and excluded groups were proportionately more likely to set up social rather than mainstream enterprises.

⁷ Boshee, J. and McClurg, D. (2003) “Toward a better understanding of social entrepreneurship: some important distinctions.” Minnesota, MN: Institute for Social Entrepreneurs.

⁸ Dees, J. Gregory (2001 – revised version): The Meaning of ‘Social Entrepreneurship’”. Stanford Graduate Business School.

CASE STUDY:

Liam Black – social entrepreneur

Liam Black has an exacting definition of a social entrepreneur. “In my view,” he argues, “you should have to create at least, say, 100 net new jobs or generated 500K worth of real value in a business before you can call yourself a social entrepreneur”. Social enterprise and social entrepreneurship, he goes on to say, are terms which have become blurred by interpretation and re-interpretation to suit particular causes or ideologies.

In a career motivated by the desire to improve access to the labour market of some of the UK’s most under-represented groups, however, he has had a defining impact on the sector. He is the son of an Irish brickie and was brought up with a strict, Catholic, ethic of, “you must look after the underdog” which has underpinned his career over the last 20 years: from a campaigner against apartheid and social injustice through to his role as CEO of Fifteen growing, with Jamie Oliver, the restaurant brand into a global success story. In Liverpool, he led the growth of the FRC Group from a grant funded second hand furniture charity to a profitable multi-million pound social business, creating work and training for hundreds of people and furnishing the homes of thousands of low income families across the north of England. On the back of that success, other enterprises like Create, Bulky Bob’s, and Revive were established and continue to trade successfully. In response to the huge demand to understand and learn from FRC’s experiences, Liam founded the Cat’s Pyjamas, to provide aspirant social entrepreneurs with a warts and all immersion in the real world of double bottom line business, creating events as far afield as the west coast of America and South Africa. Liam’s book *There’s No Business Like Social Business* has been widely read in the sector. His most recent venture is wavelength100.com, a forum for the world’s best private companies and social entrepreneurs to connect and do business.

Liam is passionate about social business but wants to de-bunk some of the myths that surround it. He is resolute in his view that social businesses must be profitable, but equally determined that the focus of the business itself must be on how to help excluded or under-represented groups, either with the profit or through the activities that the venture undertakes. “It’s no good,” he says, “having a model that will not work in the market place. Take Fifteen, for example. If the food’s no good, then people don’t come back because there’s plenty of competition out there. Without the thriving business it’s just a youth centre unconnected from the market. Without the social purpose it is just a fancy restaurant like so many others in London”

Liam has championed social reporting as way of social businesses verifying and communicating the social impacts they claim to make. FRC and Fifteen have both produced independently audited social accounts. “Without a commitment to prove the real value created, the social entrepreneurship bubble will burst – and will deserve to. The hype and cheer leading worry me. Awards given out with only the most superficial analysis of the real impacts being made”.

And what of his own celebrity status as one of the world’s leading social business leaders? He is actually quite disparaging about it. “We all play the game to a certain extent, promoting ourselves to promote our enterprises. But we have to be very careful. How does the creation of a celebrity “A list” of social entrepreneur super heroes really help people on the ground having a hard time getting started? We must be our own fiercest critics” Don’t focus on definitions or star turns – focus on results. That’s what social entrepreneurship should be about.”

CASE STUDY:

Anna Fiorentini Theatre And Film School

The Anna Fiorentini Theatre and Film School (AF) started in Hackney just over 7 years ago to provide professional performing arts training to 165 children and young people aged 7-18 regardless of any financial, physical or learning disabilities. Most professional training is extremely expensive and therefore only available in more affluent areas. Yet the importance of performing arts in developing confidence, self-esteem and life skills is equally as relevant to people from all backgrounds.

Getting the balance right between being community based and yet being a professional drama school with the costs this entails is difficult. Drama schools are normally professional or community based. Not both. However, Anna Fiorentini seems to have struck the correct balance with teachers who include directors from companies such as the National Theatre, RSC and choreographers who have worked with performers including Tina Turner and Peter Andre. The pupils are fortunate as these teachers are highly respected within the entertainment industry but also want to give something to disadvantaged children that need these opportunities.

Financing top quality teaching costs money. But there is a financial problem because to be giving professional on-going training forces the Drama school to compete with other professional drama schools for money. It is notoriously very difficult to get mainstream funding. Therefore the income is primarily from fees. But this cuts across the ethos of the school to try and help families that cannot afford fees. AF aims to have 10% free places and allow payments in instalments for others.

One partial and innovative solution has been to set up a Friend's Scheme so individuals can sponsor a child and see their progress throughout the year. Another has been to set up an Agency so that the students can audition for TV, Film and Theatre. Recently one student was given a free place for a year as she could not afford drama school fees. She now has a 3 year contract with EastEnders and helps AF sponsor events to raise fees for other students.

Another innovative idea has been to set up the City Academy with Equator Media. This is a performing arts school for city professionals wanting a creative outlet one evening a week. This is expanding into corporate firms to give training on teamwork, public speaking and communication skills etc. Profits go towards bursaries for the children that want to attend the AF School. This expands contacts within the corporate sector and possible sponsors of the AF School.

Due to these innovative financing solutions, AF does not rely on grant-funding or sponsorship to remain sustainable. The cash flow is sufficient to achieve the immediate goals for each term. AF is expanding in September when a youth theatre for 17 – 24 year olds opens as an extension to the current school giving more intensive training and the chance for tour productions to elderly people's homes and schools. Financial assistance would be most welcome !

Her tip to any start-up business is to start small and make sure you keep an eye on the cash flow at all times. You also have to be extremely passionate about what you are doing rather than setting up a business just for the sake of trying to make thousands and it helps if you are innovative in finding financial solutions.

Such a definition captures a whole spectrum of social entrepreneurial activity, however, not all of which needs to be either generating revenues or growing and making an economic as well as social contribution over the long term. We need a definition that reflects the two critical features of a social, as opposed to a mainstream entrepreneur and the enterprise they might eventually establish:

- The project has community, environmental or social goals rather than profit as its primary motivation. This does not preclude profit but does suggest a trade-off between the social, environmental or community goals and profit maximisation.
- Any profit is used to support the social and community goals rather than returned to shareholders in an orthodox sense. This does not preclude shareholdings in a social enterprise but does require a different approach to returns on investment.

For the purposes of the this report we use the definition of social entrepreneurship derived from the definition of mainstream entrepreneurship contained in the annual Global Entrepreneurship Monitor (GEM) reports as follows⁹: *“Social entrepreneurship is any attempt at new social enterprise activity or new enterprise creation, such as self-employment, a new enterprise, or the expansion of an existing social enterprise by an individual, teams of individuals or established social enterprise, with social or community goals as its base and where the profit is invested in the activity or venture itself rather than returned to investors.”*

Social Enterprise

Many social entrepreneurs will never establish social enterprises instead preferring to work within socially-oriented organisations to fulfil their own social motivations.

However, many social entrepreneurs will establish and grow social enterprises and it is important to have a working definition that enables us to understand where the gaps in our understanding of this market are as well since the sector is large and growing. The UK government estimated in 2006 that there are 55,000 social enterprises in the UK¹⁰. This is some 5% of all businesses with employees and constitutes a total turnover of nearly £27 billion¹¹. Focussing just on the social enterprises with which are Companies Limited by Guarantee or Industrial and Provident Societies, this is still 1.2% of all enterprises in the UK¹².

These businesses are formally constituted companies with a revenue stream from trade in goods and services. Thus, the Cabinet Office defines social enterprises as businesses with “primarily social or environmental objectives who are principally reinvesting surpluses in the business or in the community”¹³ or, in short-hand, “businesses trading for a social purpose”¹⁴.

The essence of this definition means that any surplus, or profit, is recycled for the benefits of the activity rather than for shareholders or directors. Because of their structure and constitution, they are able to serve a “triple bottom line” achieving profitability, societal impact and environmental sustainability simultaneously.

9 Harding, R. (2004, 2006 and 2007 forthcoming): “Social Entrepreneurship Monitor”, part of the Global Entrepreneurship Monitor Study.

10 Cabinet Office, 2006 Social Enterprise Action Plan. www.cabinetoffice.gov.uk/third_sector/social_enterprise/action_plan/

11 See <http://www.sbs.gov.uk/sbsgov/action/detail?r.l3=7000021093&r.l2=700000634&r.l1=7000000412&r.s=sc&type=RESOURCES&itemId=7000031657>

12 SBS (2005): Survey of Social Enterprises Across the UK Research report prepared by IFF for the SBS.

13 Cabinet Office, 2006 Social Enterprise Action Plan. www.cabinetoffice.gov.uk/third_sector/social_enterprise/action_plan/; see also DTI (2002): Social Enterprise: A Strategy for Success. Available at: www.BERR.gov.uk/social_enterprise.

14 This is the Social Enterprise Coalition’s definition, www.socialenterprise.org.uk.

CASE STUDY:

Sev Necati - Women And Young People's Safety Solutions

Sev Necati runs a project called "Women & Young People's Safety Solutions". The project assists young people, women and front line workers on all safety issues that affect them.

It provides practical and simple real life tools, techniques and information by teaching participants about threat awareness and avoidance, the law, how to manage risk, self-esteem and confidence building. It provides a forum where people can share their experiences, find new strategies/techniques to change the way they resolve difficulties as a result of abuse from criminal activity, gang culture or cultural beliefs which have caused physical, mental, sexual, emotional, financial or psychological distress. All of the work stems from Sev's personal experiences and already has a substantial track record.

Awards for the work include: Community Champions, UnLtd, Shell LiveWire Young Entrepreneur Awards, The New Entrepreneur Scholarship Programme from the University of East London, East London Small Business Centre, HBV Enterprise, The Prince's Trust and sponsorship to attend the i-Genius World Summit.

She has, however, experienced severe problems in financing her project. As a self-employed entrepreneur there are few funds which target individuals. Additionally, this funding is usually reserved for start up costs for equipment, web development etc. They will not fund your project if it is for wages. As a result, she often finds herself working for free and find paid work on a sporadic basis. Her goal is to run the project on a continuous basis through the inner London boroughs but is currently hindered by access to finance. She comments wryly, "If I decided to set up as a charity and a voluntary\community

group then other options would be open to me but this has its own issues. Again money is given out on a limited basis, so many groups fight for this funding, although again not normally for salaries."

This example illustrates a huge gap in the market in giving growth finance to grass roots organisations. She says, "decision makers need to set up funding/grant money that people like myself, social entrepreneurs can access for start up, then increase the amount so I can roll out the project\work on a paid basis. Entrepreneurs are visionaries have some excellent ideas for change. Unfortunately, it feels that they are not always given the opportunity to put their community changing ideas into practice to serve wider society."

CASE STUDY:

Nema Foundation

Nema's objective is to relieve poverty while protecting the environment, achieved through replicable, low cost projects designed to empower rural communities. The Nema Foundation is part of a larger model under the umbrella of Bespoke Experience, which operates commercial tourism lodges. The lodges operate in such a way that maximise all possible benefits to the local area while giving a growing percentage of revenue to Nema projects. The commercial entity ensures that all administrative costs are covered so 100% of all donations go directly to projects on the ground.

In Guludo life expectancy is estimated at 38 years old with 29% of children, less than 2% of houses have latrines and less than 1% of children reach secondary school. In the last 12 months, with Global Angel's support, Nema has implemented a school feeding programme, tripling school attendance, protected over 10,000 women and children from malaria through training and net distribution, ran hygiene and sanitation workshops in every household in six villages, provided every eligible child in the region a chance for a secondary school scholarship and is currently building 2 primary schools and providing over 15,000 people with clean water through the rehabilitation of 26 wells/boreholes. This has all been achieved through training community volunteers who implement and monitor the projects and integral involvement with the government.

CASE STUDY:

Parag Shah And Art-switch

“Why is it,” asks Parag Shah, the founder of Art-Switch.com, “That most people can earn a living being average but artists need to be brilliant before they can start to get above subsistence?”

This was the starting point of his social business, set up in 2003 to provide a means for returning incomes from art work to the artists themselves for the value they create in strengthening society through artwork as catalysts for positive change. In short, the vision and ultimate goal behind Art-Switch is to establish a properly functioning transparent art “market” that allows artwork to be priced properly so artists are remunerated properly.

The model is simple, involving three things: First creating a market where the supply and demand of artwork can interact without the social and cultural barriers that currently exist; Second, educating consumers and, equally importantly, non-consumers of art to value meanings and not just aesthetics by exposing them to it more frequently; Third, eradicating the barriers that currently prevent artists from establishing themselves.

Art-Switch is a fine art library-cum-marketplace concept. Clients pay £1 a day for being a member of the library and “borrow” artwork profiled on the website for an agreed time and then switch for free or buy. Clients thus experience many artworks at their premises by borrowing without purchasing.

The benefit for consumers is they can “return” art whenever they want, which fosters artwork literacy through experimentation, while the benefit for artists is exposure for their work and a higher proportion of the revenue. The whole £1 that the consumer pays is returned to the artist. In addition, Art-Switch gives artists a huge 75% of sales and is pioneering royalties on re-sales.

So that every avenue is covered, the same model is used for corporate art consumption with £1 a day charged per wall allowing companies to re-brand and re-design without throwing out redundant artwork, while being socially responsible. ‘Switchability’ ensures corporate image is never compromised so employees even enjoy voting for artwork, which educates and inspires.

Art-Switch measures each artwork’s popularity to publish its daily demand driven price. The more “trades” there are on a particular piece, the higher its price goes. Ultimately, Parag wants Art-Switch to leverage the ensuing price confidence with a transparent secondary market for art owners to add their stock to the library and benefit from proper valuations, while also serving as an incubator for ‘start up’ artists to launch and grow careers.

