

# **SUPPLY CHAINS FOR SOCIAL IMPACT:**

An Examination of Social Enterprise to Business Trade in  
the United Kingdom

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## EXECUTIVE SUMMARY

Recent developments in the United Kingdom have presented significant opportunities for growth in the country's social enterprise (SE) sector. At the same time, private sector interest in social responsibility is growing and becoming more nuanced. One arena in which these two phenomena converge is social enterprise-to-business trade, or SE2B. While theory largely accepts the premise of SE2B trade, what is the extent to which such trade is possible? Can it provide a new or increasing source of revenue for the growing SE sector in the UK? What are its challenges, and how can effective SE2B trade reach its potential?

There are rich theoretical underpinnings for the case for increased SE2B trade. From the SE perspective there is a strong case for both the feasibility of increasing SE2B trade as well as the benefits for SEs of doing so, including diversified revenue streams. Private corporations could find SE2B trade attractive for a diverse set of reasons, both moral and instrumental, and could be pushed in this direction by a wide array of internal and external actors who themselves have various motivations. Increased SE2B trade also fits in well with the UK government's longstanding support for SEs and could prove particularly important during a period of austerity.

While data is limited, additional analysis of the UK Department of Business, Innovation, and Skills' *Social Enterprise Barometer, 2010* reveals:

- 39% of SEs conduct some trade with the private sector, while 7% of SEs traded only with the private sector
- SE2B appeared most prominently among SEs in manufacturing/engineering, retail/wholesale, construction, and social work
- SEs that engaged in SE2B had 25% higher turnover than those with no business trade
- SEs engaging in SE2B trade deemed external finance to be less important relative to other SEs
- SE2B trade may be associated with a smaller employee base relative to other SEs
- SEs that traded with businesses tended to be more optimistic about their performance in the future

SE2B trade was estimated to be responsible for at least £2.57 billion in turnover for SEs in 2010, an estimated 13% of the total SE turnover. In the next ten years, SE2B trade is projected to grow by at least £602 million. However, growth could exceed this projection given that:

- Growth is likely in key SE2B industries
- The small share of current SE2B trade, combined with business optimism, indicates that trade is nascent and will mature over time
- Growing interest in social responsibility in the private sector may accelerate SE2B trade

Thus, the potential opportunity is likely to be much larger than this projection, representing a significant opportunity for social enterprises to increase and diversify their revenue, and for corporates to increase their social impact.

Several case studies revealed that SEs feel that they primarily compete for contracts with the private sector based foremost on standard business needs, including price and quality—they compete as any other firm would. Many SEs reported an entrepreneurial approach to winning business with corporates, often through informal networks rather than formal procurement procedures. Corporates, on the other hand, appear to be somewhat motivated to engage in SE2B trade for its social responsibility merits without compromising on quality. Scale, tenure, and footprint were all mentioned as potential barriers to widespread SE2B trade. More qualitative research needs to be done to systematically understand the complex dynamics of SE2B trade.

SEs and firms can engage in SE2B based on a variety of justifications ranging from standard business reasons, maximizing social impact, or creating shared value partnerships. Current research reveals that perhaps most SE2B relationships are based in impact sourcing—a combination of good SE fundamentals and corporate interest in mutually beneficial trade relationships for social impact. To catalyze this form of trade, a number of tools can be employed. Top-line possibilities include:

- For SEs: focus on core business competencies and offer trial programs to large corporates in order to get over the ‘too little history in the market’ hurdle.
- For corporates: Create SE-friendly procurement policies, including simple identification of SEs, to fully understand the opportunities for impact sourcing.

- For government: implement measures to facilitate increased capital flows to SE2B-oriented SEs.
- For trade associations, NGOs, and others: Create programs to increase interactions between SEs and private sector firms as a first step.

SE2B is a nascent form of trade, but it has a high degree of potential. Social enterprises and corporates alike may benefit, and social impact could be increased. Further work must be done to fully understand the extent of SE2B trade, its characteristics, and its growth, but this preliminary analysis suggests that the possibilities of the trade type merit further exploration, and that SE2B trade should be encouraged.

## INTRODUCTION

The social enterprise (SE) space in general and SE2B in particular is an interesting area to discuss at this point in time in the UK: SEs are receiving significant attention, and the number of firms has grown significantly over the last decade. Meanwhile, spending on public services is decreasing in the fiscally constrained public sector. Private sector social responsibility initiatives are increasing in size and complexity. What might these three facts mean for the future of social enterprise and social impact?

One answer may lie in social enterprise-to-business (SE2B) trade, transactions between SEs and private sector firms. SE2B stands as one form of business-to-business trade for private sector firms, while offering a different revenue stream for SEs apart from public sector or direct consumer trade, the primary revenue sources of the sector. Thus, SE2B trade represents a potential to increase or diversify the revenue streams for SEs, while providing associated social impact for the private sector.

However, in order to fully understand the potential of SE2B trade within the UK, a number of factors must be examined. First, is there a theoretical and business case for significant SE2B trade in the UK? If so, what sorts of SE2B trade exist, and what are their justifications? Second, what is known about the nature or extent of SE2B trade in the market currently? What are the opportunities and constraints? And finally, if SE2B trade is deemed to be a useful tool for both SEs and private firms, what can be done among relevant actors to promote such trade and address its barriers?

To examine this question, the following sections examine the relevant theory and research, propose a framework for understanding such trade, and analyze available quantitative and qualitative data. A final section delineates the web of opportunities and tools available to catalyze SE2B in the United Kingdom, as well as address some of the constraints revealed in the analyses.

In many ways, the full impact of SEs on the economy, as well as the varied results of social responsibility initiatives among private firms, is not yet fully measured or understood. Thus, understanding SE2B, an intersection of these two topics, is somewhat constrained. However, this paper is designed to offer a survey of the possibilities by reporting what is known, analyzing available data, and providing logical projections where possible, and delineating the bounds of such trade. Further examination, including the procurement of robust

datasets, is necessary in order to fully understand the challenges and opportunities of SE2B trade. In the meantime, the following document may serve as a guide and roadmap for what is known, what is not known, and what is suspected about the relationships between social enterprises and their trading partners.

### Defining social enterprises

Although the term 'social enterprise' (SE) has increasingly been in vogue, there remains much debate about the precise definition and nature of a SE. As Leon and Sepulveda (2009) argue that there are multiple definitions of SEs, and their interpretations are politically driven. This lack of clarity has been exacerbated as researchers attempt to come to terms with the growth of organizations marrying philanthropy with business models as well as building hybrid organizational forms.

