1.1. A Baseline of North West Social Enterprise 2008

Social enterprise can be defined as 'a business with primarily social objectives, whose surpluses are principally reinvested for that purpose in the business or the community, rather than being driven by the need to maximise profit for shareholders and owners'.[1] Social enterprise can contribute to social inclusion, provide opportunities for communities to become enterprising, and access to the labour market for those who have a strong community, social or environmental purpose. This section explores the existing levels of social enterprise and the barriers social entrepreneurs face in starting and growing enterprises in the North West.

1.1.1. Rates of Social Entrepreneurial Activity

There is a limited amount of data that demonstrates existing levels of social enterprise. Current figures suggest in 2006 the amount of social entrepreneurial activity (SEA) in the North West was 3.4% of adult population, which is broadly in line with the UK (3.3%). In the North West, total entrepreneurial activity was 5% in 2006.[2]

1.1.2. Existing Social Enterprise

The URS 2008 survey of newly established businesses shows that social enterprise accounts for approximately 24%[3] of *new* enterprise in the North West. Applying this proxy to the number of new enterprises in the region, this equates to around 9,000 new social enterprises established in the North West in 2007.[4]

The SBS claims that social enterprise accounts for 11% of businesses across the North West compared with 10% across the UK,[5] which suggests the North West has average levels of social entrepreneurship. Although the URS survey found a higher rate of social enterprises than SBS, the URS survey was representative of *new* enterprise only rather than all businesses.

The average number of employees per social enterprise is 3.3 FTEs. This is likely to be higher when volunteers were taken into consideration. The Small Business Service (SBS)

---

1 DTI, (Now BERR), 2002, 'Social Enterprise: Strategy for Success'

2 GEM 2007 enterprise rate is measured by entrepreneurial activity among the adult population at the very earliest stages of development, either at the nascent stage or the baby business stage, which we aggregate into the early stage entrepreneurial activity index, or TEA index

3 Although this may be considered to be relatively high, respondents were asked to self-define their business as a social enterprise, based on the DTI 2002 definition.

4 The number of new enterprises is taken from BETA model data, which is based on new records to telephone databases. We have altered to remove non-enterprises, such as schools, hospitals, churches. New branches of existing organisations have been removed and so have enterprises that are more than three years old.

5 SBS, 2005, 'A Survey of Social Enterprises Across the UK'

suggest that 25% of the social enterprise workforce consists of volunteers[6]. Social enterprises have a higher average number of staff per business at 3.3 FTEs, whereas the regional average per business is 2.8 FTEs.

1.1.3. Characteristics of Social Enterprise

The 2008 survey of new enterprises revealed few significant differences between the characteristics of all new enterprises and new social enterprises, for example:

- 40% of the social entrepreneur respondents were female suggesting that females are more highly represented in social enterprise than in average enterprise in the North West (33%). However, males are still more likely to set up a social enterprise than females, which is reflective of new businesses across the population.

- The ethnicity of social entrepreneurs is broadly similar to the rest of the business owners in the region, with the majority being white (88%). BME communities are under represented across the North West as a whole and this carries over into the social enterprise sector

- According to the 2008 survey, the average age of an entrepreneur in the North West is 40 years old, as is the social entrepreneur. GEM data suggests the most popular age group to be involved with social enterprise is the youngest group, 18-24 year olds. We believe this conflict can be explained by the fact that our survey sample may not fully represent nascent business activity, i.e. less than 3 months old. This difference could imply a high attrition rate among 18-24 yr old social entrepreneurs, so that this business activity is not progressing into newly established businesses as defined by the URS survey.

- The skill levels of social entrepreneurs do not differ significantly to entrepreneurs as a whole across the region, indicating that skill level is not a determining characteristic of a social entrepreneur. Our survey shows that social entrepreneurs with NVQ level 5 are slightly over represented (11%) than the rest of the region (9%). Current literature suggests that social entrepreneurs are likely to be more highly educated than non-social entrepreneurs.[7]

Within their respective sectors, there were a couple of differences between social enterprises and non-social enterprises. Table 1 below shows the sectoral breakdown of social enterprise compared with the North West average of all new enterprise.