Besides art literacy, the social benefit of transforming artworks into income generating as well as capital gain assets is liberation of artists to earn through their vocation rather than having to add skills after finishing art school.

Incorporating social innovation and social business

Evidence of the sheer potential of social enterprise is evident in the literature. While authors also comment on the lack of reliable and consistent data¹⁵, there are strong reasons to expect the sector to expand:

1. There is a visible change in the ways in which consumers behave with a greater focus on “ethical” consumption.”¹⁶
2. Evidence that investors are beginning to think in terms of broader, “intangible” returns other than just profit: for example, social, ethical and increasingly environmental value creation.¹⁷
3. An increasing interest in academia, policy and business in business models with community/social or environmental goals that allow residual profit to be re-invested in the company itself to allow it to expand and maintain its work.¹⁸
4. Changing contracts for delivery of key public sector areas such as health, education and community care reducing reliance on employment or grants and increasing numbers, especially of women, in “socially motivated” enterprises.¹⁹
5. There is a growing interest in the undoubted impact that social enterprises can have on job creation²⁰, the environment and local communities. As the BERR enterprise directorate survey of social enterprises in 2005 found, some 49% responded that “helping people” was their main goal, while a further 17% said that “helping the environment” was their main goal. 34% said that both were objectives.²¹
6. The growth in new technologies that enable entrepreneurs to network in a “social” way and this has to some extent created an increased awareness of “profit with a purpose” organizations and business models and allows them to flourish. For example, i-genius, the “facebook for social entrepreneurs” creates networks and partnerships between social entrepreneurs and allows them to connect in ways that will allow them to build their business.

15 Nicholls, A. (2007): “What is the future of social enterprise in ethical markets?” A social enterprise think-piece for the Office of the Third Sector (November 2007).

16 Ibid. See also Leadbeater, C. (2007): “Social Enterprise and Social Innovation.” A social enterprise think-piece for the Office of the Third Sector (November 2007).

17 Davis, S., Lukomink, J. and Pitt-Watson, D. (2006): “The New Capitalists: How Citizen Investors are Reshaping the Corporate Agenda.” Harvard Business School Press, Harvard.

18 Harding, R. (2007): “Understanding social enterprise” Industry and Higher Education, London, March 2007, pp74-86

19 Harding, R. (2007): “The State of the UK – Women’s Enterprise.” Prowess, November 2007.

20 Aiken, M. (2007): “What is the role of social enterprise in finding, creating and maintaining employment for disadvantaged groups?” A social enterprise think-piece for the Office of the Third Sector.

21 See also DTI/Small Business Service (2005): “A Survey of Social Enterprises Across the UK.”

There is no evidence to suggest that social entrepreneurs behave in different ways to mainstream entrepreneurs. The case studies have all demonstrated that many social entrepreneurs, like their mainstream counterparts, will work for nothing or out of their own resources until the project becomes self-sustaining. All of the social entrepreneurs covered in this report have worked without remuneration or from their own self-funding to get projects off the ground. It is their belief in the “idea” that motivates them to continue in exactly the same way as the well-publicised mainstream entrepreneurs who have built businesses from scratch.

Traditionally, economists regard entrepreneurs as market creators who are motivated by their own desire for, “wealth, power and prestige” as a reward for the risks that they take²², but many who observe entrepreneurs generally and social entrepreneurs in particular argue that it is more complicated than this. Commonly it is argued that there are three characteristics that make up the overall “genus” of entrepreneur, regardless of the form that their entrepreneurial activity takes²³:

→ They are innovators – they want to make a difference by bringing a product or service to market. How they go about doing that, and then how they distribute their profits (either back into the organisation or to the community or stakeholders or to shareholders) is immaterial. They are natural change agents either in the economic or the social space.

→ They are risk takers and naturally take that risk on themselves – many entrepreneurs regard risk as part of the excitement of their work, whether that work is in setting up a business or in “paid” employment. Many are prepared to take reputational and financial risks in order to see an idea through because their evaluation of the opportunity suggests that the ultimate returns will be worthwhile. Accordingly, they collect information, make judgement calls, raise finance and set up new business entities (either within firms or outside of them) to carry their opportunity forward²⁴.

→ They are entrepreneurial as a state of mind – they push at the boundaries of accepted norms – of behaviour or knowledge or business practice. In the words of one senior Human Resources professional, “They are a pain to manage and a pain to keep in the business. But the rewards of keeping them are so great that we have to do everything to keep them.”²⁵

22 Baumol, W.J. (1990): “Entrepreneurship: productive, unproductive and destructive.” Journal of Political Economy 98, pp893-291 cited in Metcalfe, S. (2006): op cit.

23 See also Parker, S. and van Praag, M. (2006): “The Entrepreneur’s Mode of Entry – Business Takeovers or New Venture Start?” Max Planck Institut für Wirtschaftsforschung, Jena, Discussion Paper No 26-2006 for a more detailed discussion of the personal characteristics of entrepreneurs, their schooling and their social capital background and the likelihood that they will take over an existing firm or start a new one.

24 Casson, M., Yeung, B., Basu, A., and Wadeson, N. (2006): “Introduction” Chapter 1 in Casson, M., Yeung, B., Basu, A., and Wadeson, N. (2006): “The Oxford Handbook of Entrepreneurship.” Oxford University Press, Oxford.

25 GEM England Regional Entrepreneurship Monitor (2007) Expert Interview.

CASE STUDY:

i-genius

i-genius is a world community of social entrepreneurs with members in over 90 countries. Established by Tommy Hutchinson, i-genius acts primarily via its online social network platform enabling its members to connect with one another and form partnerships. It also encourages partnerships between social entrepreneurs and governments, corporations, media organisations and NGOs. Using a variety of media outlets, i-genius also seeks to promote its members and their work in order stimulate fresh thinking and bright ideas, and inspire a new generation to become social entrepreneurs. It hosted its first World Summit for Social Entrepreneurs in Phuket, Thailand, March 2008.

CASE STUDY:

David Dickie - Advance Aid

After the Asian Tsunami in 2005 David Dickie, like most people, was appalled at the devastating slowness with which aid reached the region. Unlike most people, David decided to do something about it and, with Simon Lucas, set up the charity, Advance Aid. This was not the first time that disaster had struck a region and it certainly will not be the last – climate change, war, famine and disease make crises in Africa progressively more likely over time. More than this, if Africa is to lift itself permanently out of poverty, argues David, there have to be real and meaningful jobs created to combat the increased aid-dependency of the continent since Live Aid some 23 years ago. For many, Africa is too big an issue to tackle but for David and Simon it represented a major social business opportunity.

Although Advance Aid is set up with not-for profit status, its operations are ruthlessly commercial in the interests of ensuring that the venture achieves its objectives. Its ultimate goal is to create jobs in Africa by ensuring that emergency relief reaches the places where it is most needed as soon as is humanly possible. It does this by “pre-positioning” stocks in the warehouses used by NGOs and charities close to areas where this is likely to be most needed. This differs to the traditional approach to relief in that the resources are pre-produced and on-hand – they do not need to wait for stocks to become available.

But rather than filling the warehouses with cast-offs from the developed world, Advance Aid works with locally based manufacturers across the continent to provide the supplies necessary. Their latest venture, in Nairobi, is creating 300 jobs immediately.

Advance Aid has only been operational since 2006 but already boasts major networks and achievements across Africa. By cutting out the “middle man” in the emergency aid supply chain, it ensures that a £1 donation can contribute 60 pence directly to job creation. Thus far, the project is entirely self-funded by the founders but Advance Aid is raising funds from both government and corporates to establish a recyclable fund which will create much needed sustainable employment as well as an accessible, affordable stockpile of emergency goods.

All of this means that there is increasing political and business interest in those entrepreneurs who set up social enterprises and therefore innovate in the social space. There is little in the innovation literature itself that focuses on the social innovators²⁶ and yet, as a business sector, this area is growing rapidly as a route, not to economic growth as such but to sustainable economic development. The growing number of companies who combine social innovations with business or technological innovations²⁷ employing the innovative business model of social enterprise is too important to be excluded from any understanding of entrepreneurship.

As an area of research, social entrepreneurship, social innovation and social enterprise is still emerging and there are still issues around the appropriate organisational structures for maximising and perpetuating social innovations with some arguing that the profit motive is more consistent with business and technological innovation while a not for profit organisational structure is more appropriate for producing replicable social innovations.²⁸

The most recent contribution on the subject is that of Muhammad Yunus who introduces a new term, that of Social Business. For him, a social business is, "A company that is cause driven rather than profit driven with the potential to act as a change agent for the world."²⁹ For Yunus, profit itself is not incompatible, indeed is necessary, for a social business to pursue its social or environmental goals. The profit remains within (in other words is re-invested in) the business itself. In this sense, the definition is consistent with that of social enterprise. However, the critical difference is in the relationship with long term investors who will not expect to see any return on their investment since they share the mission of the social business itself.

From social business to social finance

Arguably Social Business as a definition is more helpful than that of Social Enterprise as it incorporates the need to generate profit, or wealth, in order to fulfil social objectives for any organisation outside of the voluntary sector. However, it nevertheless points to a real tension across the whole social sector (policy, research and delivery alike) around the issue of finance for these types of organisation. For example, Emerson and Spitzer in their definition of social capital markets includes charitable donations in the whole market serving socially, environmentally or community oriented organisations³⁰. Arguably this is a different financing mechanism oriented towards maintenance rather than growth and again highlights the impact of definitional confusion on the relationship between the social enterprise or business and its financiers.

As has already been argued, these are entrepreneurs who have similar finance requirements to those of mainstream enterprises which can be termed social businesses. Like any start-up, they are restricted by cash-flow, experience challenges in accessing growth finance and have require support to learn how to be "investor ready" in just the same way as their mainstream counterparts. However, if they are unable to provide a return to investors for governance reasons, this magnifies their difficulties.

Yet, as one social investor commented, "If the sector is to grow, it needs money. There is no earthly reason why an entity motivated by social goals cannot make profit. The key thing is how that profit is distributed. We need a new model of social finance to cater for profit that is used for social purposes." Another argued, "The key challenge for social enterprises in the UK is access to finance. All too many are willing to receive philanthropic or public sector donations and this makes them weak and ultimately unsustainable as viable business entities that are of interest to the commercial investment sector."

26 Interest in the area is growing and work at the Skoll Centre for Social Entrepreneurship and the Young Foundation is increasingly focusing on this area. See, for example, Mulgan, G. with Tucker, S., Rushandara, A. and Sanders, B. (2007): "Social Innovation: what it is, why it matters and how it can be accelerated." Skoll Centre for Social Entrepreneurship, Working Paper and The Young Foundation.

27 Examples include the social network for social entrepreneurs: www.i-genius.org or attempts in the South East of England to re-integrate young offenders with behavioural difficulties into mainstream employment through use of social networking and music.

28 Mulgan, G. et al (2007): op cit

29 Yunus, M. (2008): *Creating a World Without Poverty: Social Business and the Future of Capitalism* with Karl Weber, Public Affairs Press, New York.

30 Emerson, J and Spitzer, J (2007): "From Fragmentation to Function: Critical Concepts and Writings on Social Capital Markets' Structure, Operation and Innovation." Oxford University, Said Business School, Skoll Centre for Social Entrepreneurship, Working Paper.

CASE STUDY:

Oly Donnelly And Sheetal Mehta - Shivia

Shivia is a charitable organisation which makes it easy to give to and participate in grass roots social enterprise through microfinance work in India and Nepal. Their overall goal is to help the poor to help themselves out of poverty. The idea evolved when Sheetal Mehta and Oly Donnelly, the two founders, decided there was a gap for Western organizations and individuals to play a role in the economic development of the poor. Large banks, corporations and high net worth individuals don't want to send their money to organizations that have high administration costs and therefore cannot deliver the bulk of funds because they dwindle in the process. The investors like the process because Shivia's interest rates at an average of 15% are nowhere near as high as the usual 60-80% and they know the relationships are at the grass roots – hence there is transparency in the process and investors can visit the projects if they choose.

Shivia's social goal is to empower some of the poorest communities in the world to set up their own businesses and become self sustainable thereby improving their economic conditions. It does this by lending money for specific opportunities in deprived communities, in a similar way to Microcredits, but with the interest recycled into the fund for further loans. Shivia is looking to initially raise a fund of \$2.5 million and when appropriate, a larger fund to support similar work in other countries. The fund is currently being raised by partnering with organizations whom Sheetal and Oly have worked with over the last ten years and they will select the projects they want to support.

Shivia, in that it must attract investment, will have economic as well as social goals and will measure value in terms of repayment, time to repayment, jobs created locally, interest generated and fees resulting from consulting work conducted on behalf of corporations. Returns currently are essentially social. Investors know that their funds have been placed in the hands of people who are going to work to build their business and re-invest into the fund and the communities they support. However, Sheetal Mehta and Oly Donnelly note somewhat wryly that many of the investors "already get" social entrepreneurship. There will be a big campaign in the media to educate "the rest"!

Sheetal has three top-tips for social entrepreneurs:

1. Run your vision as a business (you can be passionate about a not for profit and make money at the same time)
2. Make sure your intentions are aligned – making money and giving back is key
3. Realize that not everything that claims to be social is in fact social.

CASE STUDY:

Big Issue Invest

Big Issue Invest is the leading provider of finance to high-performing social enterprises delivering business solutions that tackle social problems. It is a member of The Big Issue Group of Companies founded by John Bird MBE and Gordon Roddick. It delivers both social and financial returns to its investors and dividends are reinvested in The Big Issue and Big Issue Invest.

