

# Defining social enterprise

February 2010

## Defining social enterprise

The “official” definition of a social enterprise is “a business or service with primarily social objectives whose surpluses are principally reinvested for that purpose in the community, rather than being driven by the need to maximise profit for shareholders and owners”. The “official” definition goes on to suggest that the key characteristics of a social enterprise are:

- They *trade*, that is, they sell goods or services to earn income but profit is ploughed back into the business or distributed to the community they serve;
- They have a *clear social purpose*, which may include job creation, or the provision of local facilities such as a nursery, community shop, or social care for the elderly;
- They are *owned and managed* by the communities they serve.

The official definition does not argue that social enterprises are defined by legal status, but stresses rather that they are defined by their characteristics. The concept of social enterprise is relatively new and, in reality, there is no universally accepted definition.

Not everyone, for example, would accept the idea that social enterprises must be owned and managed by the communities they serve, even though community can be defined quite broadly. Some argue that a social enterprise must be local – for me that is a definition of a community business. A community business may be a social enterprise, but the reverse is not necessarily true. Many definitions imply, if they are not explicit, that social enterprises only provide local services.

Some commentators argue that all that is required by social enterprises is that they achieve a ‘triple bottom line’ but that simply confuses since many for-profit businesses also aim to achieve a triple bottom line.

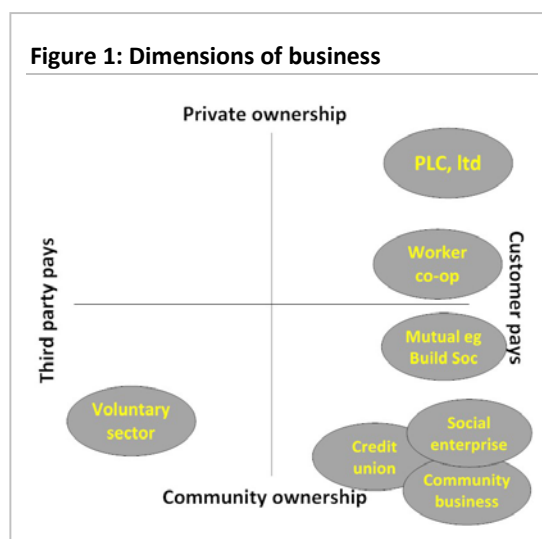
In this short note, I want to share some examples of businesses that appear, at least to me, to be good examples of social enterprises and I then want to float some questions.

## Exemplars

### Green Thing

The Green Thing is a campaigning organisation – aiming to persuade people to change their behaviour so that they become greener. This is quite different to advocating change in public policy and requires effort to remind people to stick with their new behaviour. The Green Thing has been amazingly successful in attracting people to its website. It has also been very successful in persuading a string of celebrities to support and endorse its work. Its mission is to help as many people as

Figure 1: Dimensions of business



possible in as many countries as possible to do the Green Thing. And then use this people power to get governments and businesses across the world to do the Green Thing too. Green Thing has identified seven things that people can do to lead a greener life. They aim to deliver their message with world-class creativity and a sense of community. They work by inspiring people to 'Do the Green Thing'. They aim to generate income not only through sponsorship and donations but also through advertising, merchandising and corporate licensing. They have had some grant aid to get them started and have recently raised investment finance from Venturesome.

#### **ADAPT**

ADAPT was incorporated in 1991 as a company limited by guarantee with charitable status to work with disadvantaged people in the area of the Northumberland Care Trust. Key target groups are people with disabilities and people disadvantaged by rural location, primarily young people and the elderly. Their largest project is their community transport initiative, licensed by the Department for Transport with an S19 permit. This provides transport for school pupils with disabilities and for school students who live in rural locations. The only alternative, if it is available, for the disabled pupils is taxis organised by social services. However, this can lead to over-dependence, which can cause problems when the person reaches 18 years of age and the taxis cease. It can also be problematic when the taxi drivers are not trained to deal with the people that they are transporting. When I met them, they had contracts from two schools and were bidding for more. They were also looking at providing driver training: it had a contract from JobCentrePlus to provide MIDAS (mini-bus driver assessment training), first aid etc and was planning to offer PSV training.

