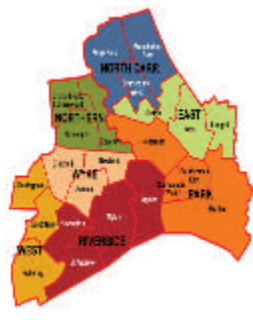


# The Truth About Social Enterprise



**Hull CVS**  
*'community and voluntary services'*



The Government views social enterprise as a way of strengthening an inclusive and growing economy whilst at the same time, helping to deliver many of the Government's key policy objectives. At the same time, as part of the Government's desire to involve voluntary and community organisations in public service delivery, we are seeing more and more emphasis on developing social enterprise activities and organisations within our sector. There is an acknowledgement that it is impossible to sustain voluntary and community delivery on grant funding alone and so we need to be able to earn our money. However, inevitably there are a lot of misconceptions and misunderstandings about social enterprise.

helping you make a difference

## What is a Social Enterprise?

The closest thing we have to an official definition of social enterprise and the one most commonly used is this:

**A social enterprise is a business with primarily social objectives whose surpluses are principally reinvested for that purpose in the business or in the community, rather than being driven by the need to maximise profit for shareholders and owners.**

*Social enterprise, A strategy for success,  
DTI 2001*

A very clear and simple definition is this statement from the website of Social Enterprise Ambassadors:

**Social enterprises are businesses. They need to make a profit to compete in the market, ensure their continued survival and be able to invest in their social or environmental aims. For many social enterprises, being sustainable – in every sense of the word – enables them to become more independent and reduce any dependency on public grants.**

An organisation could be a social enterprise if it:

- has a social or environmental purpose (i.e. it exists in order to tackle some kind of disadvantage or need);
- is not privately owned;
- re-invests its profits to fund its social purpose;
- earns its income through trading activities

Social Enterprises are not, in themselves, regulated. Rather, those that are limited companies are regulated by Companies House; those that are Industrial and Provident Societies, or bona fide cooperative are regulated by the FSA and those that are charities are regulated by the Charity Commission.

Social Enterprise is not a legal structure. It is only a description of an organisation (or even a project or activity of an organisation). The legal structure that might be most appropriate for a Social Enterprise might be a Company Limited by Guarantee or an Industrial and Provident Society (including co-operative societies) registered with the Financial Services Authority (FSA).

Privately owned companies such as Companies limited by shares; partnerships and limited liability partnerships and businesses owned by sole traders could show some or most of the characteristics of a Social Enterprise, but being privately owned are likely to struggle to justify investment of public finance to support Social Enterprise, so may be better described as ethical businesses.

Making the right choice of structure for a social enterprise is crucial and advice should be sought on it. See the resources section at the end.

## Where do Social Enterprises get their finance?

Here's the crunch – the clue is in the word "enterprise". *A social enterprise is a business, and it earns money through its trading activities.*



There is a range of investment opportunity available to help set up and grow social enterprise including commercial finance such as loans and equity, and new types of finance such as patient capital, social venture capital and venture philanthropy. There is also some grant funding to assist with setting up.

But once up and running, a social enterprise should be able to sustain itself principally if not exclusively through trading activities. If it relies on traditional voluntary sector grant funding, or public donations to fund its activities, then it is not a social enterprise.

The fact that voluntary and community organisations, that traditionally rely on grant funding and donations, are becoming more enterprising and undertaking more trading activity can appear to muddy the water.

### What if it can't survive by trading?

To be successful, social enterprises need two key things: **something to sell** (either directly to the paying public, or under contract for example to a local authority); **and a market** with enough demand and paying power to generate enough money to survive. A social enterprise may be based on an excellent idea, but they simply would not be able to charge enough to make it work, or find enough people to pay for it. The first thing a social enterprise needs is a very strong business case including a clear and well researched idea of the potential market, and advice needs to be sought on this.

### Can I earn my living running a Social Enterprise?

If the organisation is a Charity, its trustees cannot be paid. If it is a not for profit organisation that is not charitable, and if its Governing Document allows, then its directors could be salaried by the organisation, and then the only restriction would be on the capacity of the enterprise to earn money. Social enterprises generally have some kind of profit lock limiting the amount that can be paid to directors and shareholders and ensuring that a reasonable portion of the profits are reinvested in the enterprise (which is already the case with charitable organisations).

### Resources and Information

#### Organisations

Business Link Yorkshire

[www.businesslinkyorkshire.co.uk](http://www.businesslinkyorkshire.co.uk)

Social Enterprise Coalition

[www.socialenterprise.org.uk](http://www.socialenterprise.org.uk)

Community Interest Companies Regulator

[www.cicregulator.gov.uk](http://www.cicregulator.gov.uk)

NCVO Sustainable Funding Project

[www.ncvo-vol.org.uk](http://www.ncvo-vol.org.uk)

General information and resources on sustainable funding, includes information on Social Enterprise. Go to the What We Do section to find the link to the Sustainable Funding Project.

Social Enterprise Yorkshire and the Humber

[www.seyh.org.uk/](http://www.seyh.org.uk/)



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