

A man with dark hair, wearing a light blue button-down shirt and a dark apron with tan straps, is smiling slightly and looking towards the camera. He is holding a dark brown paper coffee cup with a black lid. The cup has a yellow circular logo with the text 'CHANGE PLEASE' and 'GOOD COFFEE DOING GOOD' below it. The background is a blurred interior, likely a cafe or coffee shop, with warm lighting.

**Beautiful
Enterprise**

**Social Enterprise
in the UK:
A question
of growth**

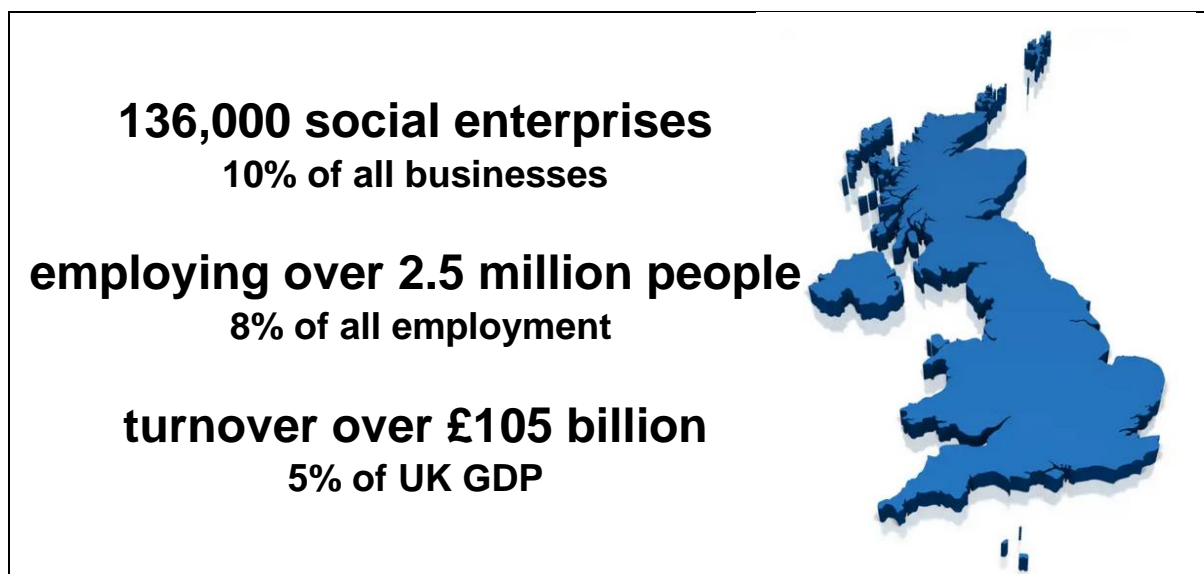
**Policy Lab Paper
August 2023**

Executive Summary

Social enterprise is a global movement



Social enterprise is growing in the UK



Three questions about growth

What are social enterprise **start up rates, growth and survival rates?**

Which regions have higher or lower **densities of social enterprises?**

How far do social enterprises **serve the needs of deprived areas?**

Purpose

This Policy Paper from the Beautiful Enterprise Policy Lab provides a new and updated assessment of the scale of the UK's social enterprise sector. It also highlights some important gaps in our understanding as to how and where this recent growth has happened. These gaps in evidence will need to be addressed if the sector is to continue growing and maturing and if we are to deliver social investment and support effectively.

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Front Cover Photo: Marco, barista, by Cat Arwel, 2018. Change Please is a London-based social enterprise founded in 2015 to help homeless people learn new skills and find their feet.

1 – Introduction

One of the success stories of the last couple of decades in the UK has been the growth of social enterprises. Reaching into every sector and providing purpose and creativity, they have made a growing contribution to tackling some of our country's social, economic and environmental challenges.

Social Enterprise UK (SEUK) define a social enterprise as a business which has 'primarily social objectives whose surpluses are principally reinvested for that purpose in the business or community, rather than being driven by the need to maximise profit for shareholders and owners'.

I have a particular interest in the social enterprise sector as I used to lead a social enterprise, so I know the value it can bring.

This paper sets out to do two things. Firstly, it draws together the latest data to establish a new and updated assessment of the scale of the social enterprise sector in the UK. It shows how the sector has achieved an historic size.

Secondly, this paper also explores the nature of this recent growth and highlights some important gaps in our understanding. These are important issues to understand and address if government, agencies and investors are to deliver the social investment and support which the sector will need if it is to continue growing and maturing.

This paper has been written to stimulate discussion and debate.