Big Issue Invest is led by social entrepreneurs staffed by mission-driven financiers with a wealth of experience from the World Bank, Shore Bank (the oldest and largest community bank in the US) and private retail and investment banking. In the words of Nigel Kershaw, the Chief Executive, it is this combination, along with the first-hand experience gained through The Big Issue, that gives the organisation unique trust and understanding of the social enterprise sector.

Since February 2006, Big Issue Invest has lent £5 million to 25 social enterprises with no defaults or late payments. Investments span five core mission areas: jobs, education and training; health and social care; social and financial exclusion; environment and disability.

Big Issue Invest acts as one entry point of financing options for social enterprises, providing a 'one stop finance solution, to social enterprises' need for capital:

The Loan Fund provides tailored loan finance to meet the needs of social enterprises wishing to scale-up. It provides loans as well as innovative financing products including royalty structures, guarantees and loan conversions that allow it to make investments and take risks that are normally associated with equity financing.

The Venture Capital Trust offers social enterprises bidding on public sector contracts a new source of low-cost, flexible contract finance – typically 6-7% per annum with no arrangement fees in packages of up to £2 million. This initiative primarily looks at the strength of the social enterprise to deliver the contract rather than its balance sheet.

The Social Enterprise Venture Fund, currently being raised, will provide equity-like risk capital for scaleable social enterprises. Venture philanthropy has typically provided grants but this fund will take an investment approach that offers both financial and social returns to investors. Funding may be used for acquisitions by social enterprises of commercial companies and backing them into established social enterprises with strong management and proven delivery records.

Big Issue Invest has also launched an initiative to increase access to regulated credit among low-income people – the Alternative Credit Ratings Index. Eight million people are refused mainstream credit each year. They have no alternative but to borrow at very high rates of interest. Such people may not be poor credit risks, rather there may be too little information in their credit files to assess their creditworthiness.

Big Issue Invest is conducting a feasibility study of adding in new sources of positive data, such as rent payment data, to credit assessment models so as to increase access to mainstream credit and believe that they could bring up to 2.5 million people into mainstream regulated credit and away from the predatory lenders.

The matrix of social entrepreneurship and social enterprise

The cases and discussion above highlight five reasons why social entrepreneurship and social enterprise is of growing importance for policy makers and businesses alike:

1. Social entrepreneurs and social enterprises are very similar in their characteristics and potential to mainstream entrepreneurs and enterprises. However, their primary motivations are to help people or the environment and, as a result, use business models that allow profit to be reinvested in the business itself rather than to be re-distributed to shareholders. This requires a new way of thinking about investment and financing of these entities.
2. Changes in the way that contracts are delivered in many of the public services has increased the prevalence of female self-employment in the “caring” sectors such as education, health and community work. These are likely to be organised as social enterprises rather than as charities or as mainstream businesses.
3. Data on the growth of the sector and of impact that such businesses have is very limited both globally and across the UK. However, established social enterprises are more likely to be found in the most deprived wards of England³¹ and this suggests that they are fulfilling an important social need.
4. Since social entrepreneurs behave in a similar way to mainstream entrepreneurs, they are as likely to be innovating. Examples such as i-genius demonstrate the importance of social networking to connect groups of like-minded social entrepreneurs who are as reliant on building social and intellectual capital as are their mainstream counterparts in order to grow their businesses.
5. The growing number of for-profit but social or environmentally focused businesses requires a new financing model that marries the fact that profit is re-invested with the need to provide a clear financial return to investors.

There is a growing academic and policy interest in the role of social entrepreneurs in particular as the phenomenon itself grows globally. Social entrepreneurs are seen as “pragmatic, innovative and visionary” with a particular role in creating social value³². They are vital in creating the social innovations that drive positive change in delivery of services and welfare³³ but equally important in defining a new and sustainable business model that integrates the desire for social or environmental sustainability by addressing negative externalities with the need to make revenue and profit simultaneously³⁴.

31 Harding, R. (2007): Barclays Social Entrepreneurship Monitor, forthcoming; DTI/SBS Survey of Social Enterprises across the UK found that over half of social enterprises are located in the wards with higher levels of multiple deprivation.

32 Nicholls, A. (2006, ed): “Social Entrepreneurship: New models of sustainable social change” Oxford University Press, Oxford

33 Mulgan, G., with Tucker, S., Ali, R. and Sanders, B. (2006): “Social Innovation: What it is, why it matters and how it can be accelerated.”

Skoll Centre for Social Entrepreneurship Working Paper:
<http://www.youngfoundation.org.uk/files/images/SI-sp.pdf>

34 Harding, R. (2007): “Understanding social enterprise” Industry and Higher Education, London, March 2007, pp74-86.

However, the most important aspect of the discussion outlined above is the change in the definition of social entrepreneurship that has taken place over the past five years. In 2003 the social entrepreneurship sector itself struggled with the word “profit”, arguing that it ran counter to achieving the social goals of the social entrepreneur or, ultimately, the social enterprise. As a result, it was argued, many projects would inevitably stay small, largely voluntary and community-based and not all social entrepreneurs would build social enterprises.

Increasingly, however, there is a new breed of social entrepreneur that, like their mainstream counterpart, absolutely acknowledges the need for professionalism, adequate resourcing and ultimately growth, to be able effectively to serve the double bottom-line. These entrepreneurs have as a starting point the need to build an entity based on values and value creation but are sufficiently pragmatic to know that business principles of wealth creation must also be followed.

This renders the definition of social entrepreneurship more complex but not impossible: what is important is the motivation of the entrepreneur or enterprise in the first place and not the ultimate attitude towards profit. In the words of one interviewee, “You need money, i.e. a revenue stream and ultimately profit, in order to make things happen. But it’s the way in which that profit is distributed that distinguishes between a social enterprise and a mainstream enterprise.”

A note on philanthropy

Successful global entrepreneurs like Bill Gates, Warren Buffet and Sir Tom Hunter have raised public awareness around a new area, especially for the UK, of philanthropy. The activity of these entrepreneurs is often confused in the media with social entrepreneurship and it is worthwhile dwelling for a moment on exactly how what they do differs to social entrepreneurship and social enterprise.

Perhaps the quickest way of illustrating the difference is in terms of the Entrepreneurial Life-Cycle model in Figure 1:

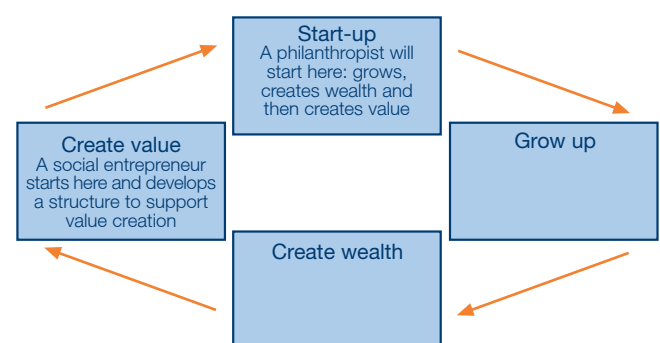


Figure 1:
The Entrepreneurial Life Cycle

Source: © Delta Economics

The **entrepreneur-philanthropist**: begins their entrepreneurial life by starting a company. While this company may be a “values driven” company like Microsoft, whose objective is to “maximise the opportunities for people to reach their full potential”³⁵ their ultimate objective at the start-up phase is to create wealth around the central business idea or innovation that they are developing. Once their personal wealth has amassed, this is then used to set up Foundations and Trusts which have social, community or research objectives. While this model is frequently associated with the US³⁶, examples also abound elsewhere in the world such as the Glaxo-Wellcome Trust, the Bertelsmann Foundation, the Rowntree Trust and the Robert-Bosch Stiftung, all of which have emanated from the personal resources of the founding entrepreneur.

A new breed of entrepreneur-philanthropist whose business-model is profit oriented and whose activities are commercial but who dedicate a proportion of their profits from the outset is represented by the XL Results Foundation and Roger Hamilton. This is a network of entrepreneurs who are coached and mentored on how to grow their businesses, irrespective of business goals, in the interests of returning a percentage of their profit to social, welfare, economic development or community causes. They regard themselves as social entrepreneurs although their model is actually philanthropic: their goals are to create a commercial organisation that generates profit and that hence can give back to communities. The communities themselves are the beneficiaries but not the purpose of the business operation.

The social entrepreneur building a social enterprise is motivated by the desire to create value in the form of a social, environmental or welfare return in the first instance. Many social entrepreneurs may find it hard to get out of the values box, as the example Sev Necati demonstrated: her goal is to generate greater welfare for the women with whom she was working but she finds the process of raising resources to develop an appropriate organisational structure with growth potential extremely difficult. In contrast, the Art-Switch example at the other end of the spectrum was motivated entirely by social objectives to provide income directly to artists but uses a commercial structure and has external investors in order to be able to achieve this.

Understanding the sector

In the end, then, social entrepreneurship and social enterprise are arguably linked in a matrix as shown in Figure 2. On the vertical axis is the governance structure: from “charitable” or “Foundation” status and thereby “governed” ultimately by Trustees through to “Social Enterprises” structures such as Community Interest Companies and even cooperatives with investors expecting a social as well as a financial return. On the horizontal axis is the profit motivation of the entity from “not-for-profit” to “for profit”.

35 Gordon Fraser, CEO, Microsoft UK at the Cass Business School, “Hidden Innovators” report launch.

36 See for example Acs, Z and Phillips, R. (2002): “Entrepreneurship and philanthropy in American capitalism.” *Small Business Economics*. 2002. v. 19, p. 189-204.

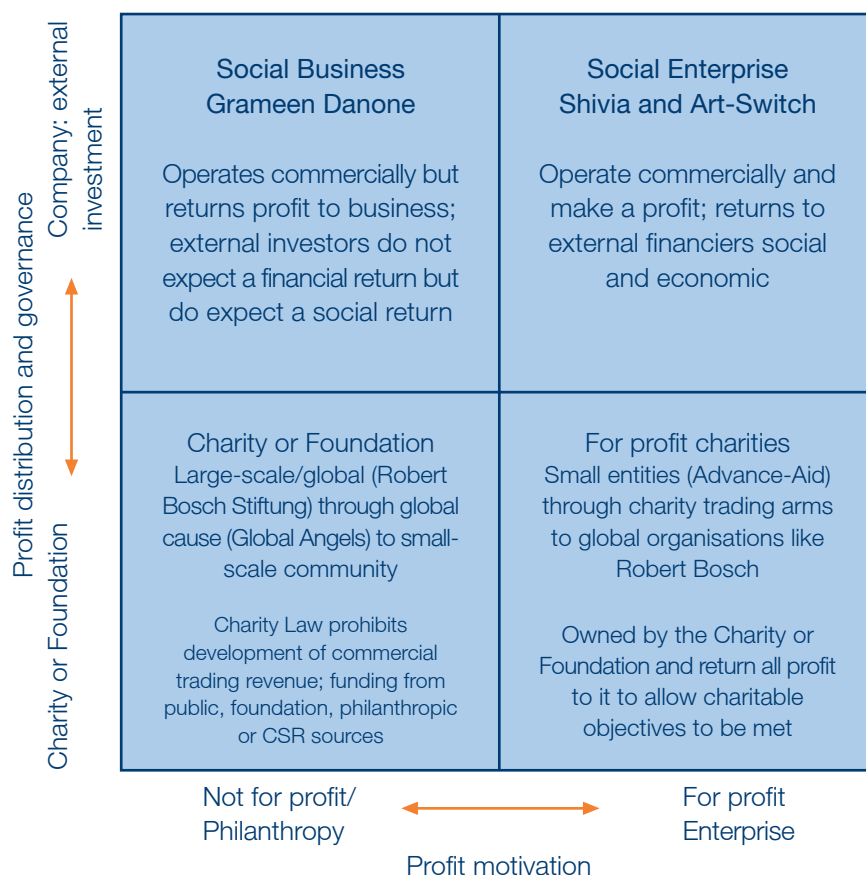


Figure 2: A matrix of socially motivated organisational structures
Source: © Delta Economics

The matrix in Figure 2 summarises both the literature and the cases covered in the report so far. No one model is right: for example, more philanthropic structures serve a purpose for providing aid and support to specific global or community causes such as hunger, or welfare or health. Similarly the social business model, as described by Muhammad Yunus's new book, requires a degree of philanthropy simply because investors should expect only social return and not economic return from their investment.

In contrast, investors in social enterprises can expect both a social and an economic return as the entities are similar in structure but not in motivation to their mainstream counterparts.

The issue of measurement, both of scale and of impact, remains, however, since the sector itself has only recently started to understand the diversity of models that co-exist. It is to this that the discussion now turns.

Measuring social entrepreneurship and social enterprise in the UK³⁷

Attempts to measure the scale and scope of the social entrepreneurship and social enterprise sector are in their infancy and the only longitudinal study is that conducted by the Global Entrepreneurship Monitor (GEM) UK project between 2003 and 2007. The other study surveyed here is that conducted by the Department for Business, Enterprise and Regulatory Reform (BERR) Enterprise Directorate in 2005. The methodological approaches of each are examined.

The GEM Approach

GEM defines entrepreneurship as: "Any attempt at new business or new venture creation, such as self-employment, a new business organization, or the expansion of an existing business by individual, teams of individuals, or established business."

This is a sufficiently broad definition to include anyone who is adding value to the work they do by acting entrepreneurially, although too narrow to identify those enterprise that fulfil a not-for-profit or specific social purpose. Indeed, with the exception of the UK, GEM globally does not consider social entrepreneurship.

How does GEM measure entrepreneurial activity?

