Mapping social enterprise activity in Wales: Understanding in order to Influence

EXECUTIVE SUMMARY
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Executive summary

Research brief

- The Welsh Assembly Government commissioned Sector Projects, Geoeconomics and The Research Unit in May 2008 to undertake a mapping and baselining exercise of social enterprise activity across Wales. The overall aim of the study was to provide a deeper and more detailed understanding of the size, scope, nature, health and role of social enterprises in Wales and to analyse how the Assembly Government might more effectively support the sector.

This study forms part of Welsh Assembly Government's commitment to supporting social enterprises to grow and thrive, and complements Welsh Assembly Government's Social Enterprise Action Plan launched in January 2009.

Social enterprise definition

In line with the UK Government, the Welsh Assembly Government defines a social enterprise as:

> *"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 profits for shareholders".*

To operationalise this broad definition and to be comparable to other national and regional mapping exercises, we used three recognised tests for identifying social enterprises. These are:

- ***Enterprise orientation*** – directly involved in producing goods or services for a market;
- ***Social aims*** – explicit social and/or environmental aims; and
- ***Social ownership*** – autonomous organisations with an element of participatory governance involving stakeholders and trustees, with profits used for the community or shared with stakeholders.

We also segmented organisations by the proportion of earned income so as to be able to capture their stage of development and level of social enterprise activity. Three categories were defined as follows:

- **Embryonic** social enterprises – organisations that generate 15% to 25% of their income from trading;
- **Emerging** social enterprises – organisations that generate 25% to 50% of their income through trading; and
- **Established** social enterprises – organisations that generate more than 50% of their income through trading. .

The majority of UK mapping studies of social enterprise use either a cut-off of 50% earned income, or 25% to include 'emerging' social enterprises. However, this study includes the 15-25% earned income category as Welsh Assembly Government wanted to assess the level of early stage or 'embryonic' social enterprises in Wales and their potential for development.

Methodology

The mapping study was based on two methodological pillars which provided complementary quantitative and qualitative data:

- A phone survey of a representative sample of social enterprises in Wales, resulting in over 618 interviews with senior executives within these organisations, predominantly chief executives. We contacted 3,055 potential social enterprises by letter or e-mail to inform them about the survey and began telephone interviews with a sample of 764 organisations. 618 of these organisations were eligible social enterprises which gave a good spread of organisations with social enterprise activity in Wales; and

- In-depth interviews with 26 key stakeholders, including social enterprises, network organisations, business support providers and government organisations.

Surveying social enterprise is not easy as 'social enterprise' is not a discrete and easily identifiable sector – it is, rather, a way of doing business. Our survey design built on previous mapping exercises and best practice survey methods. We made use of the GuideStar database to create the first cut of potential social enterprises based on legal form and/or charitable status. This data was added to from a range of sources including from the Welsh Social Enterprise Network members, Welsh Assembly Government, and databases of particular kinds of social enterprise such as Community Interest Companies and cooperatives. This approach therefore includes organisations that may be unincorporated or adopt other legal models than companies limited by guarantee, or industrial and provident societies, for example, companies limited by shares.

Overview of findings

1) We have identified 3,056 organisations undertaking social enterprise activity in Wales.

- Two-thirds are established, meaning that they earn at least half their income, and about a quarter are self-sustaining with 100% earned income. Broadly equal proportions of embryonic and emerging social enterprises making up the remaining third.
- About half the social enterprises in Wales are companies limited by guarantee. Roughly one in ten are either trusts or unincorporated.
- Almost two-thirds of social enterprises are registered charities or have exempt charitable status. Embryonic social enterprises are more likely to have charity status (72% compared to a 63% average). In contrast, organisations with 100% earned income and organisations that are less than five years old are much less likely to have charitable status (54% and 30% respectively).

2) We estimate that the size of the social enterprise sector in terms of turnover is £2.2 billion based on Financial Year 07/08 figures.

- This would suggest that the social enterprise sector contributes 2.6% to the turnover of all enterprises in Wales. The Social Enterprise Coalition UK estimates that the size of the social enterprise sector is £27 billion turnover in the UK. On this basis, Wales contributes about 8% to this national figure. This is more than double the Welsh economy's contribution to national GVA which is 3.6%.
- There is a large range of organisations within the social enterprise sector. Glas Cymru, the national water company, is by far the largest social enterprise in Wales with a turnover of £623 million at end Financial Year 08, 28% of the total turnover of the sector. Many social housing providers are also large organisations and together contribute an estimated 26% of the total estimated turnover of the sector
- However, one third of social enterprises are very small, stating their annual turnover as less than £25,000. The median average turnover is estimated to be about £50,000. Interestingly, there do not appear to be any strong patterns between size of turnover and proportion of earned income.