2 – Social enterprise: a global movement

The British Council and Social Enterprise UK (SEUK) recently drew together and published research from across the world in an attempt to understand and map the extent of global social enterprise activity for the first time¹.

This new research estimated that there are perhaps **11 million social enterprises** across the world, employing millions of people and turning over billions of pounds every year.

They estimate that these social enterprises account for **5% of the world's businesses**.

They can now be found in every sector on every continent and are distinctive in how they operate.



Source: British Council, 2022: Map showing sources of data

As the report declares in its Foreword, these enterprises are a hopeful sign of change:

This historic report demonstrates how social enterprise is one of the largest movements of our time. It does not have a visible leader or figurehead, or feature media-made unicorn successes, but it is rather driven by a movement of millions of people developing the kinds of companies we need in the 21st century. They are significant in number and are present in every community and society around the world. We know that social enterprises are essential in the effort to recover from the pandemic and drive more inclusive, sustainable economies and societies.

Dr Francois Bonnici, Director, Schwab Foundation for Social Entrepreneurship

But how far has social enterprise travelled in the UK? The rest of this paper provides a fully updated view on the scale and impact of the sector in the UK and some of the challenges facing it.

¹ British Council & SEUK (2021) *More in Common: The global state of social enterprise* | The research was conducted between 2015 and 2020 in 27 countries | Access here: https://www.britishcouncil.org/sites/default/files/more_in_common_global_state_of_social_enterprise.pdf

3 – The scale of social enterprise in the UK

Estimating the number of social enterprises in the UK is not straightforward, but this section provides a fully updated view, drawing together the latest data.

3.1 Social enterprise SMEs

The most recent and comprehensive study of the scale of social enterprise in the UK was conducted for the Government in 2019 and published in 2021². The data was drawn from the UK-wide Longitudinal Small Business Survey.

The survey defines a 'social enterprise' to include any small or medium sized enterprise (SME) employer in the UK which has an explicit social mission (social or environmental development goals), receives at least 50 per cent of its annual income from trading, and reinvests at least 50 per cent of their annual surplus into their social mission.

The definition goes beyond specific legal forms and organisations with asset locks (e.g. CICs), but is very similar to the definition used by SEUK. The main difference is that this survey only looks at SMEs, so excludes larger employers (with 250 or more employees).

The 2019 survey estimated that:

- there are **131,000 social enterprise SMEs** in the UK
- they represent 9.5% of all of the 1,382,000 employer SMEs in the UK in 2019³
- these social enterprises employ 1.28 million people, which is 9% of the 14.2 million employed by all employer SMEs
- most social enterprises are small, with 77% having less than 10 employees, and only 3% having 50-249 employees
- of the 131,000 social enterprises, there are 35,000 which meet the narrower definition of a social enterprise with restrictions on the distribution of profits and assets (mainly CICs and CLGs)

3.2 Large social enterprises

In a separate piece of work in 2018, SEUK helpfully estimated the number of larger social enterprise employers – i.e. those with 250 employees or more. Their report, *Hidden Revolution*⁴, suggested that there were, at a conservative estimate, about 5,000 larger social enterprises in the UK with 250 or more employees, adding at least 1.25 million further employees between them.

The size of these enterprises means that although they only account for a small proportion of the number of social enterprises in the UK they make a significant contribution in terms of employment and turnover.

² CEEDR (2021) *Social Enterprise: Market Trends 2019*, DCMS & DBEIS | Access here: https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/1101560/Social_Enterprise_Market_Trends_2019_-_Middlesex_University.pdf

³ The definition of 'employing SMEs' excludes sole traders and self-employed individuals

⁴ SEUK (2018) *Hidden Revolution: Size and scale of social enterprise in 2018* | Access here: <https://www.socialenterprise.org.uk/seuk-report/the-hidden-revolution-2018-2/>

3.3 Social enterprise in the UK: a new assessment

By drawing together the most recent government data on social enterprise SMEs from 2019 with the SEUK estimates on large social enterprises, it is possible to provide a new and fully updated assessment of the number of social enterprises in the UK on the eve of the pandemic in 2019. The evidence suggests that despite the challenges of the pandemic⁵, the social enterprise sector has weathered the storm overall, and may even have grown, so this assessment provides **the best current estimate of the scale of social enterprise activity in the UK today, 2023**. If anything, it may be an underestimate.