The UK government has adopted a broad definition 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 profit for shareholders or owners' (Department of Business, Innovation and Skills, 2011).

The UK government's general definition, by its broad nature, was judged to be non-ideal for the purposes of this PAE. Rather, the PAE utilizes the more specific definition used by the UK government's Department of Business, Innovation and Skills (BIS) in their 2010 Social Enterprise Barometer study. This allows for the definition to be more bounded while also being congruent with the definition used in several key studies such as annual reports by Social Enterprise UK (SEUK). This definition states that SEs attributes include:

- The objectives of the business are primarily social and/or environmental
- The business does not distribute more than 50% of profits to its owners
- Surpluses are reinvested either in the business or its community
- 25% or more of income is attributable to trading of goods and services
- Less than 75% of turnover is derived from grants or charitable contributions

Unless otherwise specified, these criteria have been used to identify SEs in all subsequent data analyses and discussions.

However, even this definition has some weaknesses, most notably the arbitrary nature of the cut-off criteria for proportion of income from trade. Leon and Sepulveda (2009) point out that the arbitrary cut-off could exclude those organizations aiming to increase social enterprise activity as well as large organizations that make a considerable contribution to the social enterprise sector but whose proportion of trading income is still small.

### **A case for SE2B trade**

According to a survey by SEUK (*Fightback Britain – A report on the State of Social Enterprise Survey, 2011*), while 44% of their SE membership earned income from trading with the private sector, only 13% reported that trade with the private sector was their main source of income. Meanwhile, 37% reported trade with the general public as their main source of income while 18% reported that it was the public sector. This statistic, coupled with the fact that SEUK also found that 68% of SEs were earning 75% of their income through trading, indicates that while SEs are clearly reliant on trade for their income, their engagement with the private sector remains low. SEUK's findings are further corroborated by statements from actors such as Rodney Schwarz, Chief Executive of ClearlySo, who recently suggested that (2012), "Not only do corporations have abundant financial resources, but there is much more that they can offer to the nascent social economy."

A large part of the motivation for this report is the sense that increased trade by SEs with the private sector would not only be beneficial to the SEs themselves—in terms of increasing turnover, social impact and sustainability—but would also be in the interest of private sector organizations. In the UK context, we also find that such an increase is likely to conform to longstanding government policy.

## SECTION I. THEORETICAL UNDERPINNINGS FOR SE2B TRADE

The case for increasing SE2B trade appears to be compelling for multiple reasons that are complex and interrelated. There are three main unique lenses through which the theoretical case for increased SE2B trade can be viewed. The case **through the SE lens** discusses issues such as the ability to balance multiple imperatives, the ability of SEs to successfully engage in SE2B trade and the benefits of SE2B in terms of limiting revenue volatility. The case **through the corporate lens** looks at the moral case for SE2B, the different internal and external pressures on corporations driving SE2B and the opportunity for corporations to amplify their CSR impact by engaging in SE2B. Finally, the case **through the government lens** touches upon successive UK governments' policy of support for social enterprises in general, the Big Society idea of the current coalition government in particular, and the public policy case for SE2B at a time of government austerity.

### The case through the SE lens

It is conceivable that the idea of SEs trading with the private sector might strike some as odd and even problematic. Indeed, some authors such as Teasdale (2012) highlight the potential conflict between the commercial imperatives of a SE and its stated social mission. One might argue that SE2B sharpens the potential for this conflict as SEs are increasingly forced to conform to the standards and requests of private sector profit driven clients.

However, it is this PAE's contention that it is possible for SEs to successfully balance these imperatives and that, in many ways, integrating themselves into private sector supply chains is a natural and even desirable evolution for SEs.

This line of thinking follows the same vein as authors such as Ruebottom (2011) who argues for keeping our definitions of both social enterprises as well as their success open. She notes that social enterprises already often balance multiple competing goals and that there is a certain fallacy to the idea of social enterprises as unitary mission driven organizations. There is political contestation within social enterprises among the various stakeholders involved with the SE, which drives and shapes multiple goals for the SE. From this perspective, how success and failure is defined is based on assumptions about the value of social enterprise and the nature of social change. It is therefore not necessary for us to rule out the possibility that SEs could indeed 'successfully' balance multiple imperatives.

Further support for the evolution of SEs along a trajectory of greater engagement with the private sector comes from Williams and Nadin (2011) who argue that there does not exist a

strong dichotomy between social and commercial entrepreneurship as previously assumed. They find that entrepreneurs simultaneously pursue both social as well as commercial goals and that the difference is better characterized as a continuum ranging from purely social to purely commercial, rather than as a strict dichotomy. Moreover, the entrepreneurs' goals and motivations do not necessarily remain static over time but evolve along this continuum. 40% of entrepreneurs they interviewed reported that their logic had changed since they had started out in entrepreneurship. If indeed, as contended by Williams and Nadin, there is not such a strong dichotomy between the commercial and social entrepreneur, then it is easier to conceive of a social entrepreneur who is better able to operate and be successful in both spheres.

The potential efficacy of SEs in their engagements with the private sector is also bolstered by recent research indicating that in contrast to some perceptions, social enterprises are often not simply 'value led' (Chapman et al. 2007). Rather they are often simultaneously 'market driven' as well as 'value led'.

In a more instrumental vein, Froelich (1999) postulates that relative to government funding and private contributions, commercial activity offers: moderate revenue volatility; least amount of 'goal displacement'; rationalization of processes; and professionalized business forms. Froelich's case for increased revenue through trade per se for non-profit organizations in general encapsulates well the rationale for increased SE2B with a view to increasing trade revenue from the private sector.

Despite these arguments for greater engagement of SEs in private sector trade, it is important to remain cognizant of the challenges that could accompany this trajectory. In addition to the potential conflicting of social and commercial imperatives discussed earlier, Middleton (2010) draws our attention to a more practical challenge that SEs might face. Middleton discusses how SEs seeking to measure their social impact would likely to have purchase a Social Return on Investment (SROI) analysis and compares this to potential private sector competitors of the SE who would either not have to make the same purchase, as they are not as concerned about their social impact, or would have sufficient resources to purchase the SROI without having to change their operations. This example is helpful as being illustrative of the potential additional 'burdens' that a SE might have to carry vis-à-vis a traditional private sector player, which might make them less competitive as they seek to engage in greater SE2B trade. Other potential obstacles to successful engagement will be discussed more thoroughly in the following sections.