Table 1: Spread of new enterprise across sectors

---

6 SBS, 2005, 'A Survey of Social Enterprises Across the UK'

7 GEM, 2004, Social Entrepreneurship Monitor UK

Sector	Social Enterprise	NW Average all New Enterprise
Other Community, Social and Personal Activities	26%	15%
Wholesale and Retail	14%	14%
Real Estate	13%	23%
Hotels and Restaurants	10%	7%
Manufacturing	9%	11%
Construction	7%	12%
Transport, Storage & Communications	7%	6%
Education	4%	4%
Agriculture	4%	3%
Private Households	2%	2%
Financial Intermediation	1%	2%
Health and Social Work	1%	1%
Public Administration	1%	0%
Extraterritorial Organisations	0%	0%

Source: URS Survey 2008

Our analysis of the feedback from stakeholders, social entrepreneurs and existing evidence reveals some interesting trends:

- Social entrepreneurs have significantly higher representation than the regional average in 'Other Community, Social and Personal Service Activities'. The existing strength of social enterprise in this sector could be built upon to increase employment generation and to achieve RES targets by increasing the delivery of local services.
- Social enterprise is under represented in the 'Real Estate, Renting and Business Activities' industry by 10% compared with all new enterprises in the region. Although, more optimistically the SBS data claims that North West social enterprises account for 18% of enterprises operating in this sector compared with a UK average of 20%.
- Social entrepreneurs are in line with the rest of the region in the 'Wholesale and Retail' sector and it is the second strongest industry for social enterprise in North West This finding contributes to the RES objective target sectors with *large and widespread employment,* including retail. Research also indicates that social enterprises been able to take advantage of the current ethical consumerism market that is presenting opportunities for new enterprise in this sector.
- A recent review of current trends and growth of sectors in the North West identified nine key sectors offering good growth and prospects for social enterprise.[8] Of these, the

8 Regeneris, 2007, 'A draft report of Social Enterprise in the North West'

‘Food and Drink’ and ‘Hospitality and Leisure’ categories can be seen in our survey results in the category of ‘Hotel and Restaurants’. URS data demonstrates that social enterprise shows slightly higher representation in this sector than the regional average.

Average turnover for social enterprise is higher than the North West average of all enterprises; estimated at £137,000, compared with £119,000.[9] However, lower value added sectors such as community, social and personal services activities take up the largest share of the social enterprise market. Possible reasons for the higher turnover among social enterprises include:

- On average social enterprises have more employees (3.3 FTEs) than businesses across the region (2.8 FTEs). This additional staff resource, together with an estimated additional 25% volunteer workforce, could increase the potential to generate more business, hence explain the higher turnover.

- Social enterprises tend to have more complex funding patterns, and access finance from a variety of sources. For example, a recent sub-regional report claims that across Merseyside 29% of turnover for social enterprise was generated through grants.[10]

1.1.4. Barriers to Enterprise

This section explores the barriers social enterprises may experience when setting up a business, consultations have given a useful insight into the nature of these barriers and our survey highlighted the most important of these.

1.1.4.1. Definition

The exact definition of social enterprise is perhaps an initial obstacle for entrepreneurs to overcome. Social enterprises can also assume different legal structures, which have an impact, for example, on funding and partnering. The definition has spurred an ongoing debate among many practitioners and academics. The Social Enterprise Coalition believes that social enterprise should not be determined by its legal status but its nature, highlighting two important factors; its social aims, and the way in which it uses its profits. Not understanding whether your business is a social enterprise can be particularly restrictive when addressing financial issues, for example, the range of funds available to social enterprises. There is also a grey area of definition relating to voluntary sector organisations, which are increasingly under pressure to become social enterprises, as this is said to be a better model for sustaining the organisation beyond grant funding. Due to the lack of an explicit legal definition of social enterprise we simply rely on the owner – manager’s perception.

The URS 2008 survey asked social enterprises about barriers to starting a business and barriers to growing a business, specifically with respect to social enterprises. **Table 2**

---

9 URS Survey 2008

10 Regeneris, 2007, ‘A draft report of Social Enterprise in the North West’

demonstrates that the barriers to starting up are slightly different, yet the barriers to growing a business are broadly the same for both social enterprise and regular enterprises.

Table 2: Reported barriers to starting and growing a new business

Top 5 Barriers to Setting Up		Top 5 Barriers to Growing	
Social Enterprise	**North West**	**Social Enterprise**	**North West**
Tax / national insurance (36%)	Tax / national insurance (31%)	Competition (22%)	Competition (19%)
Health and safety (26%)	Financial insecurity (24%)	Access to finance (20%)	Access to finance (18%)
Competition (25%)	Legal requirements (24%)	Financial insecurity (14%)	Financial insecurity (15%)
Access to finance (25%)	Access to finance (24%)	Tax / national insurance (13%)	Business rates (12%)
Legal Requirements (25%)	Competition (22%)	Business rates (10%)	Tax / national insurance (10%)

Source: URS Survey 2008

We compare these results to wider research as a means of explaining barriers in more detail below.