3) The majority of Welsh social enterprises are involved in training and education (often for disadvantaged people); the arts and the Welsh language; social enterprise, voluntary sector or business support services; health and social care; and sports and leisure.

- Almost four in ten (37%) provide services for children and over a quarter work with elderly people. There is also a focus on people living in deprived areas.

- Larger organisations, with turnover in excess of £500,000, are more likely to be involved in housing (24%), healthcare (11%) and recycling (10%). Amongst the very largest social enterprises, those with turnovers in excess of £5m, 60% provide social housing, a quarter (27%) provide social care and 8% respectively provide education and arts provision.
- One in eight social enterprises targets employment opportunities to specific groups in the community. Amongst these organisations, a third provided job opportunities for those with disabilities and special needs and one in seven provided opportunities targeted at the long-term unemployed.

4) We estimate that social enterprises account for about 29,000 full-time jobs, 20,000 part-time jobs and 105,000 volunteering opportunities.

- In 2008, there were 1.35 million jobs in the Welsh economy. In broad comparison, this means that the social enterprise sector in Wales accounted for approximately 3.6% of jobs in Wales.
- About half the organisations engaged in social enterprise activity do not have full-time staff. Amongst those with full-time staff, only a quarter have more than ten full-time staff.

5) The South East of Wales, and Cardiff in particular, are home to larger social enterprises but there are more social enterprises per head in the rest of Wales.

- Cardiff contains 22% of large enterprises (more than £1 million annual turnover), but its share of small enterprises is much less – just over 6%. This is a similar pattern to other authorities in the South East.
- In the South East of Wales there are about 0.77 enterprises per thousand residents. In the rest of Wales there are almost twice as many – 1.39 per thousand residents. About two thirds (65%) of these can be classified as small enterprises with an annual turnover of less than £100,000. The comparable figure for South East Wales is only 44%.
- More than a third (36%) of social enterprises in Wales provide services within an area of ten miles, particularly smaller organisations. Just one in eight Welsh social enterprises said that they are providing services across Wales, and these are more likely to be larger organisations.

6) Over half (55%) the organisations interviewed said that they have made a surplus or profit in the last financial year, and about half of the organisations interviewed (48%) intend to increase their proportion of earned income in three years' time.

- In three years' time, 40% are aiming to be fully financially-sustainable compared to 28% today. The drive for this comes more strongly from organisations without charity status. Almost half (46%) this group are looking to achieve 100% earned income in three years.
- Embryonic, emerging and established social enterprises, on average, want to increase their earned income into the next 25% band e.g. those in the 25% to 49% want to move into the 50% to 74% band in the next three years. This means that many emerging social enterprises will become established.
- About 20% of the 'embryonic' group do not want to increase the proportion of earned income. At this level of analysis, the data suggests that this group includes those that really are 'embryonic', those that might benefit from including more earned income to become more sustainable but have no current plans, and those that have a low proportion of earned income as part of their sustainable funding strategy. This illustrates the fact that including embryonic social enterprises has picked up organisations that more properly belong to the third sector more broadly.
- Organisations with turnover in excess of £100k were more likely to say they had made a profit.
- Almost half the organisations conducting social enterprise activity in Wales are more than fifteen years old. The majority (59%) of these organisations have charitable status. This profile is changing: the majority (60%) of organisations under five years old do not have

charitable status. Data suggests that such organisations start-up as social enterprises, rather than being charities which diversify into a social enterprise strategy.

- New social enterprises can become relatively self-sufficient very quickly: in every age band category below, established social enterprise is the most common form of social enterprise.

7) More than two-thirds (68%) of survey respondents want to provide more or new services to the public sector, yet there are significant problems with awareness and contractual issues on both supply and demand sides.