### The case through the corporate lens

The case for greater SE2B through the corporate or private sector lens can be built along two tracks. The first being the societal view of the private sector and their appropriate place within society, and the second being the private sector's own view of their place and value proposition within society.

The first track could also be characterized as the 'moral' argument and is put forward forcefully by Wettstein (2010). Wettstein posits that the influence and position of corporations have changed dramatically over the last several decades. One of the most notable ways in which this change has manifested itself is the vastly increased de-facto political power that corporations wield today. A second but related change has been the granting of 'personhood' rights such as freedom of speech, to corporations. Wettstein argues that these changes must be accompanied by a change in the moral responsibilities and duties of corporations. Most importantly, corporations can no longer view their moral obligations as fulfilled once they comply with the 'do no harm' edict. Rather, the corporations of today, by virtue of their power and position within society have positive duties towards the communities in which they operate.

This is a moral argument which strongly supports the case for increased SE2B trade, as SE2B is an ideal way in which private sector organizations can move beyond the 'do no harm' stance and instead create positive social impact through their operations.

The second track - that of corporations viewing their own place and value proposition within society - also has a moral analogue to the Wettstein argument discussed above. One of the best known proponents of this argument is Michael Porter (2012). Porter observes that capitalism in general is moving towards what he terms the "creation of shared value...which involves creating economic value in a way which also creates value for society by addressing its needs and challenges". He identifies as a main driver for this move the fact that CEOs themselves are grappling with the meaningfulness of their enterprises. They grapple with it not just as a temporary response to a crisis of legitimacy of capitalism, but rather as part of a permanent shift towards the pursuit of Higher Profits, that is, profit that also produces positive social change. Porter argues that this transformed capitalism would be characterized by financial markets that reward companies for doing just that i.e. pursuing the Higher Profit.

Porter believes that legitimacy of capitalism is at an all time low and that this crisis of legitimacy has made his vision of a transformed capitalism something of a necessity. Not only is society at large questioning the legitimacy of the capitalism of old, but CEOs and employees themselves have found business as usual to become less satisfying. This “crisis of purpose” within the mainstream business community is the driver of change which Porter argues will deliver a fundamentally transformed capitalism.

If Porter is indeed correct about the crises of purpose and legitimacy within the mainstream business community, then SE2B could provide an ideal route to Creating Shared Value (CSV). SE2B holds the potential for collaborations between SEs and private sector organizations that create new products and services which generate profits, consumer value and social impact simultaneously.

Panwar and Hansen (2009), on the other hand, identify the main drivers for greater social responsibility by private sector organizations as lying outside the organization rather than in a ‘crisis of purpose’ within the organization. They cite increased stakeholder expectations from business as the cause of greater attention to CSR. These higher expectations have been attributed to a backlash from corporate scandals, awareness of environmental degradation, increased awareness about the negative social impact of some supply chains, and a broader shift in societal values from property rights towards human rights.

A multi-level theoretical framework which accommodates both the internal as well as external pressures for greater social responsibility by private sector organizations is provided by Aguilera et al. (2007). They posit that corporations are being pressured by internal and external actors to engage in CSR actions to meet rapidly changing expectations about business and its social responsibilities. Employees, short-term shareholders, long-term owners, organizational actors (managers) and consumers all exert pressure on the organization, driven by three main categories of motivations. Aguilera et al. classify these motivations as either: instrumental (for example, short-term shareholders believing it will boost the company’s performance); social legitimacy (managers pushing for CSR in order to emulate and be accepted by their peers); or moral (consumers wanting the organization to become more socially responsible because they deem it to be a moral imperative). While Aguilera et al. are cognizant of the fact that some companies engage in CSR merely for what they term ‘window dressing’, they also point out the complex and multiple drivers which could lead to meaningful improvements in the level and manner in which corporations respond to their social responsibility.

The 'instrumental' motivation, as classified by Aguilera et al., is something that has received particular attention in the literature, especially with a view to the idea that socially responsible actions can actually increase a company's profitability or competitiveness. However, Austin and Seitanidi (2012) report that reviews of this literature over the past decade fail to produce conclusive evidence in either direction on this question of a link between economic and social value, although the most comprehensive meta-analysis of 52 studies with a sample size of 33,878 observations by Orlitzky et al. (2003) found a positive association.

The lack of conclusive proof as to the lack of a clear profit maximizing rationale for corporate socially responsible behavior need not be cause for too much concern. This is largely because organizations are often times motivated by multiple and complex imperatives to act in socially responsible ways. One of the earlier analyses of 'instrumental' motivation for socially responsible action is presented by Buehler & Shetty (1974) who studied the motivations of 144 corporations for socially responsible action, including in 'urban affairs' which contained fostering economic development and minority owned business. Buehler & Shetty find 'enlightened self-interest' to be the strongest motivator. For 'urban affairs' specifically, the ranking in order of importance was as follows: enlightened self-interest, legal compliance, image creation, profit and finally forestalling violence. They argue that businessmen obviously believe that the future of their enterprise might be jeopardized by any further deterioration of the social condition. Their data also supports the notion that organizational motivations for supporting corporate social performance are more generally multiple rather than single. These findings by Buehler and Shetty would lend weight to the prospect of increased SE2B even if it did not necessarily provide companies with immediate financial benefits.

Foreman (2011) focuses on the 'instrumental' value for companies of engaging in CSR within buyer-supplier relationships in particular. He finds that, within the scope of his study, the cost of CSR could be high with no immediate financial payoff and that there was little to no hard evidence that CSR increases profits. However, Foreman also states that social responsibility could be an important part of corporate strategy in the context of adding value through managing the image of the firm. He also notes that a majority of researchers take the view that CSR increases performance in terms of customer and consumer linkages along with additional benefits such as increased employee and stakeholder commitment. It would appear that while the 'instrumental' value of CSR within buyer-supplier relationships

might not be strong in terms of pure profits, there are other related but intangible benefits which could motivate CSR in this realm.

An additional interesting finding from Foreman (2011) is that many companies that have strong CSR targets and ambitions for themselves, do not demand the same behavior from their suppliers. Nevertheless, he does note that numerous companies were increasingly deciding to source from suppliers who are required to report on their level of social responsibility.

