

Are social enterprises more resilient in times of limited resources?



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Abstract

This study examined the growth and development of a sample of 153 social enterprises. The social entrepreneurs in this study were all alumni of the School for Social Entrepreneurs (SSE), a charity that helps social entrepreneurs develop through an intensive year-long programme. The mixed-methodological approach comprised both semi-structured interviews (n=6) and a structured questionnaire (n=153). Thematic analysis of the interviews and analysis of the survey suggests that social enterprises have particular unique advantages compared to both traditional businesses and charities. Results showed that the social enterprises were, on average, more likely to survive than the average UK business and had a much different pattern of growth. Social enterprises also have a diverse mix of funding compared to charities—which seems to make them more sustainable. Results also showed that the social enterprises are having a strong social impact. This suggests that social enterprises can provide a more resilient funding structure in times of limited resources, at the same time as achieving their social mission.

Introduction

Social enterprises are defined as organisations that trade in order to achieve a social and/or environmental mission, whose surpluses are principally reinvested for that purpose in the business or in the community.¹

There is still uncertainty as to what constitutes a social enterprise, reflected in the fact that estimates of their numbers range from 16,000 to 234,000.² Some social enterprises are more similar to traditional charities but may have a commercial income revenue stream, while others are a lot more like traditional businesses but with a specific social aim or mission. This heterogeneity makes it difficult to catalogue the unique benefits of social enterprises. However, despite this range in social enterprises' remit, they do seem to have common attributes and common advantages over both businesses and traditional charities.

A study by the Third Sector Research Centre looked at the hybrid nature of social enterprises. Specifically the study observed how 'social enterprises can exhibit multiple faces to different stakeholders in order to access resources'. It seems that this specific 'hybrid nature' of social enterprises—characterised by a mix of goals and funding sources is an important strategy of social enterprises.³

The fact that social enterprises can tap into multiple sources of income seems to offer them advantages over traditional charities and thus allows them to grow more rapidly and in a more sustainable way. This blended resource structure has been observed in a number of studies looking at social enterprise. For, example the State of Social Enterprise Survey in 2009 found that while the majority of organisations' income came from trading (of which 39% were public sector contracts), a quarter also relied on non-trading funds.⁴

These unique attributes rightly suggest that social enterprises might be more resilient in times of limited funding. Until now there has not been enough funding pressure to test this theory. However, the recent economic downturn gives this opportunity. According to the Charity Commission's 4th Economic Survey of Charities⁵, 59% say they were affected by the economic downturn and 62% say they have experienced reductions in funding. This contrasts to the experiences of social enterprises—since the economic downturn began, 56% of social enterprises have increased their turnover from the previous year whilst less than 20% have seen it go down. This is also considerably better performance than Small to Medium Enterprises in the UK, where only 28% increased their turnover and 43% saw it go down.⁶

However, there are still a number of questions remaining about these possible advantages. Firstly there is a concern that such findings are being affected by the small number of extremely large social enterprises. For example, the State of Social Enterprise Survey 2009 observed that social enterprises appear to be more profitable, less grant dependent and faster growing once they reach a £1 million turnover. Additionally, there is still some uncertainty whether a focus on commercial incomes risks the social mission of the organisation.⁷

This current research may throw some light on these issues. First of all, we found evidence to suggest that the organisations were less affected by the recession—three quarters of graduates had seen their organisations grow since 2010. Secondly, results showed that social

¹ See for example: <http://www.socialenterprise.org.uk/pages/about-social-enterprise.html>;
<http://www.bssec.org.uk/socialenterprise.html>

² Third Sector Research Sector: Working Paper: Approaches to measuring the scale of the social enterprise sector in the UK.

³ TSRC: The contradictory faces of social enterprise: impression management as (social) entrepreneurial behaviour

⁴ *State of Social Enterprise Survey 2009*, Social Enterprise Coalition

⁵ Charity Commission (2010): Charities and the economic downturn. 4th Economic survey of Charities

⁶ IFF Research, 2009, BERR SME Business Barometer. February 2009, Department for Business, Enterprise and Regulatory Reforms (BERR)

⁷ Harvard Business Review: Should non-profits seek profits? February 2005

enterprises were 40% more likely to survive for 5 years than traditional businesses. Furthermore, the organisations had all experienced fast-growth—at an average rate of 17% a year. Additionally, the average turnover of these organisations was just under £60,000. This suggests that even smaller social enterprises can achieve rapid growth.