Each of the countries in the study has a team of researchers who use a standardised questionnaire survey of the adult population to create the Total Entrepreneurial Activity (TEA) index. This random adult population survey is conducted by telephone during June and October of each year and, on the basis of the 18-64 year olds within the population it is used to identify:

1. **Nascent ventures:** these are the firms that would be called start-ups by most analysts. Anyone in the survey who said they were actively involved in creating a new business that they would own all or part of and had not paid any salaries or wages to anyone for more than three months fell into this category.
2. **Baby businesses:** these are the more established, owner-manager, businesses that have been running for up to 42 months and have not paid salaries for longer than that.

There will be some double counting between these two groups – serial entrepreneurs may be setting up and running businesses simultaneously. This problem is overcome by allocating these individuals either to nascent or to baby businesses, but not to both. Adding together the two categories of people makes the TEA index that can then be used to illustrate differences and similarities between countries, regions, types of people and types of entrepreneurship.

³⁷ Disclaimer: Any GEM data used in this report are compiled by the GEM UK team as part of the annual adult population survey. Their analysis and interpretation are entirely the responsibility of the author.

GEM UK

The level and importance of social entrepreneurship were investigated for the first time by GEM UK in 2003. GEM's broad approach to defining entrepreneurship was adapted to ask similar questions about social entrepreneurship. The method is based on the approach taken in the rest of GEM UK requires individuals to respond to the following questions:

1. Are you alone, or with others, currently trying to start any kind of social, voluntary or community service, activity or initiative? This might include providing subsidised or free training, advice or support to individual or organisations; profit making activity, but where profits are used for socially orientated purposes; or self-help groups for community action.
2. Are you alone, or with others, currently trying to start any kind of social, voluntary or community service, activity or initiative as part of your job? This might include providing subsidised or free training, advice or support to individual or organisations; profit making activity, but where profits are used for socially orientated purposes; or self-help groups for community action.
3. Are you, alone or with others, currently managing any such social activity, voluntary or community service, activity or initiative?

Like Total Entrepreneurial Activity (TEA), Social Entrepreneurial Activity (SEA) is the sum of our adult population of those answering positively to one of the above questions (minus double counting). Since the questions make clear that the use of profit or revenues is for community or social purposes, this is effectively measuring the potential within the general adult population to set up social enterprises.

The 2007 dataset differs somewhat from previous datasets thus the material presented here examines all those individuals who are involved in some form of start-up activity with social, environmental or community goals and all those individuals who own and manage a socially, environmentally or community oriented entities. It does not allow us to provide comparative SEA results with previous years but, as the level has remained static since 2004 at some 3.3% of the working aged population in the UK, the data from 2007 can be used to provide additional depth of understanding about social entrepreneurs from a demographic, regional and governance perspective.

The Department for Business, Enterprise and Regulatory Reform's (BERR) Survey of Social Enterprises

This study was a one-off survey of 8,401 organisations of which 1,480 fell into the BERR definition of social enterprise (as outlined above). It is not a monitoring exercise and does not claim to be representative of the sector. However, it was an important first attempt to improve understanding of social enterprises in terms of their client base, sectors, governance structures, sources of income and number of employees.

Since the 2005 study there have been regional and local level surveys but systematic, UK-wide data collection for the social enterprise sector has been limited. The BERR 2007 Annual Small Business Survey (reporting in 2008) included filters for the sector to provide similar types of data to the one off survey in 2005.

Summary

Each study measures different things: GEM measures the propensity of people in the general adult population to set up socially, community or environmentally motivated businesses. Effectively it measures the number people in the adult population of working age who set up or run ventures or activities for such purposes. It does not measure the businesses that they run nor does it aid our understanding of the growth process since this falls outside of the remit of an adult population survey.

The BERR study provides a baseline evidence base on the sector itself and can therefore yield greater understanding of the enterprises themselves. As a cross-sectional analysis, however, it is limited in telling us how the sector has changed or what the challenges and barriers (especially in terms of access to finance) actually are.

Why measure social entrepreneurship?

With the social enterprise sector estimated to be as large as it is in the UK, it is important to understand the cultural and entrepreneurial base that supports it in the interests of developing policies to support more social entrepreneurship and, hence, more social enterprise.

Thinking around social enterprise has developed over the past few years and it is worth mapping the development of policy as it reflects the changes. The then Department for Trade and Industry's Small Business Service saw two main areas in which social enterprises contribute to the UK economy:

→ By providing an alternative business model for firms to trade commercially in an environmentally and socially sustainable way.

→ By providing an alternative delivery system for public services such as health, education, housing and community support.

To this end, its Strategy for Success (DTI 2002), focused on defining the size of the sector and its value to the economy, on creating an appropriate and enabling regulatory and business support environment and on improving the performance of social enterprises. By 2005 the government had:

→ Launched and established the Community Development Finance Institutions (CDFIs).

→ Provided Community Investment Tax Relief to investors in CDFIs.

→ Ensured that Business Links operatives and all major government enterprise support schemes included support for social entrepreneurs and social enterprises.

→ Extended the Small Firms Loan Guarantee Scheme to include social enterprises.

→ Created Community Interest Companies (CICs) which plugged an important legal gap in the corporate governance of social enterprises by providing an "asset lock" to ensure that revenues remained within the firm and by requiring companies applying for CIC status to pass a "test of community value".

→ Built and developed the evidence base on social enterprises.

→ Integrated social enterprise thinking into cross governmental initiatives such as the Local Enterprise Growth Initiatives (LEGI), DEFRA's £1.5m "Enterprise for Inclusion" rural support programme and the "FutureBuilders" £1.25m programme to assist the community and voluntary (or Third) sector to win public sector contracts.

The Strategy for Success is now five years old and was reviewed during 2006. Of most relevance to this report, the review process resulted in a move of the whole social entrepreneurship and social enterprise agenda to the Cabinet Office's Office of the Third Sector and recommended:

→ that the specific support needs of mainstream and social enterprises be investigated further,

→ that the needs of the Third Sector are better understood and

→ that new entrants are encouraged into the social enterprise market place while helping to establish social enterprise as a viable business model and to open markets to social entrepreneurs.

The resultant Action Plan published at the end of 2006 stresses the enabling role of government through:

→ Fostering a culture of social enterprise: by raising awareness, appointing social enterprise ambassadors, promoting social entrepreneurship amongst young people, providing guidance to schools on social enterprise and raising the profile in secondary and tertiary education, developing a new research programme to build the evidence base and a programme of fostering links between the conventional private sector.

→ Ensuring that correct information and advice is available to those running social enterprises: by providing additional funding from April 2007 to Regional Development Agencies (RDAs) to improve the capacity of Business Links to deliver support, by improving information about social enterprise through the business link network, working with partners to identify national, regional sub-regional and local networks, and by commissioning a review of the specific needs of social enterprises

→ Enabling social enterprises to access appropriate finance: by making available £10million for investment in social enterprises, rolling out financial awareness programmes including social enterprise within mainstream "access to finance" interventions and by conducting a review of the Community Investment Tax Relief system and other incentives by the Budget 2007.

→ Enabling social enterprises to work with government: by publishing a third sector public service action plan, by tackling barriers to the use of social clauses and by reducing the barriers to social enterprise in public procurement.

These initiatives are supported by the appointment of a new Council on Social Action, an award for Social Technology and to look at mechanisms for establishing a new social Investment Bank³⁹. Further, the Enterprise Strategy published by HM Treasury and BERR in March 2008 additionally recognises the need for a dedicated venture fund for social enterprises and signalled the intention to dedicated £12.5m for this purpose⁴⁰.

The profile that has recently been given to "celebrity" social entrepreneurs such as Liam Black or Tim Smit (founder and CEO of the Eden Project), and the prominence in policy that this whole area now has through the Office of the Third Sector suggest that the sector is a large scale and important phenomenon. The analysis of GEM in the next section allows us to understand a little more about what is happening in the sector generally.

39 Gordon Brown, Prime Minister, in speech at the launch of "Britain's Everyday Heroes" www.pm.gov.uk/output/Page12600.asp

40 HM Treasury and BERR (2008): "Enterprise – Unlocking the UK's Talent" <http://www.berr.gov.uk/files/file44992.pdf>

How much social entrepreneurship is there in the UK?⁴¹

Overall in the UK, GEM estimates that some 3.3% of the working age population is engaged in social entrepreneurial activity. This represents nearly 1.3 million people and, as Figure 1 shows, although the rate of engagement with social entrepreneurial activity is not as high as for mainstream entrepreneurial activity (at 5.8% of the working population), this is still a substantial number of individuals.

Figure 3 does not give a figure for SEA for 2003 or for 2007. The SEA rate in 2003 was calculated then as 6.6% of the population but was not directly comparable with TEA as it included established businesses older than 42 months. As a result, it over-estimated the SEA-active population which only measures the newest activity up to 42 months. It does, however, demonstrate that a proportion of the SEA active social entrepreneurs will continue to run more established social enterprises.

In 2007, the GEM survey did not allow for a calculation of SEA as such but does allow us to look at all those involved in some form socially, community or environmentally oriented start-up activity and all those who own and run a socially, environmentally or community entity. The highlights from the data are as follows:

- 11.9% of all TEA active individuals (in other words the nascent start-ups but who have not been active for more than three months and all those who have owned or managed a firm for more than three months but less than 42 months) are engaged in some form of socially motivated start-up.
- 35% of all nascent entrepreneurs are socially motivated.
- 5.5% of all established business owners (owning and managing firms older than 42 months) are social entrepreneurs.

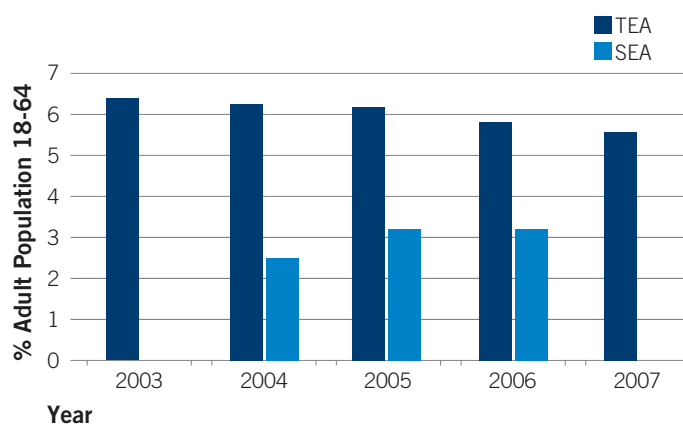


Figure 3:
Total Entrepreneurial Activity and Social Entrepreneurial Activity Compared

Source: GEM UK Adult Population Survey 2003 - 2007

Figure 4 compares social entrepreneurial start-up and owner-manager activity with mainstream start-up and owner-manager activity. It should be noted that the owner-manager activity in the social enterprise population is filtered in the survey questionnaire and excludes owner-manager activity that has been covered by questions elsewhere in the survey. The mainstream entrepreneurial activity does not have this caveat thus the figures appear substantially higher.

Immediately interesting from Figure 4 are two things:

- Social entrepreneurial start-up and owner-managed activity do not differ substantially in scale at some 4.2% and 3.8% of the adult population respectively. The comparative figure for mainstream entrepreneurial start-ups is 3.9% and although some 11.6% of the adult population are estimated to be owner-managers of businesses, there may well be some overlap, both with mainstream start-ups and with social enterprises.
- Social entrepreneurship start-up and owner-manager activity does not differ substantially by gender, but mainstream activity does. For every three women's social enterprise start-ups there are four male and there are five male owner-managers for every four female social enterprise owner-managers.

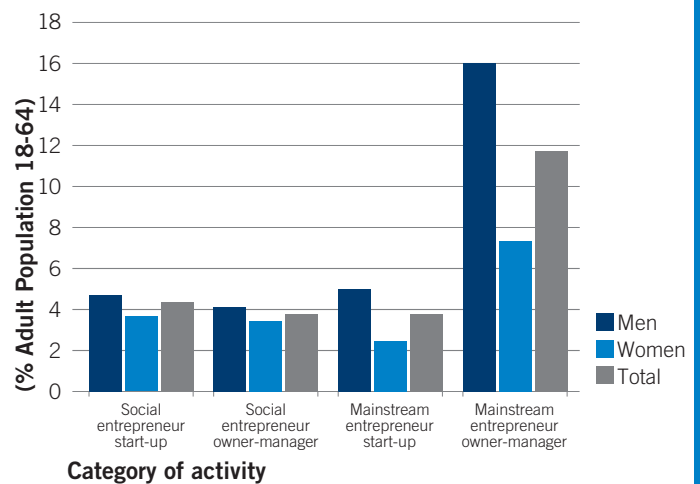
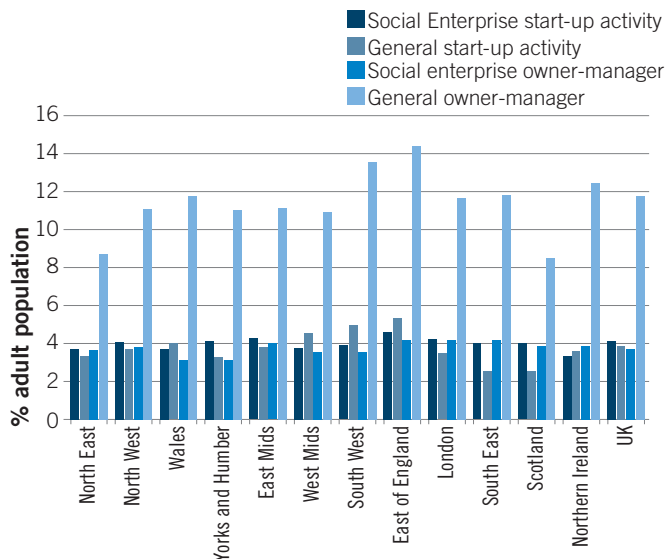


Figure 4:
Social and mainstream entrepreneurial start-up and owner-manager activity compared, 2007

Source: GEM UK APS 2007

Figure 5 looks at the level of activity by UK region for social and mainstream activity. Regional differences are generally not statistically significant as the sample sizes between regions differ.