This trend of greater awareness of the benefits of, and need for, social responsibility to permeate through the supply chain points towards a clear rationale for a greater level of SE2B. SE2B could allow companies to ensure that social responsibility standards that they set for themselves are not only reflected throughout their supply chain, but are amplified through their sourcing decisions.

It is also important to note the main source of intellectual opposition to the idea that companies should engage in CSR related activities above and beyond their normal profit-maximizing operations. The source of this opposition is located by some writers in the tradition of neo-classical economics. Artz et al. (2012) explain that neo-classical economists would consider such acts of social responsibility as being 'inefficient'. They would contend that it would be better for the company and its managers to focus only on increasing investor returns. This would allow the individual investors themselves to give back to society in whichever way they saw best, without having to encounter a principle-agent problem which could be associated with CSR in companies.

### **The case through the government lens**

The UK government has long supported the growth of social enterprises in the UK, seeing their social value as something that merited government support and resources. Prime Minister Tony Blair setup a Social Enterprise Unit within the UK Department of Trade and Industry in 2001 (The Institute for Social Entrepreneurs, 2008). In 2006, the functions of this Unit were incorporated into the Office of the Third Sector (OTS). In recognition of the important role that the third sector played in the UK, OTS was placed within the Cabinet Office itself (Office of the Third Sector Advisory Board, 2009).

This support has been continued by the new Coalition government. The coalition agreement between the Conservatives and the Liberal Democrats (2010) highlights the important role that social enterprises could play in British society and pledges to "...support the creation

and expansion of mutual, co-operatives, charities and social enterprises, and enable these groups to have much greater involvement in the running of public services”.

The same document pledges the creation of a ‘Big Society Bank’ which is representative of the broader idea of a ‘Big Society’. This idea is described by the cabinet office website (Big Society FAQs and useful links, 2013) as being about “...shifting the culture – from government action to local action...about equipping people and organizations with the power and resources they need to make a real difference in their communities.” Big Society Bank has now evolved into Big Society Capital, which has a mission to “...act as a social investment wholesaler and to promote and develop social investment and the social investment market in the UK.”

A more robust exposition of the market ideals behind the Big Society idea is provided by one of its leading proponents Phillip Blond. Blond (2009) envisions a Capitalism based on trust and reciprocity which he argues would be a new model of ‘social capitalism’. Both the State and the Market, re-conceived and re-thought, would serve society rather than themselves. Blond (2011) argues that “it is right to indicate that we need the private sector also to become more mutualised or reciprocal. This is not to dilute the market, but to fulfil the promise of pro-marketeters that a market is a ‘win-win’, not a zero-sum game.” In this sense, all market based enterprises need to re-conceive their role to be not just that of providing value to private owners, but to society at large. It is easy to see how this is linked to the idea that private sector players can and should do more to ensure that their normal business operations produce as much positive social impact as possible. SE2B is one way in which private sector players could come closer to this re-imagined role within the Big Society framework.

Although writing prior to these statements by Blond, Dart (2004) presents the evolution of the legitimacy claim of SEs themselves as moving along lines similar to those envisioned by Blond and encapsulated in the Big Society idea. Dart postulates that SEs used to be explained as, and gained their legitimacy as, rational and functional solutions to public sector funding and philanthropic resource constraints. But in recent years the OECD nations, the UK and the US in particular, have seen the decline of the welfare state ideology and the emergence of a renewed and pervasive faith in market and business-based approaches and solutions. Thus, moral legitimacy of social enterprise can be understood because of the consonance between social enterprise and the pro-business, ideology that has become dominant in the wider social environment. While the financial crisis of 2008 has made Dart’s

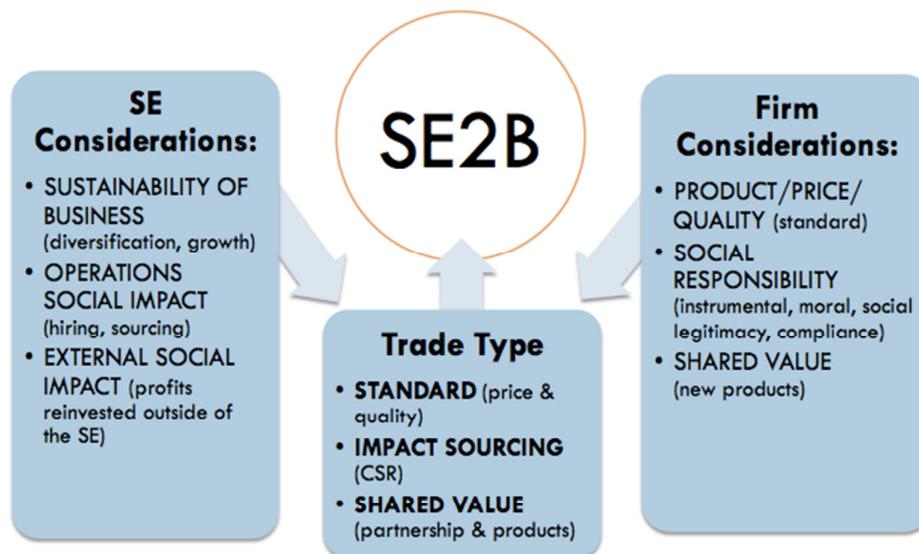
claims about the “pervasive faith in market” more problematic, he does demonstrate how the moral code within capitalist societies lends itself to the greater prominence of social enterprises in delivering social value.

More importantly, Dart helps demonstrate how the growth of social enterprises could indeed be the preferred way of achieving social impact during a time of austerity. This is particularly important for the UK where the British government in 2010 announced £11 billion in cuts to welfare spending over 5 years (Sapstead, 2010). Increasing SE revenue while simultaneously reducing SE reliance on public sector contracts at a time of government austerity through greater SE2B could be an attractive public policy in order to ensure the maximal provision of social services with minimal government resources.

The UK government’s long standing support for social enterprises as a means of generating positive social impact, coupled with the current government’s stated policy of reducing public sector expenditure and its belief in a more socially responsible private sector, makes for a compelling argument for increased SE2B from the government lens.

### **A framework for understanding SE2B trade**

Based on the theoretical frameworks, we have developed a general model of the considerations that affect an SE2B trade relationship in an attempt to describe the primary types of or motivations for SE2B trade, as well as the primary justifications on behalf of both SEs and corporates for engaging in an SE2B trade relationship. In this way, a typology may help rationally organize the current state of SE2B trade, further opportunities, and binding constraints.