There are 136,000 social enterprises of all sizes in the UK

They represent 10% of all businesses

They employ over 2.5 million people in the UK

This is nearly 8% of all employment in the UK

By taking the conservative estimate of turnover calculated in the *Hidden Revolution* report, adjusting for inflation to the present day and also adjusting for the updated estimate of the number of enterprises, it is also now possible to provide a fully updated estimate of the sector's economic contribution to the UK. At a conservative estimate then⁶:

The UK's 136,000 social enterprises have a collective turnover of over £105 billion

The sector's turnover is approximately 5% of the UK's GDP⁷

3.4 A growing sector

There is also good evidence from several sources that the social enterprise is not only growing but also growing faster than the rest of the private sector. The recent Commission on Social Investment⁸ suggested that from 2010 to 2020 it had grown substantially in terms of number of enterprises, total employment and turnover. Perhaps most significantly, the sector does appear to have grown faster than the more conventional business sector, making it a growing part of the UK economy.

International data⁹ suggests that the density of social enterprises in the UK is also high compared with other European countries – perhaps 1 enterprise per 500 people, compared to 1 in 600 to 1600 for other comparable nations.

⁵ SEUK (2021) *One Year On: The effect of COVID-19 on the social enterprise sector*

⁶ The Hidden Revolution report used average turnover data of £572,449 from 2017, which has been adjusted for inflation 2017-2023 (uprated 35%) and scaled for the increase in social enterprises cited in this report.

⁷ Using UK GDP 2022 data

⁸ Commission on Social Investment (2021) *Reclaiming the Future: Reforming Social Investment for the Next Decade: The final report of the Commission on Social Investment*

⁹ British Council (2021) *ibid*

4 – Start up, growth and survival: three key questions

Having provided an updated assessment on the growth of the sector, this section highlights some important and outstanding questions about the nature of that growth.

4.1 What do we know about social enterprises?

It is possible to paint a picture of the social enterprise sector in the UK in some respects. Today, social enterprises are¹⁰:

- **Mostly companies** - Social enterprises come in various legal forms, including co-operatives, charities and companies but today the clear majority (some 80%) of social enterprises are companies limited by shares or by guarantee. Nearly half of these are also CICs, a rapidly growing form.
- **Mostly small** – With an average annual turnover of £100,000, social enterprises are typically small. Two thirds of social enterprises in the UK have an annual turnover below £250,000, 80% are below £1 million and only 6% exceed £5 million.
- **Operating in every sector** – from retail to health to education, there are social enterprises in every sector and addressing almost every issue.
- **Very enterprising** – two thirds earn more than 75% of their income through trading and 75% break even or make a profit. This is less profitable than small businesses in the private sector, but this is to be expected given the social purpose and nature of their work.
- **Ethical employers** – 72% of social enterprises are Living Wage Employers. Their ratios of high pay to low pay within their workforces are very low (averaging 2.6 to 1) and their workforces and leaderships are more diverse.

However, some important questions remain about how social enterprises are growing in the UK; the rest of this section outlines **three key questions**.

These need to be resolved if we are to put in place effective measures to support the sector in its growth and development.

4.2 Three key questions

Question 1: How is growth happening?

There is plenty of evidence to show that the social enterprise sector is growing, but we appear to know relatively little about how this is happening. In particular, our knowledge about the start-up rates of new enterprises, their rate of growth and their survival rate over longer periods is surprisingly limited.

¹⁰ Most of this data is drawn from: SEUK (2021) *No Going Back: State of Social Enterprise Survey*

For example, the government's 2019 small business survey¹¹ found that the age profile of social enterprises was very similar to small businesses generally. **Some 13% of social enterprises were less than 5 years old** (the same for small businesses generally) and 47% were more than 20 years old (compared to 43% for small businesses).

However, SEUK's most recent study in 2021¹² suggested that **some 47% of social enterprises were under 5 years old**, with only 10% being more than 20 years old.

These studies used very similar sized samples but came to quite different conclusions. The government survey suggests that social enterprises are very similar in behaviour to small businesses in terms of start-up rates and growth. However, the SEUK survey suggests that the start-up rate is much higher, but that growth and low survival rates are a real problem.

This matters, because understanding **how the sector is growing** affects the kind of services which are put in place to support it. In particular, which scenario best describes the UK social enterprise sector?

High Turnover Scenario?

Is the sector very good at generating start-ups, but not so good at growing those enterprises or sustaining them? This would give a sector with many small enterprises and a very high turnover.

Low Turnover Scenario?

Is the sector perhaps not so good at generating start-ups, but good at growing enterprises and sustaining them in the long term? This would give a sector with more mature enterprises and a low turnover but would lack vitality.

Clearly, this is a simplification to highlight the challenge. Further in-depth research is urgently required into social enterprise start-up rates and survival rates in the UK if we are to understand how the sector is growing and where its growth opportunities and support needs lie. The existing research by government and SEUK is significant and provides an important starting point, but further investment is required to explore these issues in more depth.

Question 2: What is the regional distribution of social enterprise?