1.1.4.2. Competition

According to our 2008 survey, the main barrier for social entrepreneurs in growing their business is competition. Recent literature addresses the fact that commercial companies are rapidly adopting new ethical practices and promoting their 'triple bottom line' to appeal to consumers[11]. Companies such as Sainsbury's and M&S are making a major impact on the way social enterprises do businesses. This raises the bar for some social enterprises, which may struggle to compete against the large corporations. This may suggest social enterprises need support understanding their role and position within the market. A second issue may be the need for further training in competitiveness.

1.1.4.3. Tax and National Insurance

The survey highlighted tax and National Insurance as the top barrier to starting a business in the region, and continues to be a barrier as businesses grow. It is likely that many new social enterprises are not VAT registered. From the 2008 URS Survey, over half (58%) of social enterprises have a turnover of less than £50,000, which is below the VAT registration threshold of £67,000. The Small Business Research Trust Team found that 15% of VAT-registered firms report the registration threshold as a significant problem and 18% of non-

11 New Start, Feb 2008, 'Social Enterprise and Ethical Consumption: Consumer Trends'

registered businesses report they intentionally forego growth in order that turnover remains below the VAT threshold.[12] (cited in Chittenden et al. 2002).[13]

In consultation, one entrepreneur who has been extensively involved in social enterprises over the last 5 years found that government information was inconsistent when querying matters concerning tax and national insurance, leaving the owner uncertain about the level of service that was available.

1.1.4.4. Access to Finance

Social enterprises have access to a diverse range of funding sources. Perceptions are that funding is in decline and more organisations are chasing fewer resources. Social enterprises are under increasing pressure to self-sustain and move away from short-term grants but for many reasons they struggle to do this. Access to finance is cited as a barrier to both starting and growing for all businesses.

- Feedback from consultations suggest that even though there are a variety of funding sources, the application process is complicated and bureaucratic, which can be a significant obstacle when starting up.
- A very experienced entrepreneur thought many people starting-up became stuck when 'scavenging' for grants. She believes the majority of social entrepreneurs are not good at fundraising and instead their strengths lie in their mission, related activities such as, innovation in solving social problems, providing unavailable services and identifying community needs.
- It was a common thought amongst social entrepreneurs that the structure of funding needs to be changed and that there should be more access to finance after the first year of starting up, with the belief that if the business has survived through the second year and into the third, it has a higher chance of being economically viable and sustainable.

1.1.4.5. Credibility

Many social enterprises struggle with performance management and in certain sectors struggle to justify the social and economic value of their products or services. Throughout consultations and focus groups, social entrepreneurs commented largely on lengthy attempts to gain trust in the local community and promote their service. Many would-be customers did not know their business existed at all. Social enterprise owners explained that sometimes customers were almost reluctant to use their services due to negative perceptions around quality and delivery which required work to break down people's traditional views. Credit unions found this particularly difficult and overcame these negative

12 Small Business Research Trust (SBRT) (1998) NatWest SBRT Quarterly Survey of Small Businesses in Britain, vol 14, no 1, SBRT.

13 Regulation and Small Firm Performance and Growth: A Review of the Literature

stereotypes by providing a good quality, affordable and reliable service that could not be found elsewhere for certain groups in the community.

1.1.5. Social Enterprise Business Support Needs

Social entrepreneurs have varying support needs depending on the maturity of their business and levels of experience when starting up. Existing research suggests that 'as a social enterprise matures and starts to operate as a business, its needs become increasingly similar to those of a 'mainstream' enterprise'.[14] In the early stages, it appears that there is generally low take up of support services among social enterprises.

- 65% of social entrepreneurs did not use any form of business support, compared with 61% of newly established enterprises in the North West. Feedback from our consultations implies that social entrepreneurs who had used available support were generally satisfied with the service and would use them again. Experienced entrepreneurs, in consultation, stated that business support was vital to setting up their business.

- Business Link and the Local Authority were the two main services used by social enterprises, 40% and 21% respectively. Both support agencies scored an average of 3.3 when ranked from 1-5 (where 1 is poor and 5 is very good) determining levels of satisfaction, indicating overall positive experiences and potential for the services to be used again.

Social entrepreneurs were asked about gaps in the provision of support services throughout the consultations. The following were highlighted as the most common needs:

- Social entrepreneurs emphasised the need for sector specific or tailored advice. Social enterprises often provide unique services to meet a gap in the market. Given the wide variety of sectors social enterprises operate in, generic advice is less useful. As the weakness in support for these niche markets cannot be addressed with a generic approach, it would take additional training of support agents to become more skilled at providing this bespoke assistance. One entrepreneur attended a 3-month training programme specific to the business she wanted to start over a decade ago. She believes the success of her start up can be attributed to that training; it encouraged, motivated and developed the necessary skills required. Amongst the entrepreneurs, it was felt that the advice given now is basic and normally in the form of a leaflet.