**SE and firm considerations for SE2B trade and theoretical types of trade relationship.**

### Three types of SE2B trade

SE2B trade could be categorized into three primary categories or “trade types.” **Standard** business transactions are predicated on the same fundamental processes associated with procurement at a firm. That is, this type of SE2B trade looks much the same as any standard Business-to-Business (B2B) contract. SEs competing among other firms for the business of a corporate, differentiating themselves on price or product.

“**Impact sourcing**” integrates social responsibility concerns into the trade transaction through SE selection, the terms of the agreement, or the price point. Impact sourcing could be understood to encapsulate all SE2B trade that would not occur without some recognition of a SEs unique social value proposition, yet could range considerably in how such information is utilized. In many ways, impact sourcing encapsulates any SE2B trade conducted in accordance with a corporate’s social responsibility programs or ethos. One example of such an impact sourcing relationship is business process outsourcing companies subcontracting some of their standard work to rural business process outsourcers, at least partially motivated by the social impact of generating rural employment.

A final trade relationship, towards **shared value**, represents a unique trade relationship wherein the SE2B trade is central to creating a shared value product or service. A shared value SE2B relationship is more based on partnership than transaction, and the SE2B trade itself permits the creation of a product or service that derives its value proposition in part

because of its social or environmental impact. Because this value proposition is based on the social impacts provided by the SE, we assume that such forms of trade require a high degree of coordination among parties and may be distinctive in structure relative to other SE2B trade. An illustrative example of a shared value product is the environmentally friendly shopping bag produced by Elvis & Kresse for Sainsbury's using up-cycled material in partnership with Remploy, a SE offering long-term employment solutions to people with disabilities ([www.elvisandkresse.com](http://www.elvisandkresse.com)). In contrast to the impact sourcing case, here a completely new product is produced through the confluence of corporate needs and social imperatives.

### **Three SE considerations**

A SE could choose to pursue trade with the private sector for three main reasons: the sustainability of the business; achieving social impact through operations; and achieving external social impact. Business sustainability comprises the standard business concerns of increasing revenue and diversifying revenue streams, again mirroring the same reasons why any firm would choose to diversify its revenue or consumer base—smooth revenue streams, increase market potential, etc. The latter two consider the two primary means of a SE delivering social value. The source of impact could be internal (hiring a targeted employee group or delivering products at subsidized rates to others) or external (effects beyond the SE itself, including donations to other parties or impacts further downstream). Any of these categories, alone or in conjunction, could be sufficient to justify SE2B trade.

### **Three corporate considerations**

Similarly, a private sector firm's decision to engage in trade with a SE could consider three primary justifications: trade based on standard procurement practices, trade routed in social responsibility reasoning, or trade to create shared value. The first is most aligned with standard business transactions and is identical to the standard business justifications for B2B trade or procurement. The second justification relates to a firm's appetite for SE2B based on a firm's pre-existing commitments and decisions related to social responsibility. The third consideration embraces Kramer & Porter's (2011) shared value model, and relates to a firm's interest in creating new markets for socially responsible products.

While these attempts to categorize types of SE2B trade and their justifications are limited in their applicability to this somewhat nascent type of trade, it captures some sense of the possibilities for SE2B trade in the future. Additionally, justifications for SE2B trade from SEs or firms also indicate constraints (i.e., SEs seeking SE2B trade to increase its social impact

may have difficulty gaining firms that seek SE2B trade based solely on price, product, and quality).

## SECTION II. CURRENT SE2B TRADE IN THE UK – THE QUANTITATIVE EVIDENCE

### Key findings

While a thorough analysis of SE2B data among UK social enterprises is not currently available, analysis of 2010 data from the *Social Enterprise Barometer* revealed several important estimations of value:

- **39% of SEs** conduct some trade with businesses;
- SEs that trade only with the private sector comprise **7% of all SEs**;
- Their mean estimated annual turnover is **30% higher than other SEs**;
- SEs that trade with businesses are **less likely to report external financing as important** to their business;
- They are likely to have **fewer employees** compared to SEs that trade with other customers;
- SE2B trade is most likely concentrated in **certain industries, particularly manufacturing/engineering, retail/wholesale, and construction.**

Using available information, the amount of SE2B turnover is **conservatively estimated to have been £2.57 billion in 2008, 13.3% of the overall social enterprise trade of £19 billion.**

If SE2B trade grows at the level of GDP, it will **increase by £602 million over the next decade.** Based on the current size of SE2B trade, as well as the overall industry size in the UK, we posit that **SE2B could grow above this rate and perhaps become a larger driver of the overall social enterprise sector.**

Any quantitative understanding of the amount and characteristics of trade between private sector firms and SEs is limited in its external validity, largely because it has not been measured explicitly by reliable and comprehensive data sources. However, the data do provide preliminary findings that allow the general characteristics of SE2B trade to be extrapolated, and such findings may form the basis for further exploration.

### Data availability and approach

A quantitative analysis of SE2B trade in the UK is constrained largely due to limited data availability. The UK Department of Business Innovation & Skills (BIS) has collected data on social enterprises through two main instruments, the Annual Small Business Survey (ASBS) and the *Social Enterprise Barometer*. The former collects data on social enterprises to the extent that they are represented in the sample of small- and medium-sized enterprises (SMEs, firms with less than 250 employees), while the latter surveys only social enterprises and is a relatively new instrument.

BIS' *Social Enterprise Barometer* (2010) was selected for primary data analysis. Collected in February 2010, the instrument was used to survey 473 social enterprises with employees, each conforming to the government-adopted definition of a social enterprise organization. The sample is representative, and participants were interviewed by telephone about a range of issues, including turnover range, projected growth, and trading partners.

The *Social Enterprise Barometer* was not designed to estimate the value of SE2B trade nor investigate the characteristics of social enterprise that serve business customers. Assumptions and conservative estimations were employed to isolate firms that engaged in this trade type, including a limited analysis of those firms which traded only with business and not with other trade partners (e.g. charities, the public sector).<sup>1</sup>

### The UK social enterprise sector

In 2008, the number of social enterprises in the UK was estimated at 60,000 (*Social Enterprise Barometer*, 2010) accounting for 2.3% of the 2.63 million SMEs (Office for National Statistics, 2008) SEs are represented across all industries.