⁴¹ Full methodological details, including sample sizes and weightings are given in Appendix 3



UK region

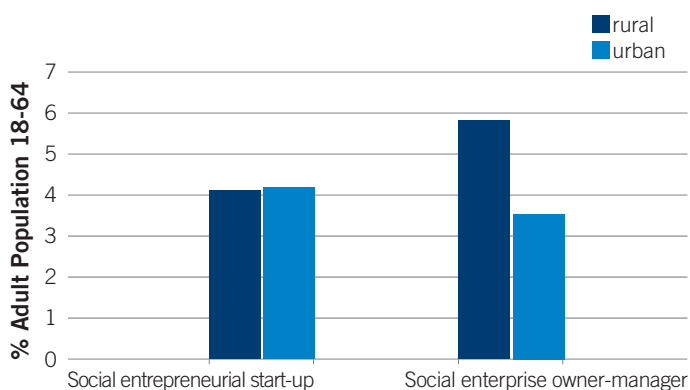
Figure 5:
Social entrepreneurial start-ups and owner-managers by UK region, 2007

Source: GEM UK APS 2007

However, there are some interesting indicative findings in Figure 5 as follows:

- The region where there is the highest social entrepreneurial start-up activity is the East of England at 5.1% of the adult population of working age. The region where it is lowest is Northern Ireland at some 3.3%.
- The range is narrower for social enterprise owner-manager activity: the level is 4.3% of the adult population in both the East of England and London and 3.2% in Wales.
- Again the levels of mainstream start-up activity (which may include social enterprise) are not significantly different to social enterprise activity. Indeed in some regions, such as the North East, the North West, Yorkshire and Humberside and the East of England, social entrepreneurial start-ups appear higher.

The social entrepreneurial start-up and owner-manager activity by urban and rural location in England only are reported in Figure 6.



Type of activity

Figure 6:
Social entrepreneurial start-ups and owner-managers in rural and urban locations

Source: GEM UK APS 2007

There is no significant difference in start-up activity between urban and rural locations but social enterprise owner-manager activity is significantly higher in rural locations at 5.8% of the adult population compared to 3.5% in urban locations⁴².

Figure 7 looks at the same results by index of multiple deprivation, again for England only⁴³, which measures the level of deprivation across seven “domains” in each super-output area in the country: income deprivation, employment deprivation, health deprivation and disability, barriers to housing, education, skills and training, crime and the living environment. The area “1” is the most deprived while “5” is the least deprived.

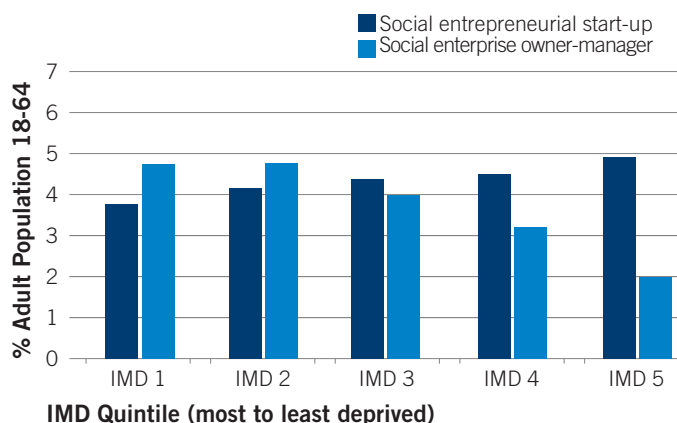


Figure 7:
Social entrepreneurial start-ups and owner-managed activities by index of multiple deprivation (England only)

Source: GEM UK APS 2007

Figure 7 suggests two things:

- For the most deprived areas, the differences between owner-manager and start-up activity are not statistically significant. For example, in IMD 1 some 3.8% of the population are engaged in social entrepreneurial start-up activity compared to 4.8% who own or manage a social enterprise. For IMD 5 the figures are 4.9% and 2.9% respectively.
- Social enterprise start-up activity is much higher in the least deprived areas at some 4.9% of the population compared to 3.8% in the most deprived areas. This is reversed, however for owner-manager activity at 2.9% and 4.8% respectively.

⁴² “Urban” and “Rural” are defined according to government statistical procedures (see <http://statistics.gov.uk/geography/nrudp.asp>). ⁴³ http://www.communities.gov.uk/pub/443/Indicesofdeprivation2004summaryrevisedPDF154Kb_id1128443.pdf

Finally for this section, Figure 8 reports on the attitudes of social entrepreneurs compared to mainstream entrepreneurs.

There are several highlights that can be drawn out of this table:

- Social entrepreneurs are more positive than the general UK population but not as positive as mainstream entrepreneurs. There is one notable exception. Although they are more likely than the UK population to think they have the skills and experience, to see good business opportunities and to know an entrepreneur, social entrepreneurs starting up are not significantly less likely than their mainstream counterparts to fear failure.
- Fear of failure is lower amongst the more established social enterprise owner-managers and is even lower amongst mainstream entrepreneurs.
- For both mainstream and social entrepreneurs, perceptions seem to deteriorate with experience. Although both mainstream and social owner-managers are more likely to say that they have the skills to start a business, they are less likely to know other people who have set up businesses in the last two years, less likely to see good opportunities in the next six months and more likely to fear failure. They are also significantly less likely to be thinking of starting another activity in the next three years.

44 Harding, R (2006): "Stairways to growth: women's enterprise in the UK" Report for Prowess.

45 Harding, R and Cowling, M (2004); Harding, R. (2006) and Harding, R. (2007).

Summary

The level of social entrepreneurial activity, at some 3.3% of the adult population of working age in 2006, is substantial. In 2007 complexities in the questionnaire meant that the results were not directly comparable with the previous years. However, the levels of social enterprise start-up and owner-manager activity suggest that a significant proportion of the population is engaged in this type of activity and that therefore it cannot be ignored.

The locational differences by region are not statistically significant but there are significantly more social enterprise owner-manager in rural locations and most deprived wards in England than in urban or least deprived wards. Combined with anecdotal evidence and evidence from previous GEM studies⁴⁴ the higher prevalence of social entrepreneurial owner-managed entities in rural areas suggests that rural responses to the decline in the rural economy are taking the form of socially oriented activity. Similarly, the higher levels of owner-manager activity in most deprived wards in England also suggest that social enterprise responses are more appropriate to problems of regeneration and welfare than mainstream ones.

Finally, it is interesting that the attitudinal results reflect those reported in GEM Social Enterprise Monitors in previous years⁴⁵. Social entrepreneurs develop more negative attitudes towards entrepreneurship as they become more established. This is also the case for mainstream entrepreneurs and, combined with the fact that fewer expect to start a business, it suggests that coaching and mentoring through the growth process may help social entrepreneurs to convert their visions in to sustainable social enterprises.

	Social start-up	Social owner manager	General startups	General owner-manager	Whole UK
I expect to start a business in the next three years	21.6	11.0	51.2	20.1	7.4
I have shut down a business in the last 12 months that has ceased to trade	2.2	2.8	3.6	3.2	1.2
I know someone who has started a business in the last 2 years	47.5	33.9	48.1	42.1	25.7
In the next six months there will be good start-up opportunities where I live	56.7	53.7	70.3	58.1	39.1
I have the skills to start a business	64.9	68.4	79.9	86.5	48.5
Fear of failure would prevent my starting a business	34.2	26.4	19.5	22.0	35.8

Figure 8:
Attitudes of social entrepreneurs compared with all entrepreneurs and the UK population

Source: GEM UK APS 2007

Who are the social entrepreneurs?

This section provides information on the demographic profile of social entrepreneurs. It has already been established that the ratio of women's social start up and owner-manager activity to male activity is higher than for mainstream activity. Indeed, as illustrated in Figure 9, in the East of England, female start up activity and owner-manager activity is higher than male activity.

Again, the regional differences should be treated with caution. However, the East of England is the region with the highest level of female social entrepreneurial start-ups at 5.7% compared with 2.6% in the North East. London has the highest level of male start-up activity at 5.5% and Wales the lowest at 3.7%.

Interestingly, there are two regions, the South West and the East of England where female start up activity is higher than male activity. In both regions there are four female social entrepreneurs for every three male social entrepreneurs. In Wales the ratio is nearly one-to-one. In Wales and the East of England there appear to be more female owner-managed social enterprises compared to male.

Figure 10 shows start-up and owner-manager activity by age grouping.

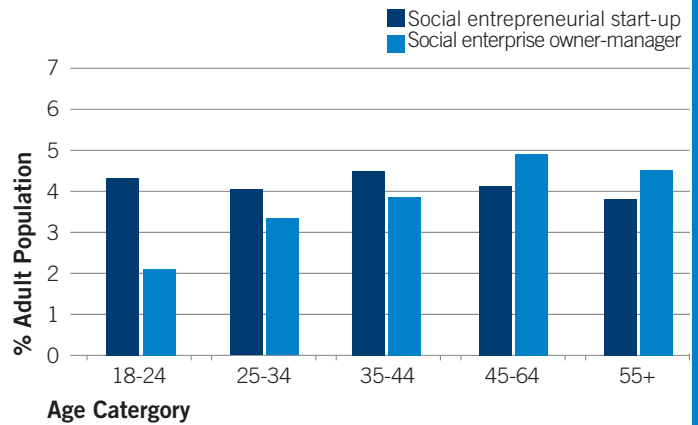


Figure 10:
Social Entrepreneurial Activity by age
Source: GEM UK APS 2007

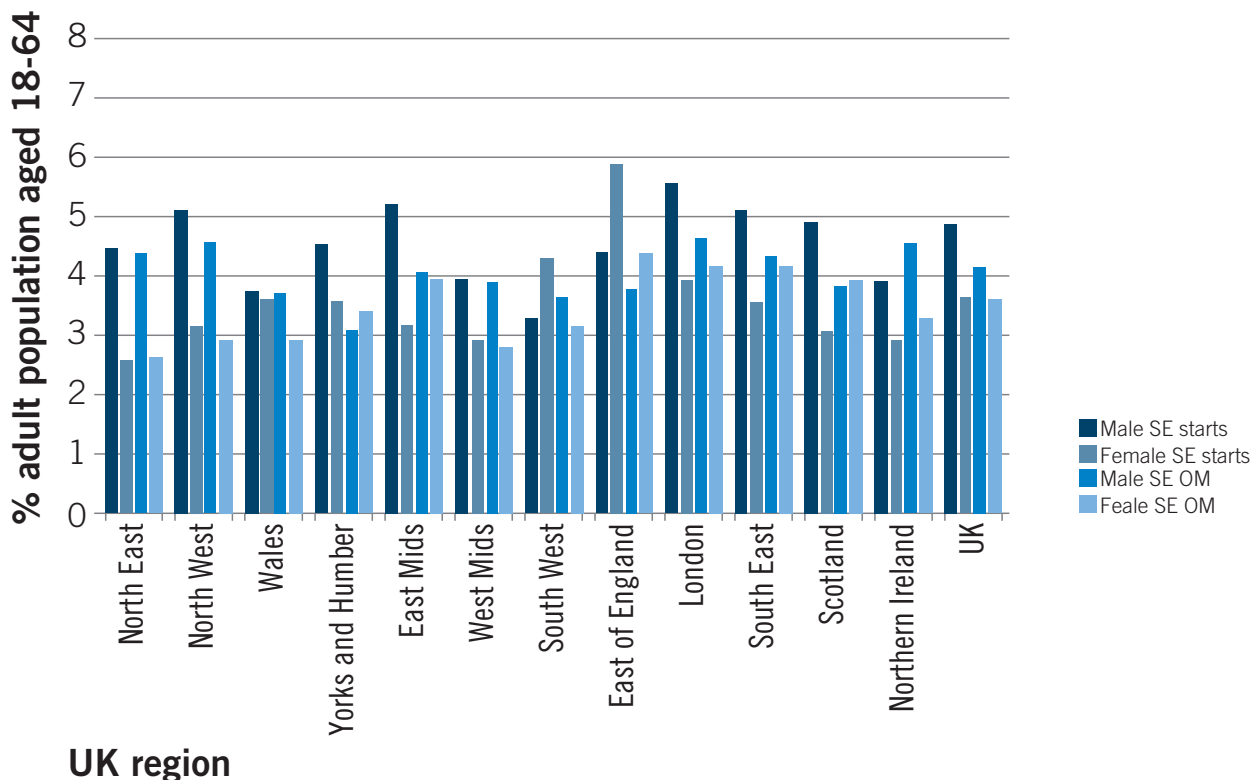


Figure 9:
Social entrepreneurial activity by gender in UK regions
Source: GEM UK APS 2007

Again the results are not statistically significant but are interesting indicatively as they reflect the findings of previous social entrepreneurship monitors. The widest gap between start-up and owner-manager activity is amongst the youngest age group where 4.4% are social entrepreneurs.

The lowest level of start-up activity is in the oldest age group at 3.8%. However, it is the oldest two groups, 45-54 and 55+ who are most likely to be the owner-managers of social ventures, activities or enterprises.

Figure 11 breaks the age differences down by gender. The widest gap is at the start-up stage where young men are substantially more likely to be starting social entrepreneurial ventures at 5.6% of the total male population aged 18-24 compared to a level of 3.1% in the female group.