- Contracted public services are an important source of income for some social enterprises, although not as important as the direct sale of products and services to individuals or other organisations. Nearly half (48%) of survey respondents earn all of their earned income from the direct sale of goods, products and services to individuals or organisations. The direct sale of goods and services is pervasive with 91% of social enterprises earning a proportion of their income from direct sales of their products and services to individuals or organisations as opposed to contracts and SLAs . This compares to 36% which earn a proportion of their income from government contracts and 26% which earn part of their income from Service Level Agreements.
- Some are finding the transition from grant funding to public procurement too quick and desire core grant funding during the transition period to enable them to build the capacity to bid on and win contracts.
- Public services demonstrate a willingness to grow social enterprises and a growing emphasis on giving social enterprises opportunities to thrive, yet nearly one in five respondents felt that the main challenge to their organisation providing public sector services was “lack of awareness and perception [from] public sector bodies”. Lack of awareness and misplaced perceptions of social enterprises was a strong theme running throughout the interviews.
- Other challenges to social enterprises seeking to supply services to the public sector include:
    - Perceived reluctance by local councils to contract for services that the council itself currently delivers.
    - The large scale of contracts, meaning that many social enterprises have to bid as sub-contractors, if at all.
    - Lack of recognition of the value of social benefit creation in tender specifications.
    - Late payment and lagging payment terms of public sector bodies.
- Fewer than 20% of organisations interviewed have registered with sell2wales to receive news about tender opportunities.
- Only one in ten are aware of the Opening Doors Charter, Welsh Assembly Government’s set of principles for SME (and social enterprise) friendly procurement.
- Value Wales, Welsh Assembly Government’s procurement improvement team, is playing a key role in facilitating social enterprise involvement in public procurement. A Value Wales representative reported that before the Opening Doors Charter £4bn worth and only 35% of contracts were awarded to Welsh firms compared to £4.5bn and 49% of contracts lately and social enterprises have had success in winning Welsh Assembly Government and local government contracts.
- Overall, there is a view that guidance is in place to ensure that procurement rules are friendly towards the third sector, including social enterprises, but more implementation of these guidelines is needed at the local level.

8) Social enterprises would like to see more assets transferred from public authorities to help generate income, increase their financial stability and to provide a community resource.

- 39% of social enterprises interviewed own freehold or long leases on property or land. Levels of ownership are likely to be higher if leases of less than 50 years are included.
- Property owners tend to be larger organisations and organisations whose main objectives included properties for rent such as housing associations or asset development for the benefit of the community such as development trusts.
- Social enterprises regard asset ownership positively, but interviewees' experience was that some local authorities are more positive and willing to transfer assets for community benefit than others. In the best case scenario, local authorities have been ambitious about transferring assets and supporting asset development for the benefit of the community.

9) Local councils were cited as the most common and most important source of business support, highlighting the importance of the relationship with the public sector to the work of social enterprises. Demands are for more tailored and specific professional support.

- Although local councils were cited as the most important source of business support, this is more likely to be signposting and information about funding and contract opportunities rather than structured business development and capacity-building support.
- The next most important support provider is the Wales Council for Voluntary Action (WCVA), along with County Voluntary Councils (CVCs) which exist to provide advice and information to local voluntary and community organisations. Support from WCVA is more in demand from those organisations registered as charities, and from 'embryonic' social enterprises.
- Communities First, the Welsh Assembly Government's flagship programme to improve the living conditions and prospects for people in the most disadvantaged communities across Wales, was a source of advice to 13% of respondents.
- Specialist social enterprise support providers were the other most common sources of business support, particularly the Wales Cooperative Centre (17%), Community Enterprise Wales (4%), DTA Wales (4%) and Social Firms Wales (2%).
- Business Eye and Business Connect, the main government business support programmes, were used by only 8% and 4% of respondents respectively. Their uptake tends to be more by the non-charity social enterprises – 57% of those citing Business Eye as a main source of support were not registered as a charity.
- Levels of satisfaction with business support is fairly high, with more than two-thirds either fairly satisfied or very satisfied, but concerns are that government business support does not take social enterprises seriously as businesses.
- There is demand for more development of the business support infrastructure for social enterprises – more independent, specialist support providers which know and understand social enterprise and business and which bring private sector skills to social enterprises.
- There is also some demand for peer-to-peer networking and mentoring; 7% of respondents source business advice and support from other social enterprises.
- Access to finance is by far the area in which most respondents would like to see additional advice and support; 44% of respondents cited this as a topic. Other areas where social enterprises are seeking more advice are business and strategic planning (18%), volunteering (15%), diversification of income streams (14%), partnership development (14%), and financial management (13%).
- Business support providers tend to regard the desires of social enterprises for business support as different to what they actually need. They see significant capacity gaps in the areas of management and marketing, which came very low down in the priority of areas where organisations themselves would like more advice.