The 2010 *Social Enterprise Barometer*, created by BIS, offers substantial insight into SEs and the larger business population. Summary findings include:

- SEs tend to employ more staff than SMEs;
- Turnover (revenues) are lower for SEs relative to SMEs;
- Among those organizations significantly dependent on trade for turnover (and therefore less dependent on grants and donations), more SEs have reported turnover growth in the last year than SMEs;

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<sup>1</sup> For a full discussion of this data analysis, please see Appendix B.

- SEs and SMEs are equally optimistic about future performance of their firms; and
- SEs seek business advice in greater proportions than their SME counterparts, yet are equally likely to contact government-based resources, indicating a greater reliance on external business resources (2010: 3-6).

Researchers at BIS conclude that while SMEs and SEs are largely similar in size, they differ significantly across employment, turnover, business resources, growth, and financing. Thus, while SMEs provide a relevant comparable group, it is likely that SEs behave significantly differently than their peers of similar-size without a social mission.

SEUK, a leading social enterprise and trade association focusing on the SE sector in the country, releases annual surveys of their SE membership, including *Fightback Britain, 2011*.

The organization's findings report that SEs:<sup>2</sup>

- Are likely to start-up and work in the UK's most deprived communities
- Reinvest in the communities where they are based
- Are run by younger people than traditional SMEs, with a high proportion of Black and Minority Ethnic directors, as well as female directors
- Are accountable to their customers and communities, involving them in business decisions
- Are increasingly trading with consumers and with private companies
- Are turning away from public sector markets, in favour of consumers and private companies.

### Characteristics of social enterprises trading with businesses

Deep census-level knowledge of SEs in the UK does not exist, and datasets that identify SEs, as well as types of trade undertaken, are limited to several surveys. Thus, data on SEs that trade with the private sector becomes more opaque.

SEUK's survey (*Fightback Britain, 2011*) reveals that 44% of respondents reported some SE2B trade, while 13% reported SE2B as their primary source of turnover. Turnover by primary trading partner was reported as follows:

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<sup>2</sup> SEUK's *Fightback Britain* (2011) survey utilized the organization's members and networks to survey from a potential pool of 8,300 SEs. Online surveys and telephone surveys were used to gather a total of 765 responses. The data represent some sense of the general landscape of SEs within the UK, but are not meant to be formally representative of the overall SE population.

- 48% of SEs trading primarily with the public reported turnover greater than £100,000;
- 66% of SEs trading with the public sector reported turnover of greater than £100,000;
- 44% of SEs trading with the private sector reported turnover of greater than £100,000.

While this appears to indicate that public sector trade is a driver of large SE turnover, these data do not reveal the sectors in which these SEs operate. We suspect that high-turnover SEs that trade with the public sector do so in health or social services industries, sectors which are less likely to contain viable SE2B business opportunities.

### **New analysis**

To delve more deeply into available information on SEs participating in SE2B trade, the researchers analyzed the data collected in the *Social Enterprise Barometer*. The limitations to this data are notable and the researchers made several reasonable assumptions in order to generate insights.

In the *Barometer*, 39% of respondents reported some trade with the private sector, mapping closely to SEUK's finding among their survey respondents. Of the sample of 473 firms, 33 were identified as trading solely with the private sector, representing 7% of the overall sample. These 'SE2B-only' firms comprised the primary population of focus for financial analysis, as their data are the only means of isolating SE2B trade from other forms of trade. The researchers contend that this methodological step is likely a conservative one, identifying the core attributes of SE2B and generating narrower, more conservative findings, as SE2B trade from SEs which also conduct non-SE2B trade are not included.

### **SE2B by trade activity type**

The data reveal that firms who engage in SE2B trade (in whole or in part) are concentrated among several key industries relative to their peer SEs. Based on an augmented business activity scheme, these firms were concentrated in "other" (12.2%), manufacturing/engineering (11.22%), retail/wholesale (8.7%), and construction (8.2%). Firms reporting these trade activities represent at least half of the number of SEs reporting business trade and depart considerably from the activities reported for SEs overall (see table below).

Primary trade activity type	SEs trading solely with businesses	SEs with any SE2B trade	SEs with no SE2B trade	All SEs
Agriculture	<b>11%</b>	6%	1%	3%
Arts	3%	5%	4%	4%
<b>Construction</b>	<b>8%</b>	<b>8%</b>	1%	4%
Education	0%	5%	6%	5%
Environmental activities	0%	3%	3%	3%
Food manufacturers / producers	<b>11%</b>	3%	0%	1%
Health	0%	1%	3%	2%
Holiday / Tourism activities	0%	2%	1%	1%
Hospitality	0%	4%	<b>8%</b>	<b>6%</b>
<b>Manufacturing / engineering</b>	<b>31%</b>	<b>11%</b>	1%	5%
Membership organisation	3%	4%	<b>11%</b>	<b>8%</b>
Multi-use building / renting of space	3%	2%	2%	2%
<b>Other</b>	<b>11%</b>	<b>12%</b>	6%	<b>8%</b>
Publishing / printing	8%	5%	1%	2%
Recycling	3%	2%	2%	2%
Religious activities	0%	1%	2%	1%
Repair / maintenance	0%	3%	1%	2%
<b>Retail / wholesale</b>	6%	<b>9%</b>	<b>12%</b>	<b>10%</b>
Social housing / housing association	0%	1%	2%	1%
<b>Social work</b>	0%	<b>7%</b>	<b>23%</b>	<b>16%</b>
Sports activities	0%	5%	<b>6%</b>	6%
Transport	3%	4%	5%	4%
n=	36	195	302	498

**SEs by primary trade activity type and level of SE2B trade<sup>3</sup>.** (Top five activities bolded within each category.)

Among firms that trade solely with businesses (and not government, direct to consumers, NGOs, etc.), the sample further concentrated around slightly different industries—manufacturing/engineering, agriculture, food manufacturing, and other. This high concentration may be due to the types of consumers demanding these trade activities, which are more likely to be private sector firms than other consumer types. Still, these ‘SE2B-only’ firms represent 18.5% of the total SEs reporting business trade, and thus may not align with the largest potential market opportunities for SE2B.

<sup>3</sup> Chi-squared test: comparing firms with some SE2B to those without SE2B:  $p=0.0000$ ; comparing firms with solely SE2B and all others:  $p=0.0000$ .