The reasons behind this resilience seems to involve social enterprises' ability to draw in diversified funding and their ability to rely on volunteers as well as staff. We also found evidence to support the strength of the social enterprise's social impact—growth in funding corresponded to growth in the number of beneficiaries helped. Additionally, with post-code data we were able to show that the organisations are working in the most deprived neighbourhoods of the UK. This seems to refute the theory of 'mission drift'.

With a proposed £81 billion of cuts to public spending from 2011 to 2015⁸, findings such as these are highly relevant to understand how the sector as a whole can draw on its unique resources to become more adaptive, more resilient and thus more sustainable.

⁸ See NPC's blog entry on October 22nd 2010: <http://newphilanthropycapital.wordpress.com/>
⁸ <http://www.statistics.gov.uk/cci/nugget.asp?id=192>

Method

The social entrepreneurs in this study were all alumni of the School for Social Entrepreneurs (SSE), a charity that helps social entrepreneurs develop through an intensive year-long programme. The methodology started with a review of existing research in the area. Semi-structured interviews were then carried out with six SSE graduates to produce case-studies. This helped us understand the type of growth and development that organisations had gone through since being set up. An online survey was then sent out to all alumni (n=550) of the SSE to capture quantitative data on this impact.

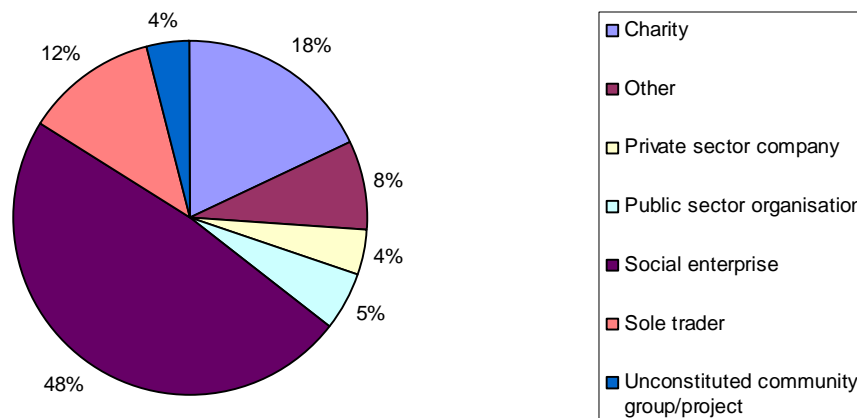
Participants

At the time of this research (September 2010), there were 550 alumni of the SSE. These alumni ranged from those who graduated in 1998 to the most recent who graduated in 2010. 160 of these graduates responded to our online survey. The majority of respondents (42%) were from the most recent cohort of graduates, 36% graduated between 2006 and 2009 and 22% graduated between the years of 1998 and 2005. Graduates were for the most part based in London (62%) with the rest being based in Liverpool (8%), Yorkshire (9%), Cornwall (6%), Fife (7%) and the East Midlands (7%). The majority of graduates (58%) were between the ages of 30 and 49 when they graduated from the SSE. 40% of the respondents to the survey were male and 60% were female.

The organisations

We asked respondents to select a category that best described their organisation. The majority (48%) described themselves as social enterprises. A substantial proportion selected charity (18%) and the remainder came from a combination of sole traders, community groups, public sector organisations and private sector companies. This heterogeneity reflects the fact that not all organisations who use social enterprise approaches consider themselves to be social enterprises. This breakdown is shown in figure 1 below.

Figure 1: how the organisations in this sample describe themselves.



Semi Structured interviews

Six semi-structured interviews were carried out to inform the design of the survey and to provide concrete examples illustrating the development of the social enterprises. These interviews were carried out with six SSE graduates working in a range of fields and locations and from a spread of years (from the first year of graduates to more recent years).

Survey

The survey was drawn up following a thematic analysis of the case studies. The survey contained 66 questions: 11 of these were open ended while the remainder were closed. The survey was e-mailed to all alumni of the SSE in September 2010. The survey was left open for two and a half weeks and one e-mail reminder was sent during this time. There were 160 survey responses, giving an overall response rate of 30%. Seven respondents, however, were removed from the sample due to completing less than half of the questions, giving a final response rate of completed entries of 28%.

The survey data was analysed to look at the growth and development of organisations, examine their turnover and funding sources and to map the social and community impact of organisations.