#### **FareShare**

FareShare became an independent registered charity in 2004 having been previously set up as a project within the homelessness charity, Crisis. Its purpose is to take 'fit for purpose' surplus food from the food industry and redistribute it, via charities and community organisations, to homeless, at risk and other 'food poor' client groups. In 2008, operating from 12 depots, FS's 280 volunteers redistributed over 3,000 tonnes of food to 533 charities and community organisations who provided more than 7 million meals. FS estimates that it supports more than 26,000 vulnerable people every day.

Originally the food redistributed by FS was gifted by local retailers or others, but FS has identified a large market amongst food industry manufacturers who often need to dispose of perfectly good food. This might be, for example, because it has been wrongly packaged (non-organic porridge oats in boxes labelled organic for example) or does not meet supermarket requirements for 6 month shelf life or is due to over-production (such as Gerber Juice preparing supermarket own brand fruit juice but preparing a bit extra 'just in case'). Once this would have gone to landfill, requiring significant charges to be paid; increasingly there are other routes for disposal, including anaerobic digestion. FS argues that the best solution for food that is still within its sell-by dates is to support people who would otherwise be unable to afford to buy it. Furthermore they are able to charge for 'disposal', though clearly at a lower amount than would otherwise be paid by the food manufacturers.

#### **Shared Interest**

Shared Interest provides 'finance for fair trade'. It lends to and works with disadvantaged producers, particularly in poorer parts of the world, as well as with buyer organisations who are committed to using fair trade principles. The idea grew out of recognition by a group of people from Traidcraft and elsewhere that if they were going successfully to support developing country producers, then there was need for suitable trade credit. Traidcraft provided an initial grant and it received considerable support from Oikocredit, a World Council of Churches initiative based in the Netherlands and which provides loans to projects in developing countries. SI has shareholders and they exclusively provide its capital, though it limits the dividends and furthermore some shareholders waive their interest.

---

### **Jesmond swimming pool**

Jesmond Swimming Pool was established in 1991 in response to Newcastle City Council's decision to close the pool when it was looking for ways to cut its budget to avoid poll tax capping. Whilst the city had 10 pools, all losing money though Jesmond lost the smallest amount per swimmer, they decided that since Jesmond was reasonably prosperous the residents could easily travel to other pools. The community was furious, and quickly collected 4,000 signatures on a petition. This made no difference and the Council closed the pool at the end of March 1991. The following month the Friends of Jesmond Swimming was formed. It raised £9,000 from the local population to commission a feasibility study. The project team persuaded the consultant to implement his plan, and employed him on a full time basis. The local community was asked to commit its support by subscribing even before the pool was reopened. The pledges totalled £35,000. The project group applied for, and received, a grant of £50,000 from the Foundation for Sports and Arts. The Council's only support was to agree to lease the pool at an annual rent of £1,000, for a five year lease. The pool re-opened in April 1992, and from day one was a success, with a positive cash flow, and the income exceeding the expenditure. Whilst the pool had been working up to the point it was closed, it required expenditure of around £30,000 on repairs and decorating. However, the trust was able to finance this out of their cash flow. Swimming pools in Newcastle had been operated to suit the establishment, rather than for the benefit of the community. The changes introduced resulted in a trebling of turnover and a halving of costs within 12 months of reopening. And a couple of years later, the City Council agreed to give them a new 23 year lease.

### **Amazonails**

Amazonails designs and builds strawbale buildings, often as temporary structures, and provides training, particularly for self builders and architects, and consultancy. Amazonails was originally established in 1997 and always operated on a community basis. In an effort to become more independent and sustainable, and to enable the founders to take more a back seat, it incorporated as an Industrial and Provident Society in March 2007. Surpluses are reinvested in the business.

### **Microfinance International**

In 2003, Atsumas Tochisako left a senior position at Bank of Tokyo-Mitsubishi to launch Microfinance International (MFI) as a for-profit social enterprise based in Washington, DC. The objective was to provide immigrant workers with inexpensive remittance, cheque-cashing, insurance and micro-loans. At the outset it worked in both the US and El Salvador and has now expanded to a dozen countries in Latin America.

### **Lapdesk Company**

Too many children in South Africa are taught in classrooms that don't have desks or tables or indeed any hard surface on which to write. To address this problem, Shane Immelman founded the Lapdesk Company in 2002. Lapdesk asks large companies to donate desks, ideally for an entire school district, and they are able to put some advertising on them. This contributes to the requirement that companies in South Africa donate part of their profits to support black empowerment programmes. Lapdesk has now spread to Kenya, Nigeria, DRC, India and Latin America.