- Some of the more experienced entrepreneurs thought that mentoring was very important and can help in reducing basic errors. With the right support, these can often be solved quickly, but helpful assistance is not always available. Mentoring assistance could make the starting up process more efficient and reduce the barriers to becoming established. Also, assistance with quarterly financial monitoring is something some entrepreneurs would like to see, to assure them they are on track.

14ESYS Consulting LTD for Welsh Assembly Government, 2003, 'Business Support needs of Social Economy Enterprises'

- Some of the feedback from the entrepreneurs felt that employment law and certain regulations and legalities were administrative obstacles. In our survey, a quarter of social enterprises agreed that this was a barrier to start up. The owner-managers found that these issues frustrating and complicated and they felt that they did not have the necessary skills to deal with them. Additional training and more detailed support were two of the services they would like to see available.

- Changing market environments, such as the expansion of ethical consumerism or large commercial companies adopting new ethical practices, will change the way in which some social enterprises will have to compete. Recent literature suggests social enterprise will need to think like commercial businesses and undertake robust social auditing, branding, and marketing and relay their cause-related story effectively to stand out in the market.[15] All these business activities will require a deeper understanding of commercial awareness, hence training specifically for social entrepreneurs operating in a mainstream market.

1.1.6. Opportunities to Boost Social Enterprise

Whilst the formation rates of social enterprise are healthy and in line with UK average, the growth rates and turnover of social enterprises could be improved to contribute to RES targets. Growing markets for social enterprise sectors should be exploited. This section summarises key opportunities highlighted from the analysis of social enterprise in the North West:

- There is a growing enterprise culture among North West social entrepreneurs. Since 2005, the level of social entrepreneurship appears to have increased at a faster rate than for many other regions in the UK.[16]

- Opportunities exist to building on this growing enterprise culture, to boost start-ups in sectors where social enterprises are currently under-represented, specifically where potential exists, as in real estate or construction. There are also examples of social enterprises getting involved in property and development to regenerate sites that are perhaps not commercially attractive to developers. For example, CARP Ltd a social enterprise in Carnforth, is currently looking at the feasibility of taking a small and complicated site forward for re-development in the town centre. The organisation is drawing on public sector support to research a sustainable development option for the site. There are many examples like this across the UK and there is potential to draw on the capability of existing specialist support agencies, for example the Ethical Property Trust or the Development Trust Association.

- Growing the existing strength of social enterprise in the sectors with *large and widespread employment* (overall, employing 52% North West workforce)[17] such as the

---

15 New Start, Feb 2008, 'Social Enterprise and Ethical Consumption: Consumer Trends'

16 GEM North West 2006

retail sector provide activities to boost employment generation. The RES also highlighted the opportunity for social enterprise to get involved in health care provision. From our survey, only a small proportion of social enterprises operate in this sector. However, there is likely to be an increase in social enterprise in the care/health care sector given the current policy drivers and changing funding climate.

- There is the opportunity to support young social entrepreneurs (18-24yr olds) to help their enterprise ideas survive the formation stage and grow into an established business. The current attrition rate from baby/nascent social entrepreneurial activity to an established business is very high.[18] Accomplishing this will significantly increase the formation and growth rates of social enterprise in the North West.

1.1.7. Conclusions

The healthy business formation rate is a positive starting point. The realisation of potential growth needs to be addressed, as social enterprises tend to have a potentially higher risk of failure, particularly within the 16-24 age group. The opportunity for younger people to become established is crucial to growth of the social enterprise market.

Determining a social enterprise is difficult, without a legal definition, it harder to distinguish whether one operates a social enterprise. There is confusion in the sector, as changes in government funding have driven more voluntary sector organisations to become social enterprises, many struggle to define themselves and their role in the market place.

The entrepreneurial mindset of owner-managers tends to be less ‘business like’ than mainstream entrepreneurs and more focused on solving a social problem or providing a missing service in the community. This creates operational barriers, as social enterprises still have to function like normal businesses to survive.

Social entrepreneurs will benefit from peer support and mentoring. Training courses would help reduce operational barriers they face when starting up and may assist in overcoming issues in accessing finance.

Competition, mainly from large commercial companies, is a threat that could determine the way in which social entrepreneurs will need to compete. The delivery of skills to social entrepreneurs to enable to understand the corporate world and actions necessary to compete in such an environment will improve their competitiveness and survival rate.

17 North West Regional Economic Strategy

18 (GEM 2006)