Results and discussion

Survival of social enterprises

Survival of the social enterprises surveyed compare very favourably to survival rates of UK businesses. On average, after five years of existence, 47% of new businesses survive compared to 66% of the social enterprises in this sample. This means that, on average, the social enterprises are 20% more likely to survive for five years than a typical UK business.

Table 1: Survival rates of SSE organisations compared to average survival rates for UK Businesses

Age	Survival rates of SSE organisations	Survival rates of UK businesses
5 years old or older	66%	47%
4 years old	75%	55%
3 years old	83%	65%
2 years old	93%	81%
1 years old	100%	96%

Growth in turnover

The social enterprises surveyed had an average turnover of £59,782 last year ⁹.

To understand growth, we looked at all organisations excluding those set up in 2010 (who would not have experienced growth yet). The table below shows their turnover at year of graduation (year 1) and turnover last year.

Table 2: Growth in turnover by year set up

Year	Average turnover at year 1	Average turnover last year	Average yearly increase in turnover per organisation
1998-2005	£37,364	£181,955	£17,358
2006	£45,334	£116,668	£17,833
2007	£31,000	£74,604	£14,535
2008	£16,308	£57,446	£20,569
2009	£4,500	£10,000	£5,800

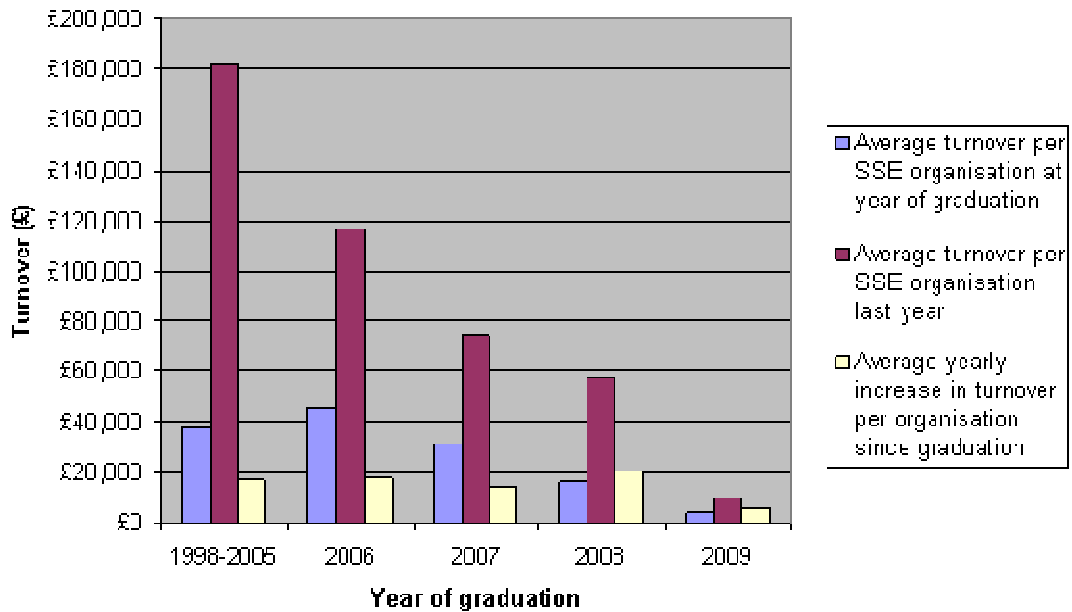
This shows that, on average, turnover has increased by £15,219 each year for all the organisations. That translates to an average growth rate of 17% each year. This is striking as it is well above the average growth rate for small to medium business (6%)¹⁰ and is very close to the 20% threshold to be considered a fast-growth firm by the ONS business structure database¹¹.

⁹ Response rate: 82

¹⁰ HP SMB Index (2011)

¹¹ NESTA (2009). Measuring Business Growth. High growth firms and their contribution to employment in the UK.

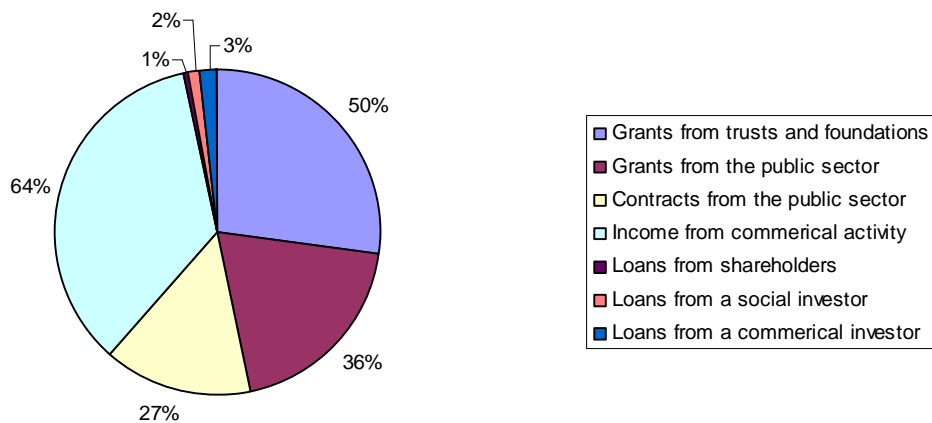
Figure 1: Growth in turnover by year of graduation