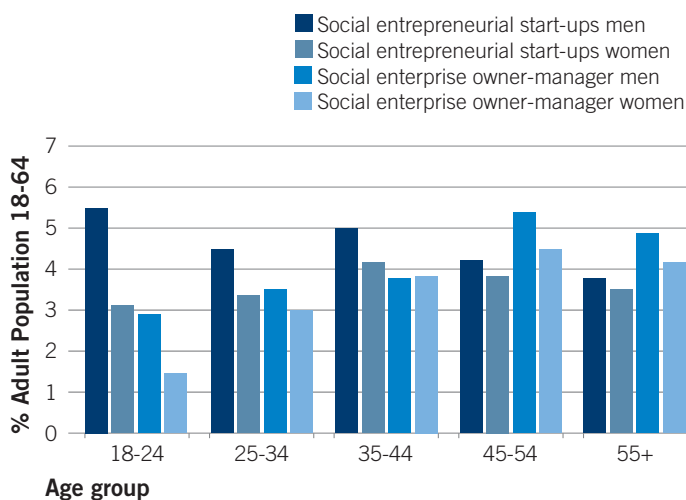
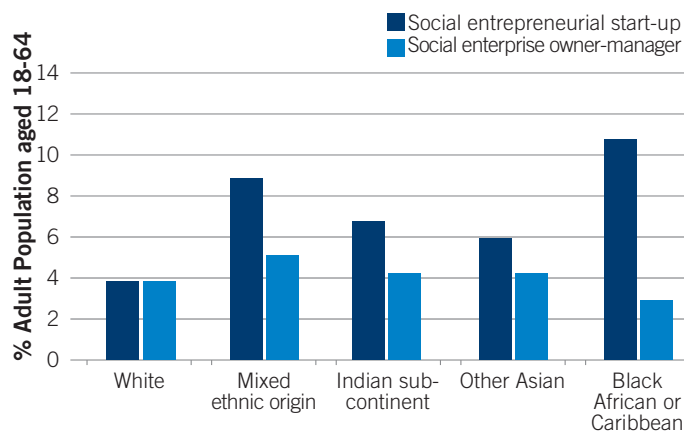


Figure 11:
Social entrepreneurial activity by age and gender
Source: GEM UK APS 2007

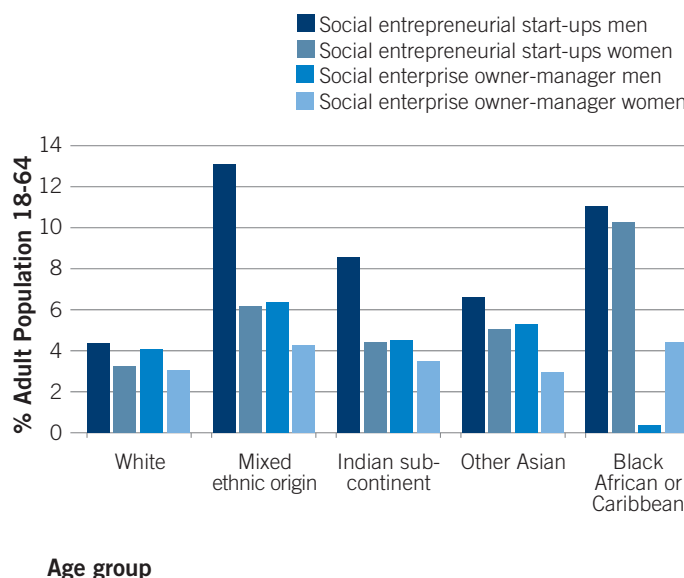
Figure 12 shows the ethnic breakdown of social entrepreneurship by broad ethnic grouping. The least socially entrepreneurial group appears to be the white ethnic grouping. However, the attrition between start-up and owner-managed activity is negligible amongst this group while it is more substantial amongst other ethnic groupings.

The ethnic grouping most likely to be starting a social venture, activity or initiative is the Black African and Caribbean group at 10.5%. This is two and half times the level of white British people at 3.8%. The mixed ethnic groupings are the most likely to own-manage a social enterprise at 5.0% while the Black African and Caribbean group are the least likely at 2.5%.



Ethnic grouping
Figure 12:
Social Entrepreneurial Activity by Ethnic Grouping
Source: GEM UK APS 2007

Gender differences should be treated with caution but the gap between male and female activity is narrowest in the White ethnic grouping, as illustrated in Figure 13.



Age group
Figure 13:
Social entrepreneurial activity by ethnic grouping and gender
Source: GEM UK APS 2007

Figure 14 illustrates the differences by occupational status and demonstrates that the “other” grouping is most likely to be starting up and owning and managing a business. This could include individuals who are not classified in the mainstream labour market or who are self employed. Interestingly, the level of social entrepreneurial start-ups in the student grouping is also high at 7.2%.

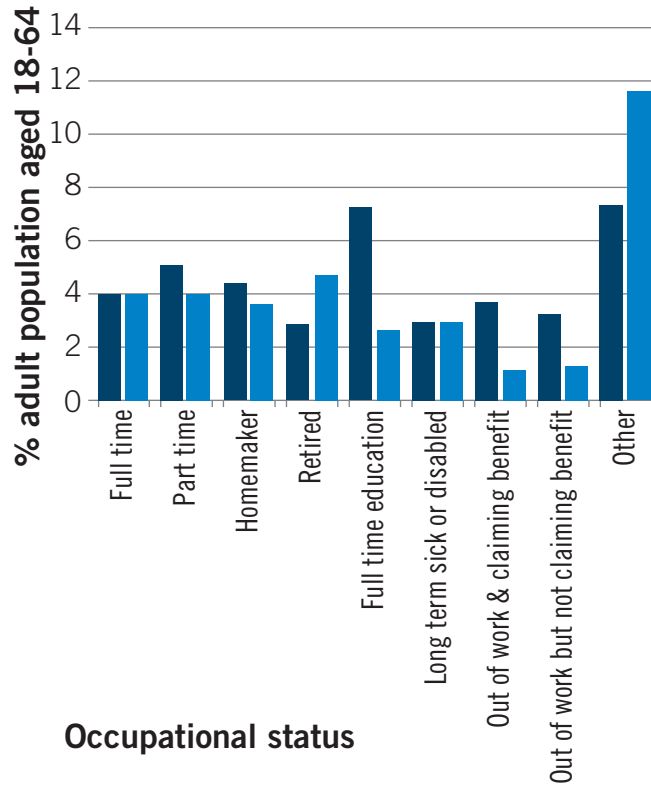


Figure 14:
Social entrepreneurial activity by occupational status
Source: GEM UK APS 2007

■ Social entrepreneurial start-ups
■ Social enterprise owner-managers

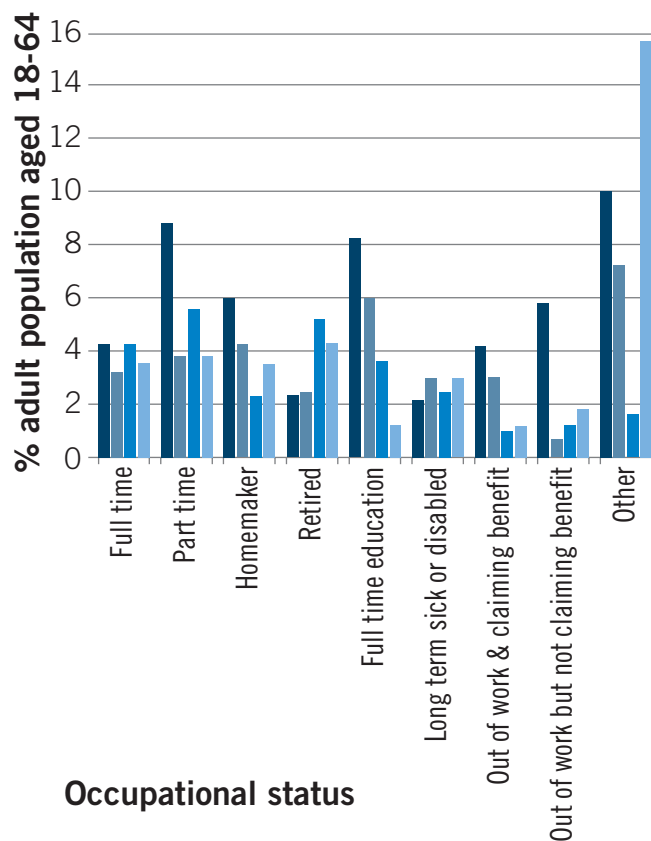


Figure 15:
Social entrepreneurial activity by occupational status and gender
Source: GEM UK APS 2007

■ Social entrepreneurial start-ups men
■ Social entrepreneurial start-ups women
■ Social enterprise owner-managers men
■ Social enterprise owner-managers women

Figure 15 shows that entrepreneurial owner-manager activity in the “other” group is predominantly amongst women at 15.8%. 6.0% of women in full time education are engaged in social entrepreneurial start up activity while 8.7% of men who are in part time employment are starting up social entities. This is also the group most likely to be owning/managing a social enterprise.

As with mainstream entrepreneurship and as reported in previous Social Entrepreneurship Monitors, the likelihood of being involved with either social start-up or owner-manager activity increases with level of qualification. This is illustrated in Figure 16. For example, start up activity amongst those with Doctorates is 9.5% and with Masters qualifications is 8.6%. This drops to 5.9% for Bachelors level qualification.

Levels of social enterprise owner-manager activity are 8.7% in the two post graduate groups and 5.6% in the Bachelors group.

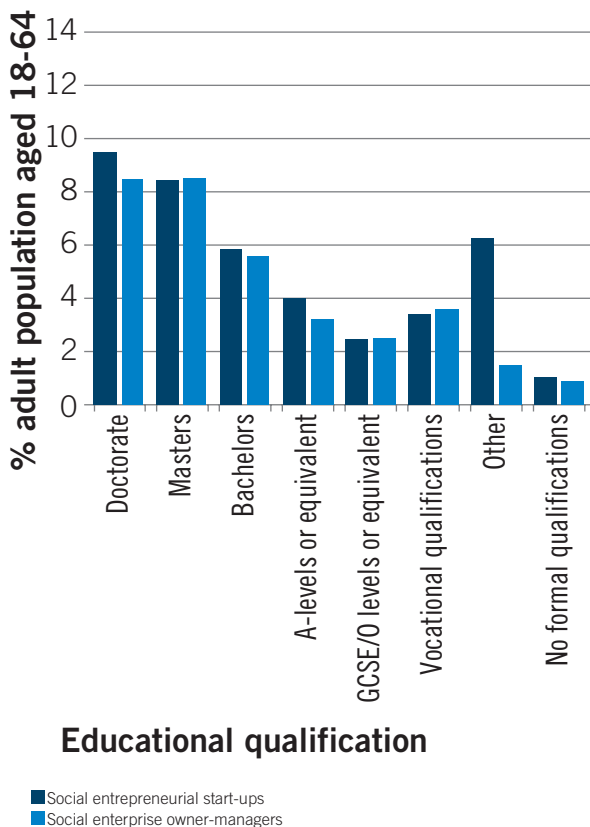


Figure 16:
Social entrepreneurial activity by occupational status
 Source: GEM UK APS 2007

Summary

The differences between men and women in terms of levels of social entrepreneurial activity have been shown over the last five years to be insignificant in contrast to mainstream activity where men are twice as likely as women to be starting a business. Indeed there are some regions and groupings where social entrepreneurship amongst women is higher than it is amongst men. This corroborates a general picture that has emerged over the last few years that policy should focus on encouraging socially motivated business activity amongst women as this might encourage more women into labour market engagement through enterprise. Similar arguments have been made for other under-represented groups such as ethnic minorities.

The results of this section, however, do suggest that social entrepreneurial activity is higher amongst those with higher qualifications and, particularly amongst men, some form of income through part time employment. The fact that attrition is also lower amongst white social entrepreneurs also suggests that a pattern similar to that of mainstream entrepreneurship is emerging. Except by necessity, social entrepreneurial activity is focused in groups where education and income are higher, especially at the start-up stage.

Finally, though, there is an interesting pattern of young, male social entrepreneurs evident in the data. Here there are three female social entrepreneurs for every five male. Our case studies reflect this pattern and further anecdotal and interview evidence for this report suggest that young men are taking a more philanthropic approach to their entrepreneurial activity, as outlined above but are classifying themselves as “social entrepreneurs”.

Social entrepreneurship structure and funding

Focus on social entrepreneurial start-ups

It is important to understand where on the matrix the social entrepreneurs covered by GEM appear in order to assess its usefulness in the evidence base. This section focuses on socially motivated start-up activity while the next focuses on the social enterprise owner-managers.

	Men	Women	Total
I will own all of the entity once established	16.4	16.7	16.5
I will own part of the entity once established	63.3	67.7	64.8
I will own none of the entity once established	20.1	15.5	18.1

Figure 17:
Ownership status of social entrepreneurs once entity is established (% all respondents)

Source: GEM UK APS 2007

Figure 17 shows the ownership structure of the social venture anticipated by the respondent once it is established. It suggests that the majority of social entrepreneurs will own part of the entity once it is established at nearly 65%. Of the remainder, 16.5% will own all of the entity with no statistically significant differences by gender and 18.1% likely to own none of the entity (20.1% amongst men and 15.5% amongst women).

Women are more likely to be working in education or support and care services than men, as illustrated in Figure 18 but the most common sector is the recreation sector for both men and women. This includes youth clubs run through churches and community centres.

Accordingly the greatest number of social entrepreneurs will be working away from their home in separate premises. Women are slightly more likely to be working in other premises than men. This is shown in Figure 19.