- Larger organisations seek more business-related skills than smaller organisations, and organisations with higher proportions of earned income tended to have a higher demand for business planning and financial management skills.

10) Social enterprises feel that they can deliver innovation through their business model and greater connection with the community and service users, but feel stifled by public sector procurement approaches and lack of collaboration within the sector.

- At best, the entrepreneurial approach of social enterprises makes them more dynamic than other third sector organisations and they will enter areas where commercial business may not see opportunities.
- Lack of local authority understanding of and engagement with social enterprises was a major frustration.
- While being able to adapt and respond to new public service agendas, social enterprises can be frustrated by public sector contracts, rules and ways of working, and would like access to mainstream funds where they can deliver effectively against targets.
- Many social enterprises are not ready, or do not desire, to scale up. Nearly half of all organisations interviewed carry out their activities within a 20 mile radius, and with a key strength being responsiveness to local needs, the findings suggest that the majority of social enterprises in Wales will remain locally-focused.
- Replication offers a potential way to combine scaling-up with remaining locally-connected, and there are some emerging examples of this approach. Acquiring or working with and transforming local businesses into social enterprises is another innovative growth strategy being pursued by some social enterprises in Wales.
- Interviewees recognised the need for more collaboration and partnership to foster further innovation and development.

11) Organisations interviewed were overwhelmingly positive about their achievements, yet fewer than 40% said they had measures in place to assess their performance. Given the lack of systematic measurement of social impacts, it is not possible to assess the overall social, economic and environmental impact of the social enterprise sector in Wales beyond the headline data.

- The immediate focus for most social enterprises is establishing and running their day-to-day operations. There is insufficient monitoring, evaluation and communication of the “social impact” of social enterprises in a systematic way. This is an area where social enterprises needed to be challenged, encouraged and supported to improve.
- Larger organisations were more likely to have performance measurement systems in place. This reflects the fact that a certain level of resource – in terms of staff time, expertise and effort – is required to put in place measurement systems, which many smaller organisations do not have.
- The first step for many social enterprises interviewed is to gain a recognised quality standard as a way of demonstrating professionalism and organisational effectiveness. The most widespread quality marks gained by social enterprises interviewed are Investor in People and Green Dragon. Some social enterprises have also achieved ISO standards. These standards are recognised and valued by public sector buyers.
- Most social enterprises were familiar with different social performance measurement methods, such as social auditing and Social Return on Investment (SROI), but these methods are not yet widely implemented. Social auditing was used by nearly one in ten interviewees. Certain network bodies, such as Clych and Development Trust Wales, have led on promoting the use of social accounting and auditing methods.
- The most common method for measuring performance was to conduct surveys with service users as a way of getting client feedback on the quality and impact of their services. Such surveys are commonly used by housing associations among their tenants.

12) Respondents had positive views overall of the role and influence of Welsh Assembly Government. Views of local authorities were more mixed.

- The general view was that Welsh Assembly Government should help energise the sector and support its growth, particularly in the current economic climate.
- The main area in which respondents would like to see more focus by Welsh Assembly Government is funding, either direct funding or help with accessing funding. In all, 59% of interviewees mentioned funding in one way or another. Typically, social enterprises would like access to longer-term (at least three to five year) core funding to invest in building their operations rather than one-off funding for specific projects.
- Promoting, recognising and using social enterprises also comes high on the agenda on what interviewees would like Welsh Assembly Government to do more of. A lack of understanding about social enterprise is perceived as a barrier to growth and opportunities. A common request was that Welsh Assembly Government be more proactive in ensuring that local authorities recognize the value of social enterprises.
- All interviewees said that the term social enterprise is not widely understood within their organisation or within their communities, and all felt it would be helpful to their business if the term was more widely understood. However, many felt that there was no clear view of what it meant to be a social enterprise, even among social enterprises themselves. Market segmentation of social enterprises might be helpful in this regard.
- There was backing for the idea of Welsh Assembly Government funding a communications campaign. However, there were concerns about how this was designed and managed. Most felt that any communications campaign should be driven by social enterprises themselves. Social enterprises also underline the need to highlight practically what social enterprises can achieve in simple language.
- Generally, there was a sense that the Welsh Assembly Government was open, inclusive and good at listening. Leading social entrepreneurs felt that they did have the opportunity to participate with government in the review of relevant government strategies, and other larger social enterprise networks had similar experience through their specialist status.
- Larger organisations, in terms of turnover, had the most positive view of Welsh Assembly Government. The least positive opinion was among social enterprises that are 100% self-sustainable. Such enterprises tend to consider Welsh Assembly Government's view of social enterprise as too community-focused, and not sufficiently business minded. There was a view here that the social enterprise agenda was too much linked to the third sector agenda, and not sufficiently embedded across all of government policy.