Sources of funding

We asked the organisations to select their most common sources of income. Results show that the organisations have a diversified funding model. The majority of respondents selected commercial income (64%). However, 50% also selected grants from trusts and foundations, 36% selected grants from the public sector and 27% contracts from the public sector. The figure below illustrates this diversified mix of funding for the organisations.

Figure 5: income sources of the organisations



Number of staff and volunteers recruited

The social enterprises have recruited a total of 433 full-time equivalent staff since graduating. On average, they have taken on one full-time¹² and two part-time¹³ members of staff.¹⁴ The total number of volunteers recruited is 4,172.¹⁵ This is an average of ten¹⁶ volunteers per organisation, which is more than double the number of staff recruited per organisation.

Social impact

The study also looked at the level of social impact created by the organisations.

The survey asked respondents to estimate the number of beneficiaries the organisations reached in the last year. The organisations work with an average of 585 beneficiaries each.¹⁷ This has risen from 255 beneficiaries worked with in their first year of operating.¹⁸ In other words, they are working with just over double the amount of beneficiaries today than in the first year of operating.

The organisations are also working on a broad range of issues. We asked the social enterprises to select different outcomes they achieve for their beneficiaries.

A large proportion selected outcomes relating to supporting young people (64%), education or training (56%), educational attainment (36%) or employment (46%). Over half of the organisations also selected outcomes related to social exclusion and community cohesion, such as providing access to services (64%), helping excluded groups integrate (63%), and improving relationships in their local community (51%). Around a third help people with mental health difficulties and just under a third help disabled people.

We also wanted to examine whether the social enterprises were working in deprived areas. We asked the social enterprises to provide post-codes of the area they work in. From this we matched post-codes to local authorities' rankings in the indices of multiple deprivation. This analysis showed that 70% of the organisations were working in the 20% most deprived local authorities of the UK. These findings suggest that the organisations are achieving their social aims as well as engaging in commercial activity.

¹² Response rate: 69

¹³ Response rate: 69

¹⁴ Calculated with outliers removed

¹⁵ Response rate: 97

¹⁶ Calculated with outliers removed

¹⁷ Response rate: 70. This has been calculated with outlier removed.

¹⁸ Response rate: 72. This has been calculated with outlier removed.

Conclusion

This study contains some interesting lessons for business, charities and social enterprises alike. However, we must be cautious in interpreting results as the sample of social enterprises have been drawn from a very specific group—all respondents are graduates of the School for Social Entrepreneurs and have thus been through a special package of support. Therefore, the study may not be representative of the social enterprise sector as a whole but nevertheless allows us to make some interesting observations. Firstly, the fact that the social enterprises were more likely to survive than the average UK business suggests that they offer a more sustainable model.

The organisations also had a very high average annual growth rates compared to the average business. Organisations even reported growth throughout 2009, suggesting they were unaffected by the recession. Again, this supports the idea that they are more resilient and sustainable than the average business or charity.

This increased sustainability could be explained by the fact that social enterprises can rely on a number of different funding streams—commercial income as well as grants and contracts. For example, in this sample, although commercial income was the largest source of income, only 22% of organisations relied solely on it. Of those who said that commercial income was their largest source, 44% had grants from the public sector, 36% had grants from trusts and foundations and 26% had income from public sector contracts.

The social enterprises also have the ability to rely on a large pool of volunteers—this sample had an average of 10 volunteers per organisation. This gives the organisations a pool of flexible resources to draw from in times of tight funding.

Overall it seems that the flexibility of the social enterprises' funding and the ability to earn both commercial income while still retaining some of the benefits of charities—such as receiving grants and being able to recruit volunteers—acts as a type of stabiliser to the organisations when funding is under threat. This is a very interesting observation for charities wishing to become more resilient and for businesses who are considering a social enterprise approach.