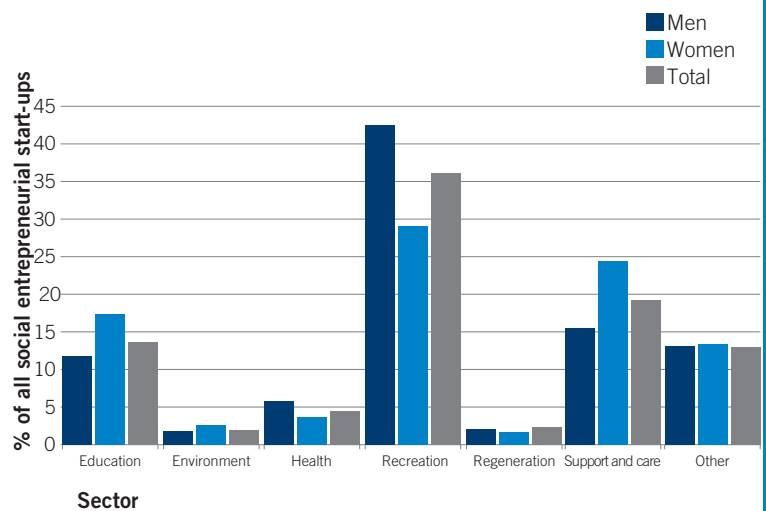


Figure 18:
Social entrepreneurial start-ups by primary sector of activity

Source: GEM UK APS 2007

	Men	Women	Total
Activity will be run from home	21.5	19.8	20.7
Activity will be run from separate premises	65.4	68.7	66.9
Mobile service or activity	9.8	10.9	10.3
Other	2.7	0.3	1.6

Figure 19:
Location of social entrepreneurial start-ups

Source: GEM UK APS 2007

Some 30% of the social entrepreneurs responding to this question have some form of for-profit capability in that they are socially motivated companies or cooperatives. There are a substantial number of unincorporated and trust-based companies and the “other” group, which includes charities, is the most significant in terms of size.

This is corroborated by Figure 20 which suggests that more than half of social entrepreneurs expect their entities to have charitable status once established.

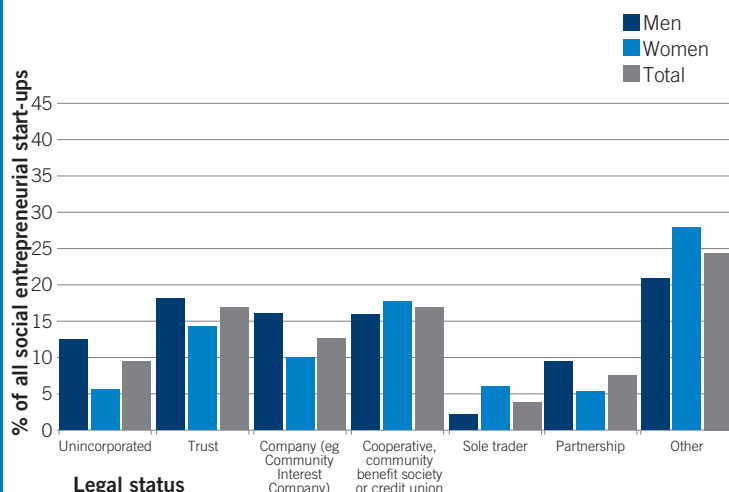


Figure 20:
Legal status of social entrepreneurial start-ups
Source: GEM UK APS 2007

Roughly a third of revenue for the social enterprise start-ups will come from public sources and 53% expect to get revenue from sales of goods or services. Of these, some 26% of all respondents expect more than 90% of their revenue to come from sales (33.1% of men and 16.9% of women).

	Social start-up	Social owner manager
No Jobs	7.9	52.0
1-5 Jobs	54.4	21.6
6-10 Jobs	18.8	7.0
> 10 Jobs	12.1	13.4
Median Jobs	4.0	0.0

Figure 22:
Job creation by social entrepreneurs (start ups and owner-managers compared)
Source: GEM UK APS 2007

Figure 22 presents the numbers of jobs that social entrepreneurs expect to create, both for start-ups and owner-managers. The difference between the two stages of development is really quite marked. 54.4% of social start-ups expect to create 1-5 jobs with a median of 4 jobs for the whole sample. However, for the owner-managers, with a higher proportion of established social enterprises the median job creation is zero while 52% do not create any jobs.

	Men	Women	Total
My activity will have charitable status once established	55.0	55.2	55.1
Greater than half of the funding for the social start-up comes from public sources	34.6	33.1	33.9
My activity will generate revenue through sales or charging for goods or services:	53.9	51.9	53.0
Of these			
> 90% revenue from sales	33.1	16.9	26.0
>75% revenue from sales	7.7	7.7	7.7
> 50% revenue from sales	16.5	17.9	17.2
>25% revenue from sales	13.3	16.9	14.9
>10% revenue from sales	7.7	11.8	9.5
0-10% revenue from sales	1.6	4.6	2.9

Figure 21:
Charitable and funding status of entity once established
Source: GEM UK APS 2007

Focus on social enterprise owner-managers

The patterns of owner-managed social enterprise are similar to start-ups. Predominantly owner-managed activity is in the “recreation” sector and women are more likely than men to be working in education and support and care services. This is illustrated in Figure 23.

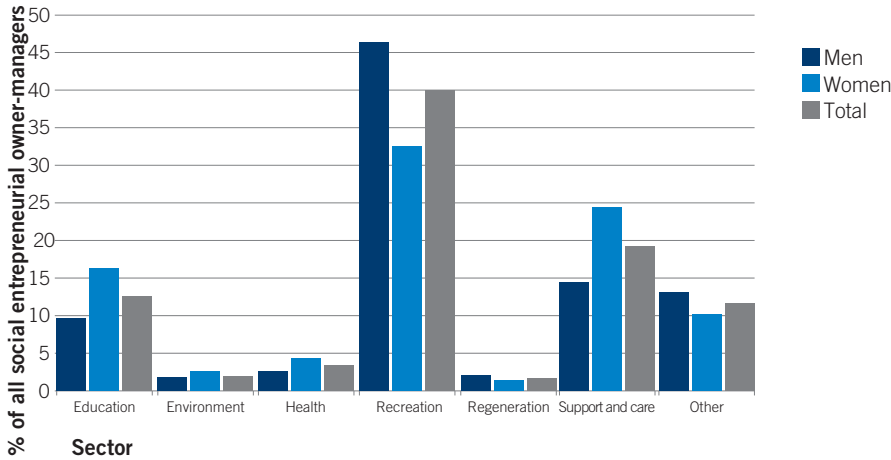


Figure 23:
Social entrepreneurial owner-managers by primary sector of activity
Source: GEM UK APS 2007

Figure 24 shows where the social entrepreneurial activity is located and here there are differences. The number of enterprises run from home has fallen and 72% are run from separate premises. Similarly there are marginally fewer mobile activities at 7.9% compared to 10.3% of start-ups.

	Men	Women	Total
Activity will be run from home	16.9	17.5	17.2
Activity will be run from separate premises	69.1	75.4	72.0
Mobile service or activity	10.5	4.9	7.9
Other	2.5	0.6	1.6

Figure 24:
Location of social entrepreneurial owner-managers
Source: GEM UK APS 2007

Figure 25 shows the ownership structure. Again, it is the “other” sector, which includes charities which dominates at 35.1% overall. This compares to 15% which have a cooperative or mutual/benefit structure.

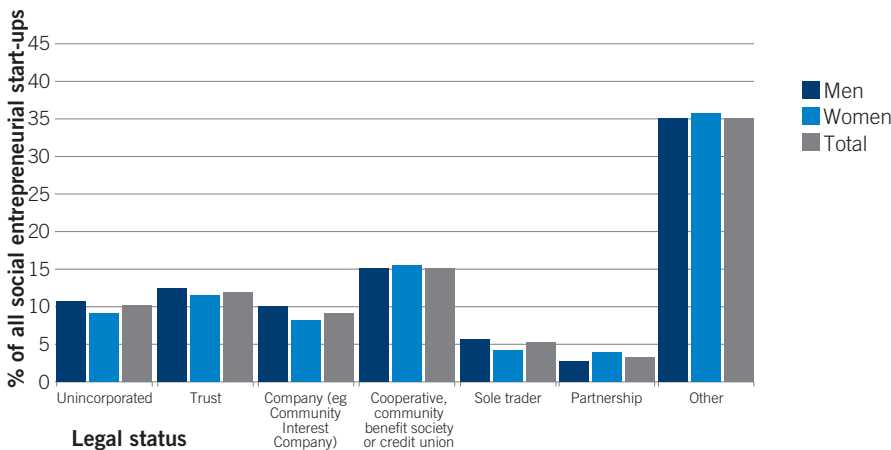


Figure 25:
Legal status of social enterprise owner-managed entities
Source: GEM UK APS 2007

The funding and status of the entity are illustrated in Figure 26. As Figure 26 would suggest, 50% of all owner-managed entities have charitable status (with women more likely to take this structure) and substantially fewer get more than half of their funding from charitable sources (23.7% compared to 33.9%).

There are similarly fewer social enterprise owner-manager respondents who expect revenue to come from sales of goods or services at 42.7% compared to 55% of start-ups. Accordingly 32.8% of these get more than 90% of their revenue from sales.

Focus on funding

Figure 27 illustrates the sources of external finance other than sales revenue and private donations.

The dominant form of finance is bank overdraft for social start-ups and owner-managers and this is the same in the UK as a whole. Friends and family are also important for all categories.

Public sector grants are twice as important as funding mechanisms for social entrepreneurs compared to the whole UK and individual investors are also a substantial part of the overall funding portfolio compared to UK-wide mainstream businesses.

	Men	Women	Total
My activity has charitable status	47.4	53.9	50.4
Greater than half of the funding for the social start-up comes from public sources	22.3	25.4	23.7
My activity will generate revenue through sales or charging for goods or services:	44.8	40.3	42.7
> 90% revenue from sales	33.7	31.5	32.8
>75% revenue from sales	14.7	9.8	12.6
> 50% revenue from sales	11.0	13.4	12.1
>25% revenue from sales	8.6	8.7	8.6
>10% revenue from sales	5.5	7.1	6.2
0-10% revenue from sales	9.2	7.9	8.6

Figure 26:

Charitable and funding status of owner-managed entity

Source: GEM UK APS 2007

	Social start-ups	Social owner-managers	UK
Overdraft	27.2	28.2	29.4
Friends and family	26.6	27.8	21.7
Unsecured bank loan	16.8	14.6	14.7
Mortgage or other secured loan	11.1	12.8	15.5
Credit cards	16.0	17.8	16.4
Government grants	20.2	14.9	10.4
Individual investor (not related or known)	19.9	18.9	7.7
Non bank unsecured loan	16.8	14.6	6.0
Equity finance	5.9	6.4	3.6

Figure 27:

Finance sources accessed social start-ups and owner-managers compared to all UK owner-managers

Source: GEM UK APS 2007

Finally, Figure 28 reports on the reasons why social and UK-wide mainstream entrepreneurs have failed to gain finance. The “nature of the business” at 41.2% for start-ups and 43.4% for owner-managed social enterprises are the dominant factor. Other factors that suggest community based projects at the start-up phase include the costs of finance, the smallness of the business and fear of debt.

Summary

The evidence presented in this section suggests that an adult population survey such as GEM is picking up social enterprise start-up activity and owner-managed activity that falls into the charity quadrant of the matrix. Both start-up and owner-managers either expect their entities or are managing entities that have charitable status. The funding structures reflect a reliance on donations that increases as the entities become more established and the reasons for not being able to access finance are around the nature of the business and business planning. The more established, owner-managed entities are more likely to be charities and their median job creation is zero.

	Social start-ups	Social owner-managers	UK
Cost of finance too high	35.1	11.8	29.2
Business too small	30.6	19.7	32.7
Nature of business	41.2	43.4	35.4
Fear of debt	27.8	33.3	26.0
Not investor ready	14.8	18.7	20.6
Unwilling to share ownership	18.6	19.7	18.7
Inadequate business plan	35.1	11.8	22.7
Weak management team	19.6	9.3	7.5

Figure 28:

Comparison of the reasons for not accessing particular sources of finance amongst social entrepreneurs and all UK

Source: GEM UK APS 2007

Concluding Comments:

Developing the Social Enterprise Agenda

The report started with a statement that interest in social entrepreneurship has grown significantly in the five years since the first attempts at measurement in the UK were made. The definition has become more complex and two points of clarification have been made by way of case studies and a summary literature review that may help to develop the research, policy and business agendas:

- A distinction was made between social entrepreneurship leading to social enterprise and entrepreneurial philanthropy. The first starts with the goal of creating value in the first instance with the development of an enterprise structure subsequently. Entrepreneurial philanthropy, in contrast, starts with a business idea or concept that will create wealth which then allows value to be “put back” subsequently.
- A matrix of social enterprises was established linking governance and profit distribution with profit motivation (from not-for-profit to for-profit). No one quadrant in the matrix is “better” than another as each serves a specific market and purpose.

A review of attempts to quantify the sector was undertaken using GEM data for the UK. Although there is one other attempt to benchmark the sector conducted by BERR in 2005 for the UK, it was argued that attempts to measure the scale, size and impact of the sector in the UK or even on a comparative basis are relatively under-developed.