Recommendations

For social enterprise to deliver on its promise there needs to be sustained political commitment and integrated government support at all levels. Social enterprise models are still at a very early stage of development. The report sets out our overall conclusions from the mapping study and the recommendations that emerge. These are summarized here and presented as a more detailed set of actions in the main report:

- ***Recommendation 1: Maintain and improve this information base on social enterprise activity.***
  A high quality and robust information platform could be a very important tool to increase knowledge of social enterprises, demand for their services and the supply of funds. We recommend a series of actions to ensure that this mapping study information creates a valuable baseline for the future development and performance assessment of social enterprise activity.
- ***Recommendation 2: Recognize the diversity of social enterprises in Wales and tailor support appropriately.***
  This mapping study underlines the diversity of the social enterprise sector in Wales. These organisations can be seen as part of one "sector" to the extent that they all have the social enterprise characteristics of enterprise orientation, social aims and social ownership. However, they differ tremendously in terms of their scale, business goals and

capability, culture, social aims and financing model. We believe that it is important for Welsh Assembly Government to use the data from this study to segment organisations in terms of their levels of earned income and desire to reach self-sustainability in order for Welsh Assembly Government to target communications in ways that make sense to the sector in terms of their own self-definition and aspirations. Additionally, Welsh Assembly Government and the social enterprise 'sector' would benefit from also analysing and segmenting social enterprise growth sectors and developing enabling environment and investment strategies for these sectors e.g. waste recycling, energy production, local food/organics, arts and culture. .

- ***Recommendation 3: Proactively engage local authorities in the social enterprise agenda.***
  Local authorities are core stakeholders in the development of the social enterprise sector, both as partners and buyers of services. There is good practice where local authorities work with social enterprises, but this needs to be mainstreamed. Effective ways of sharing knowledge of good practice and raising awareness among local government officers of social enterprises and their roles in the community and local economy need to be developed. This includes raising the awareness of social enterprises among all procurement departments, developing the capacity of social enterprises to be able to procure public contracts and building partnerships between the two.

- ***Recommendation 4: Ensure business support is tailored to the needs of different types of social enterprises and focuses on developing them as sustainable businesses.***
  More support is required for helping social enterprises develop as sustainable businesses. Most are good at the "social" aspects of what they do, but far fewer are run as effective and viable businesses. Many social enterprises and network bodies are under-equipped with relevant human capacity to deal with building viable businesses. The findings from this mapping study suggest some areas where there is a need for more focused support and new delivery strategies, which are specified in the final section.

- ***Recommendation 5: Consider a greater focus and potentially direct funding to support the development of sustainable social finance providers to support the growth of sustainable social enterprises in Wales.***
  A finance infrastructure needs to be supported that provides a structured investment mix moving from grants to soft to commercial loan and equity-like finance tailored to the financing and development needs of social enterprises. There is also a need to develop the financial management knowledge and capability of social enterprises. Such knowledge would help increase the investment readiness of social enterprises and demand for existing non-grant funds.

- **Recommendation 6: Invest in improving the performance monitoring and transparency of social enterprises.**
  Measurement of the performance and impacts of social enterprise is weak. The findings suggest that many social enterprises do not yet have the institutional capacity to design and implement effective and robust social performance monitoring and management systems. This is an area where government support and coordination among social enterprises and support bodies is needed to develop methods and information systems for performance data sharing.

- **Recommendation 7: Support a major awareness and marketing campaign (s) for social enterprises that reaches out to the broader public.**
  The challenge with communications is to ensure social enterprises become better known among the general public and business community in Wales, not just those already in the sector, so demand for their goods and services increases. There is a strong demand for an awareness-raising campaign that is led by the social enterprise sector itself. Any campaign should be tailored to communicate the fundamental values and differences of social enterprises.