### **British Bobsleigh**

Is a sports team a social enterprise? They don't earn their income through selling a product or service to customers in the way that a normal business does. But Martin Allison, who turned round the British Bobsleigh team, has succeeded in generating income by seeking sponsorship and selling advertising space.

---

## Questions

### Social entrepreneurs and social enterprises

Are social entrepreneurs and social enterprises the same? I would argue – and so would the School for Social Entrepreneurs – that a social entrepreneur is someone who seeks resources and takes (calculated) risks to achieve social objectives, but could do this through a range of mechanisms, which might include social enterprises but would certainly also include mainstream charities and NGOs.

### Social purpose

Should the social purpose of a social enterprise be reflected in its trading activity – as FareShare or ADAPT or Green Thing – or can a social enterprise's social purpose be, say, creating jobs for people who are 'hard to employ' and the trading activity is then irrelevant? Increasingly, I would argue that the organisation's trading purpose should fulfil a social objective, though not necessarily one that could not be provided also by the for-profit sector. A children's nursery would be a good example. But the British Bobsleigh team would not, because it does not fulfil a clear social purpose.

In my experience, social enterprises that simply provide the same product or service as any other business, and aim to meet a social objective for example by employing people who are vulnerable or hard to employ, are simply not sufficiently competitive. Either they need to generate high levels of 'profit' to cover their total employment costs, or else need to have the employment costs subsidised in some way. And as soon as employment costs are subsidised, private businesses argue that they face unfair competition.

### Fair trade

Some commentators argue that businesses delivering fair trade products are social enterprises. This could be a definitional minefield. The social benefit is only conferred, if at all, through the payment of a premium to producers – though often the premium goes to the community rather than to the individual producers. And how do we describe companies like Cadbury – that offer Fair Trade products – but are clearly for-profit companies?

### Local ownership

Some argue that social enterprises should focus on local communities, with local community ownership, and then argue that a key benefit comes from keeping cash flowing within communities. Whilst this may well be an objective set by some people in starting social enterprises, I would question whether this is sensible, or whether social enterprises can take a rather wider view, perhaps because they are working nationally, such as Network Rail or FareShare or the Green Thing, or internationally.

### Co-operatives

Some argue that co-operatives are automatically social enterprises. Does this devalue the concept of social enterprise? It seems to me that there is no difference between a co-operative that distributes profit to its members and a private business in which the shareholders also work for the business or, indeed, any other for-profit business. On the other hand, a co-operative structure, especially an Industrial & Provident Association structure, may be an appropriate structure for a social enterprise as for example with Amazonails.

### Grant aid

Some charities, struggling to raise sufficient grant aid, appear to have concluded that they can reinvent themselves as social enterprises, and will then continue to attract grants. Is this permissible – or is the whole point of social enterprises that they raise all their income through trading? And what about the charity or not for profit that funds some services through grant aid, but some services through trading activities?

---

### **Biographical note**

David Irwin consults in enterprise and economic development. He works internationally with clients such as the Department for International Development, Danish International Development Agency, World Bank and Gates Foundation. In the UK, he works with Esmee Fairbairn Foundation and Sainsbury Family Charitable Trusts supporting social enterprises and not for profits. For two years, he was Treasurer of Chandos Children's Learning Centre, a parent managed social enterprise in Covent Garden.

### **Supporting social enterprise**

Once we are clear about the nature of social enterprise, it becomes rather easier to look at ways of assisting them to access finance and other support. Venturesome, for example, has an investment fund targeting social enterprise, charities and not for profits that expect to be able to earn some or all of their income. The fund works by 'buying' a revenue participation agreement and then being paid a percentage of total revenue for a fixed number of years. Providing advice or management training becomes easier when social enterprises are seen first as businesses and second as fulfilling social purposes since, if they fail to succeed as businesses, they will not exist to fulfil their social purpose.

### **Conclusion**

There is little doubt that the sector would be helped by being clear(er) about a definition, based on characteristics around the importance of fulfilling a social purpose, through trading, and without distributing profit to 'owners'. The sector would also be served well by pulling together a much broader range of examples showing all aspects of social enterprise. And social enterprises, many of which are started by people with limited business experience, would be greatly assisted if there was appropriate and easy to access support widely available.

David Irwin  
14 February 2010