GEM finds that levels of social entrepreneurial activity were stable at around 3.3% between 2004 and 2006. The data in 2007 was not directly comparable but nevertheless suggested that:

- 5.8% of the UK adult population of working age is engaged in early stage entrepreneurial activity. This is some 2 million people and 11.9% (or 238,000 people) of these are trying to start a social venture.
- 35% of all nascent early stage entrepreneurs, those who have been involved with start-up activity for up to three months, are social entrepreneurs
- 5.5% of all established business owners in the UK are social owner-managers.
- There are no significant differences generally between men and women in terms of either social entrepreneurial start-up activity or owner-manager activity. This contrasts with mainstream activity where men are twice as likely to be entrepreneurs as women.
- However, men in the youngest age group (18-24) are substantially more likely to be starting some form of social enterprise activity compared to women (5.6% compared to 3.1% respectively).
- Social entrepreneurial start-ups amongst the Black and Minority Ethnic (BAME) communities are higher than for the white community. For example, 3.8% of White respondents were engaged in some form of start up social entrepreneurial activity compared to 8.9% of those from

mixed ethnic origins, 6.7% of those from the Indian sub-continent and 10.5% of those from the Black African and Caribbean communities.

- Recreation, Education and Support and Care Services dominate social entrepreneurial start-up and owner-manager activity.
- Social entrepreneurs have very positive attitudes towards entrepreneurship and are more positive than the UK population as a whole. They are not as confident as their mainstream counterparts, however, and do appear to be less confident as their activity becomes more established.
- 55% of start-ups expect their entity to have charitable status, although some 13% are set up as companies (such as community interest companies).
- 34% of social start-ups and 24% of social owner-managers receive greater than 50% of their funding from public sources. Some 43% of social owner-managed entities have a commercial revenue stream.

However, it is argued that GEM, being an adult population/household survey, picks up predominantly entities in the bottom left-hand corner of the matrix: those with charitable status and who return any revenue to the venture itself. Since over 50% of the population of social entrepreneurial sector in the survey fall into this category, it suggests that this is the most prevalent form of activity in the UK. From a policy perspective, then, given this profile, the UK policy focus on the “Third Sector” (that is voluntary and community work) appears appropriate.

Nevertheless, there is growing interest in the social enterprises that are set up with their social, environmental or community goals rather than profit at their heart, and the development of the fund will support these entities. Such entities have growth potential and wealth creation potential in the same way as mainstream enterprises and their founding entrepreneurs behave in a similar way even if they are motivated by different objectives.

The evidence base for this group of enterprises is less systematic in that it is neither longitudinal nor comparative across regions of the UK or between countries. The paucity of quantitative data that looks at the turnover, employee and growth profile of the sector nationally and internationally supported by survey-based data that identifies gaps in provision both from a policy perspective, an investment perspective and from the enterprise perspective would surely help us understand how to support this sector which has so much potential simultaneously to create wealth and to create value.

Key implications

The research in 2007 has summarised the results of the past five years, incorporated a literature review and cases and lays out the foundations for further research in the area given the substantial policy interest in building the evidence base. It is argued that:

- Over the five years the definition of social entrepreneurship and social enterprise has become less clear: it is now important for both policy makers and investors to understand that “for profit” social businesses deliver value financially and socially as well as not-for-profit entities. This requires a more inclusive approach to public policy to ensure that all types of social enterprise are catered for through adequate access to finance and coaching and mentoring.
- Research has focused on social policy and case studies. GEM UK is the only attempt over the past five years to measure the scale and size of activity in the UK. It is now important to build a more robust evidence base of social enterprises themselves to establish the challenges they face as they grow in terms of finance, markets and perceptions. This should be gender and regionally disaggregated across the UK.
- Although attrition between social start-ups and levels of social owner-management, levels of business closure amongst the social entrepreneurial community are nearly twice those in the general UK population. This suggests that mentoring and coaching as well as access to finance through the growth process are important.
- Finally, social entrepreneurs use similar patterns of finance to mainstream entrepreneurs to fund their businesses and interestingly are nearly twice as likely at the owner-manager stage to attempt to access equity finance. Indeed, the proportion of social entrepreneurs that use charitable or public sector sources for financing their activity appears relatively low. This suggests a need to recognise that social enterprises have similar financial needs to their mainstream counterparts.
- However, even though social owner managers are less likely than their mainstream counterparts to fail to gain access to finance because of business planning or management team issues, they are far more likely to fail to gain access to finance because of the nature of the business. This suggests that the sector needs to improve how it communicates the investable diversity of the sector to investment audiences.

Appendix 1: Chart data

Figure 3: TEA and SEA compared, 2004-2006

	TEA	SEA
2003	6.4	-
2004	6.3	2.5
2005	6.2	3.2
2006	5.8	3.3
2007	5.6	-

Figure 4: Start-up and owner-manager activity

	Men	Women	Total
Social entrepreneur start-up	4.7	3.6	4.2
Social entrepreneur owner-manager	4.1	3.6	3.8
Mainstream entrepreneur start up	5.2	2.6	3.9
Mainstream entrepreneur owner-manager	16.0	7.2	11.6

Figure 5: Start-up and owner-manager activity by region

	Social enterprise start-up activity	General Start up activity	Social enterprise owner-manager	General Owner-Managers
North East	3.6	3.2	3.6	8.7
North West	4.1	3.6	3.8	11.1
Wales	3.6	4.0	3.2	11.8
Yorks and Humber	4.1	3.4	3.2	11.0
East Midlands	4.2	3.7	4.0	11.2
West Midlands	3.6	4.5	3.4	11.2
South West	3.9	4.9	3.5	13.5
East of England	5.1	3.3	4.3	14.5
London	4.7	5.3	4.3	11.6
South East	4.3	3.5	4.2	11.9
Scotland	4.0	2.7	3.9	8.6
Northern Ireland	3.3	3.4	3.8	12.6
UK	4.2	3.9	3.8	11.6

Figure 6: urban and rural social entrepreneurship

	Social entrepreneurial start up	Social enterprise owner-manager
rural	4.1	5.8
urban	4.2	3.5

Figure 7: index of multiple deprivation

	Social entrepreneurial start up	Social enterprise owner-manager
IMD 1	3.8	4.8
IMD 2	4.1	4.7
IMD 3	4.4	4.0
IMD 4	4.4	3.1
IMD 5	4.9	2.0

Figure 9: regional differences by gender

	Male SE starts	Female SE starts	Male SE OM	Female SE OM	SE ratio	OM ratio
North East	4.6	2.6	4.5	2.7	0.6	0.6
North West	5.1	3.1	4.6	2.9	0.6	0.6
Wales	3.7	3.6	3.7	2.8	1.0	0.8
Yorks and Humber	4.6	3.5	3.1	3.3	0.8	1.1
East Midlands	5.2	3.3	4.1	3.9	0.6	1.0
West Midlands	3.9	3.1	3.8	3.1	0.8	0.8
South West	3.4	4.3	3.7	3.2	1.3	0.9
East of England	4.4	5.7	3.7	4.3	1.3	1.2
London	5.5	3.9	4.5	4.1	0.7	0.9
South East	5.2	3.5	4.4	4.1	0.7	0.9
Scotland	4.8	3.3	3.8	3.9	0.7	1.0
Northern Ireland	3.8	2.9	4.4	3.2	0.8	0.7
UK	4.7	3.6	4.2	3.6	0.8	0.9

Figure 10: social entrepreneurial start-up and owner-manager activity by age

	Social entrepreneurial start up	Social enterprise owner-manager
18-24	4.4	2.2
25-34	4.0	3.3
35-44	4.5	3.9
45-54	4.1	4.9
55+	3.8	4.6

Figure 11: social entrepreneurial and general entrepreneurial activity by age and gender

	Social entrepreneurial start up		Social enterprise owner-manager	
	Men	Women	Men	Women
North East	5.6	3.1	2.9	1.5
North West	4.6	3.4	3.5	3.0
Wales	5.0	4.1	3.8	3.9
Yorks and Humber	4.2	3.9	5.4	4.5
East Midlands	3.9	3.5	4.9	4.3

Figure 12: social entrepreneurial activity by ethnic grouping

	Social entrepreneurial start up	Social enterprise owner-manager
White	3.8	3.8
Mixed ethnic origin	8.9	5.0
Indian sub-continent	6.7	4.2
Other Asian	5.9	4.1
Black African/Caribbean	10.5	2.5

Figure 13: social entrepreneurial activity by ethnic grouping and gender

	Social entrepreneurial start up		Social enterprise owner-manager	
	Men	Women	Men	Women
White	4.2	3.4	4.1	3.5
Mixed ethnic origin	13.2	6.1	6.2	4.2
Indian sub-continent	8.6	4.2	4.7	3.6
Other Asian	6.7	5.1	5.2	3.1
Black African/Caribbean	10.9	10.1	0.3	4.4

Figure 14: Social entrepreneurial activity by employment status

	Social entrepreneurial start up	Social enterprise owner-manager
Full time	4.0	4.0
Part-time	4.9	4.1
Homemaker	4.3	3.4
Retired	2.7	4.8
Full time education	7.2	2.5
Long term sick or disabled	2.8	2.8
Out of work and claiming benefit	3.7	1.1
Out of work but not claiming benefit	3.2	1.5
Other	7.2	11.6

Figure 15: Social entrepreneurial activity by employment status and gender

	Social entrepreneurial start up		Social enterprise owner-manager	
	Men	Women	Men	Women
Full time	4.3	3.3	4.3	3.5
Part-time	8.7	3.9	5.3	3.8
Homemaker	6.0	4.2	2.2	3.5
Retired	2.6	2.8	5.1	4.5
Full time education	8.4	6.0	3.6	1.5
Long term sick or disabled	2.4	3.2	2.6	3.0
Out of work and claiming benefit	4.1	3.1	1.0	1.2
Out of work but not claiming benefit	5.6	0.8	1.1	1.9
Other	9.9	7.2	1.6	15.8

Figure 16: Social entrepreneurial activity by educational qualification

	Social entrepreneurial start up	Social enterprise owner-manager
Doctorate	9.5	8.7
Masters	8.6	8.7
Bachelors	5.9	5.6
A levels or equivalent	4.0	3.1
GCSE/'O' levels or equivalent	2.5	2.5
Vocational qualifications	3.3	3.5
Other	6.2	1.5
No formal qualifications	1.3	1.2

Figure 18: Social entrepreneurial start-ups by sector and gender

	Men	Women	Total
Education	11.4	17.1	14.0
Environment	1.7	2.1	1.9
Health	5.4	4.1	4.8
Recreation	42.3	29.5	36.5
Regeneration	2.4	1.8	2.1
Support and Care	15.3	23.9	19.2
Other	12.7	13.6	13.1

Figure 20: social entrepreneurial start-up governance structure

	Men	Women	Total
Unincorporated	12.2	5.3	9.1
Trust	17.8	14.2	16.2
Company (eg Community Interest Company)	15.4	10.0	13.0
Cooperative, com. benefit society/credit union	15.2	18.0	16.4
Sole trader	2.0	5.6	3.6
Partnership	9.8	5.3	7.8
Other	21.0	28.0	24.2

Figure 22: Social enterprise owner-managers by sector and gender

	Men	Women	Total
Education	9.8	16.0	12.7
Environment	1.5	1.6	1.5
Health	2.6	4.1	3.3
Recreation	46.4	32.9	40.1
Regeneration	1.7	1.1	1.4
Support and Care	14.2	24.2	18.9
Other	12.1	10.3	11.3

Figure 24: social enterprise owner-manager governance structure

	Men	Women	Total
Unincorporated	10.7	9.1	10.0
Trust	12.0	11.1	11.6
Company (eg Community Interest Company)	10.0	8.1	9.1
Cooperative, com. benefit society/credit union	14.9	15.1	15.0
Sole trader	5.9	4.6	5.3
Partnership	2.9	3.8	3.3
Other	35.1	35.8	35.4

Appendix 2: Case Study contacts

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Appendix 3: GEM UK Sampling and Weighting Methodology

GEM UK is the largest national study of entrepreneurial activity in the world. It has grown from a survey of 1,000 adults in 1998 to 42,713 adults aged 16-64 in 2007. The distribution of respondents is not even across the UK as some Regional Development Agencies (RDAs) and the Government Agencies in Wales and Northern Ireland choose to boost their sample in order to have more detail about entrepreneurship in their region⁴⁶. Every attempt is made to ensure that the results reported are as reliable and robust as possible. To do this, four sets of weights are calculated for the UK data:

→ Weights for the whole UK that take the UK area sub-samples and the age, gender and ethnic minority proportion of the population of the UK (aged 18-64) into account, based on the latest available area estimates from the UK Office of National Statistics, typically mid-year estimates for the previous year.

→ Sub-sample area weights that take into account the population distributions within GEM UK sub-sample areas by age, gender and ethnicity. These are used when we report comparisons between GEM UK sub-sample areas.

→ Government Official Region (GOR) weights that create representative samples at the GOR level from all sub-samples within the same GOR. Nine out of twelve GORs were not sub-sampled in 2007; London had three sub-samples and Northern Ireland and Yorkshire & Humberside had two sub-samples⁴⁷.

→ In addition, separate weights were constructed for England, based on balanced GOR samples for each English region, as some variables (e.g. urbanity, deprivation) are only available for English regions.

⁴⁶ The raw sample of 42,713 was distributed across 16 geographic areas within which representative sub-samples of the population aged 16-64 were taken. These areas and the sample sizes are: South West England (2997); South East England: (3003); East of England (1000); West Midlands (3000); East Midlands (3023); North East: 3003; North West England (3008); Wales (7989); Scotland (1998); Inner London (370); Dagenham & Barking (2006); Outer London excluding Dagenham & Barking (630); Doncaster (2987); Yorkshire and Humberside excluding Doncaster (2817); Belfast (1330); Northern Ireland excluding Belfast (3552).

⁴⁷ In order to minimise the effect of over-samples in sub-regions within a GOR, random samples were created from these areas to produce representative samples of GORs

Notes