### SE2B by turnover

No available survey data gathers specific turnover data for SEs, instead reporting turnover ranges. To estimate mean turnover, the lower bound of each range was adopted to create conservative mean revenue estimates.

Type of SE	Mean Turnover Estimation (£)
All SEs (n=467)	699,743
SEs without SE2B trade (n=283)	636,134
SEs with some SE2B trade (n=184)	797,576
SEs trading solely with businesses (n=35)	983,342

**SE turnover by trade type.<sup>4</sup>**

The *SE Barometer* data indicate large differences in mean turnover by trade type—trading with businesses (in whole or in part) is associated with higher levels of turnover, with SE2B-only firms generating 55% higher turnover than their peers with no SE2B trade. When firm size is taken into account, SE2B-only SEs have higher turnovers than their peers at all employee size brackets, particularly at the small- and medium-SE level. On the whole, SE2B-only firms have a mean turnover 40% greater than the overall SE mean, while firms with some SE2B trade reported mean turnovers 14% higher than the overall SE mean.

Firm Size	SEs trading <i>solely</i> with businesses	n	SEs <i>without</i> SE2B trade	n
1-9 employees	£276,062	16	£174,013	151
10-49 employees	£1,445,455	11	£566,269	163
50-249 employees	£2,800,000	5	£1,749,820	89
Total n		32		403

**Turnover by number of employees and trade type.**

This significant difference in turnover may not be due solely to SE2B trade, but rather a host of factors associated with it, including industry, region, age of firm, organizational structure and strategy, etc. While the key driver of the larger turnover is unclear, it does appear to be consistent across size and industry.

<sup>4</sup>Difference in means test: SE2B only firms to all other SEs:  $p=0.055$ ; comparing some SE2B firms to others:  $p=0.061$ .

### SE2B financing

Though the *Barometer* did not ask detailed questions about historical and general financing requirements, it did ask survey respondents about the level of importance of external financing to their organizations.

Is external financing important to your organization? <sup>5</sup>	SEs trading solely with businesses	SEs with any SE2B trade	SEs with no SE2B trade	All SEs
Important	47.2%	58.5%	59.0%	58.2%
Not important	52.8%	41.5%	41.0%	41.8%
n=	36	195	459	495

**Importance of external financing by trade type.**

SE2B-only firms reported that external financing was less important, and while SEs with no SE2B trade reported higher levels of importance. This may reflect SE2B's association with higher levels of turnover, or perhaps support Froelich's (1999) notion that SE2B trade offers an opportunity to limit revenue volatility—thus resulting in the capacity to self-finance growth and development or smooth revenues. However, without additional information, it is impossible to disentangle the reasons for these differences in reported importance.

### SE2B employment

Preliminary analyses indicate that the population of SE2B-only SEs skew smaller in the amount of employees in the firm, relative to other SEs. While the *Barometer* does not supply discrete employment data for each firm, participants reported their size as “micro,” “small,” and “medium” enterprises (e.g., 1-9 employees, 10-49 employees, and 50-149 employees, respectively). In the total sample, the distribution centers around medium-level employment for all SEs, SEs with no SE2B trade, and SEs with some SE2B trade. However, SE2B-only firms skewed smaller, with a median of micro-level employment. While not definitive, the distributions suggest that SE2B-only firms employ fewer people than other categories of SEs.<sup>6</sup>

While many sources indicate that SEs have larger workforces than their SME peer group, this may not hold true for SEs that trade solely with businesses. The median analyses above

<sup>5</sup>These categories collapse a forced Likert scale.

<sup>6</sup>Chi-square analyses were conducted, with the only relevant test comparing some SE2B trade with all others:  $p=0.054$

offers limited insight not only into precisely how many employees are associated with SE2B trade, but is also not statistically significant. The researchers doubt that the size of an organization has a material effect on capacity for SE2B.

### Business forecast optimism

While the *Social Enterprise Barometer* reported that SEs and SMEs share roughly equal optimism regarding future business success, SE2B trade appears to be associated with increased optimism regarding firm profitability.

Type of SE	% believing their firm will be profitable next year
All SEs (n=489)	63.6%
SEs without SE2B trade (n=297)	56.9%
SEs with some SE2B trade (n=192)	74.0%
SEs trading solely with businesses (n=35)	82.9%

**Expectations for firm profitability by level of SE2B trade.<sup>7</sup>**

One possible reason for higher levels of optimism among SE2B firms could be the negative perception of other revenue sources, particularly possible volatility of government contracts as a result of fiscal austerity. This could make those SEs who do not rely on government expenditure or contracts for revenue more optimistic about the future than those who do.

### Sizing the SE2B market

In order to get a sense of the overall amount of SE2B trade in the UK, the previous analyses were scaled up using a set of conservative assumptions and re-weighted to represent the distribution of SEs by size in the representative *BIS Small Business Survey* (2011). The mean turnover estimations by size were then scaled up in kind.

This analysis estimates that in 2010, SE2B-only firms represented 9.6% of all SE firms thought to be operating in the UK market—5,294 SE2B only firms out of the total 60,000 estimated SEs. These firms are projected to have grossed a total of £2.57 billion in SE2B turnover in 2010, while the entire SE market grossed £19.26 billion in turnover. Thus, we conservatively estimate that SE2B represents at least 13% of the total turnover of SEs in the UK (Please see Appendix C for detailed methodology).

<sup>7</sup>Difference in means test: SE2B only firms against all others: p=0.014; some SE2B trade against all others: p=0.000.

## Baseline status in key industries

In order to understand the growth rate and trade opportunities for key SE2B industries, the compound annual growth rate (CAGR) of the UK's primary industries was applied to the relevant SE2B-only business activities.<sup>8</sup>

SE2B-only activity	2010 SE2B turnover estimation (£m)	Equivalent UK industry group	Industry CAGR, 2008-2012	2012 estimated SE2B turnover (£m)
Manufacturing; Food manufacturing	1,337	Manufacturing	1.18%	1,368
Construction	247	Construction	-1.59%	239
Printing	267	Business activities	2.42%	280
Other	293	Overall GVA	1.45%	301
Subtotal (selected industries)	2,144	N/A	1.02% (weighted average)	2,188
TOTAL (all SE2B-only trade)	2,568	Overall GVA	1.45% <sup>9</sup>	2,642

### SE2B growth estimates using GDP growth metrics.

Utilizing the CAGR from overall gross value added in the UK economy, the estimated £2.57 billion in SE2B turnover is estimated to have grown to £2.64 billion in 2012. In order to project forward, the 2013 Euromonitor estimated economic growth figure of 2.0% was applied to this overall figure—should the CAGR become 2.0%, the size of SE2B trade will be £2.90 billion in 2017 and £3.17 billion in 2022, a ten-year growth of £602 million.