Perhaps surprisingly, there is also currently no clear data on the regional distribution of social enterprises across the UK, and certainly within England.

The most recent academic study could not find sufficient data to answer the question¹³. Their best answer possible was to suggest that London probably had more social enterprises than most other regions, and that the South West and North East may also have more than average - but that was about it.

¹¹ CEEDR (2021) *ibid*

¹² SEUK (2021) *ibid*

¹³ Buckingham, H. et al (2010) *The regional geography of social enterprise in the UK: a review of recent surveys*, The Third Sector Research Centre

The idea of a concentration of social enterprises in London was also supported by recent research by Regenerate¹⁴, who mapped 'purpose-driven business support organisations' in the UK and found a strong focus on London.

Some have suggested that social enterprise is part of the answer to 'levelling up', but if social enterprises are most densely concentrated in London, it would suggest that this is an aspiration but not currently happening.

A better understanding of the density of social enterprise activity across the UK (number of enterprises per 1000 population) would help us understand where the sector is strongest and where it needs more support. This is essential for the regional development and regeneration agenda and requires a commitment to produce such statistics from government and its agencies.

Question 3: Are social enterprises well represented in deprived areas?

Some social enterprises do make an important and creative contribution to efforts to tackle deprivation. But are these enterprises typical?

Again, the available data is rather contradictory.

The 2019 government small business survey found that both conventional small businesses and social enterprises were **significantly underrepresented** in the most deprived 20% (quintile) of the UK's neighbourhoods, with only 14% of our businesses and social enterprises located there.

SEUK's 2021 survey suggested that perhaps 22% of social enterprises were located in the 20% most deprived areas, which shows at least an average representation in those areas, although hardly a concentration.

So, it may be that social enterprises are no more likely to be found in our deprived areas than any other business and they may be less likely to be found there than in wealthier areas.

Given the usual conception of the sector as a major contributor to tackling the UK's social and economic challenges, this certainly merits further research and exploration. How well is the sector really doing at tackling deprivation? What support might it need to improve its effectiveness?

¹⁴ The purpose-driven business ecosystem map, updated 2021: <https://www.re-generate.org/ecosystem-map>

5 – Conclusion: how do we accelerate growth?

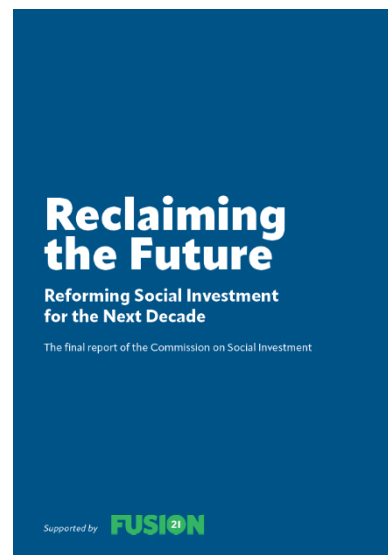
5.1 Reclaiming the future

The Commission on Social Investment¹⁵, led by Lord Adebowale CBE, outlined a very important agenda in 2021. After comprehensive evidence gathering, it found that the provision of social investment to the nation's social enterprises was deeply flawed, London-centric and underfunded. The Commission called for an overhaul of the national strategy for social investment into social enterprises and of the way that social enterprises are supported.

As someone who used to lead a growing social enterprise and who has researched this sector, I agree with the Commission's findings entirely; they provide a clear framework to accelerate growth in social enterprise.

But it will not be enough.

The issues outlined in this short paper highlight important gaps in our understanding of social enterprise that need to be addressed if we are to ensure that social investment and social enterprise support is effective. Much good research has been undertaken in recent years, but we must build on it to explore key questions.



5.2 Evidence for acceleration

In particular, this paper has outlined that we need urgent research into three key questions. We need:

- a much better appreciation of social enterprise **start up rates, growth rates and survival rates** if we are to best support growth
- to know which regions have higher or lower **densities of social enterprises** to understand where to prioritise support
- to better understand the extent to which social enterprises **serve the needs of deprived areas**, or not, and the reasons for this

Our ambition must be not only to see social enterprises grow, but also to see more of these enterprises mature and be sustained in the long term and to ensure that their benefits reach into our most deprived areas. Better evidence is an important contribution to achieving this vision.

¹⁵ Commission on Social Investment (2021) ibid



About

This report was researched and written by Tim Thorlby, Director of Beautiful Enterprise. Tim has spent half a lifetime seeking to address the UK's poverty and national divides through research, public policy and purpose-driven business.

This Paper is published to stimulate discussion and promote positive and creative social change in the UK. Please feel free to circulate and use this Paper.

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