## Analysis & SE2B growth opportunities

The market size and growth projections above are intentionally conservative to reflect the limited availability of data—a more in-depth survey of SE turnover by type is required to accurately estimate the total size of the SE market, much less the total size of SE2B trade. While the size of SE2B trade is currently small relative to the overall estimation of SE turnover, several aspects of the data support growth above the £602m projection over ten years. Such considerations include:

<sup>8</sup>Derived from Euromonitor, official Office for National Statistics data.

<sup>9</sup>These figures compare to a 2008-2012 CAGR of 2.1% in government expenditures. While this number is higher than those within the examined industries, we expect that the larger CAGR for government expenditure does not necessarily equate to larger opportunities for SE-to-government trade. More likely, the preponderance of government expenditure growth is due to unemployment benefits and social welfare.

- **The current size of this market is small; given the youth of the SE market overall, expansion may be likely.** SE trade overall is quite small given the overall UK market, and while SE2B trade appears to be associated with increased turnover of SEs, the amount of SE2B trade is still a rather small proportion of this overall trade. As the SE sector grows, SE2B trade may increase at rates above the UK economy.
- **SE2B-only trade is largely concentrated in growth sectors.** With the exception of construction, the key industries in which SE2B-only trade is observed have enjoyed positive 2008-2012 CAGR. Because these markets are growing, expanding business in the sector allow opportunities for SE2B trade to win more business relative to other forms of trade.
- **Interest in SE2B trade, impact sourcing, and CSR has grown among UK corporates.**
- **Current national policies promote the growth of SEs.**

Because of these attributes, it is reasonable to expect SE2B trade to grow at a rate beyond the 20%+ over ten years used to project the 2022 level of trade. While the current levels of trade are small, this research suggests it is expanding, representing a key revenue source for certain SE industries in the years to come.

### SECTION III: CASE ANALYSES—SOCIAL ENTERPRISES & CORPORATES ENGAGING IN SE2B

In order to better understand the nature of SE2B trade, several interviews were conducted with SEs, a corporation conducting SE2B trade, and several organizations that work across these organizational borders. The qualitative data offered opportunities to test the working theory of SE2B trade and ascertain responses from the field on a variety of additional topics, as well as speculation about the future of this type of trade. While the interviewees do not constitute a representative sample, key emerging themes may merit further investigation in subsequent studies. Among these common themes are:

- While the mission and structure of SEs offers the potential to leverage value propositions quite distinct from many of their non-SE competitors, **SE2B trade relationships are largely based on standard business procurement concerns, including product, price, and quality.** The social mission of an SE may spark additional interest but is not seen as the primary driver for winning business with the private sector.
- SE interviewees have **largely positive views of SE2B trade and the ability to grow revenues from this type of trade.** Interviewees believe that the market for corporate trade is in its infancy, and some expect that it will become a key growth driver for their organization.
- **Not all SEs can or should trade with the private sector,** for reasons related to mission, organizational structure, and product. Successful SEs in this trade are more likely to sell to corporate customers by design or have a natural product fit.
- Opportunities to engage in **SE2B trade is perceived to be limited to the ancillary products and services utilized by the firm or discrete commodities**—no interviewee had knowledge of SE2B trade providing goods that were central to a corporate's value chain.
- **Trade with national and multi-national corporates is viewed as particularly challenging,** as many SEs do not fit the profile of a firm's standard vendors. Cited challenges include lack of scale, limited marketing resources, lack of national presence, and limited opportunities to establish the business credibility necessary to engage in SE2B trade.

- We suspect that for these reasons, **few SEs are likely to utilize standard procurement procedures alone**, instead operating through internal business contacts or executives.

The case studies provided are meant to offer an overview of key issues and decisions affecting a SE: their impetus and mission, operating model, product/service differentiation, consumer base, SE2B trade, and speculations about their future success.

### **Elvis & Kresse**

Kresse Wesling, Co-founder

Industry: Retail & consumer goods

Year founded: 2007

“Elvis & Kresse creates stunning life-style accessories by re-engineering seemingly useless wastes. The innovative and pioneering Fire-Hose range is made exclusively from genuine de-commissioned British fire brigade hoses which, after a distinguished career fighting fires and saving lives, were otherwise destined for landfill. 50% of profits from the fire-hose line are donated to the Fire Fighters Charity.” (Elvis & Kresse)

Elvis & Kresse has received significant press for its business model—utilizing industrial or organizational waste to create a small line of bags, wallets, belts, and home accessories. The business was profitable in its second year and turned over £389,000 annually in FY 2010/2011 (Smith 2011). Co-founder Kresse Wesling estimates that 70% of turnover is attributed to direct trade with consumers, with SE2B trade encompassing the remainder.

**Impetus & mission.** Wesling got the idea to found a company by accident—her passion for sustainability and “up-cycling” was ignited when she learned that fire stations in the UK were sending old and broken rubber fire hoses to landfills after their useful life. After lugging a sooty, 22-meter hose to her apartment, she and her partner developed a marketable product that used it as a base. “An initial investment of £40” was enough to produce their first 500 belts. A partnership with a merchandizer for the Live Earth concert in London in July 2007 was fruitful, and Elvis & Kresse has been trading with corporates ever since.

Wesling’s mission is to build the foundation of a “circular economy,” in which the outputs and waste of one business become the inputs of another, with minimal, if any, discarded material (Ellen MacArthur 2012). The decision to donate 50% of profits to charity was made

early on, beginning with the Fire Fighters Charity. Since then, additional charities have been identified and supported.

**Operating model & differentiation.** Wesling's company takes an entrepreneurial approach to sourcing material and an inspiration-based approach to creating its products. While the company began production by leasing capacity from a factory in Eastern Europe, they quickly reached their maximum capacity and chose to operate a factory of their own in Turkey, which currently employs 11 people. In addition, some products are made through a program in a Winchester prison designed to provide employment and training to inmates. Elvis & Kresse hopes to establish a manufacturing presence in the UK in the future.

The company's operating margins, 34.6% in FY 2010/2011, are near industry standards. Despite a potential to market their products as a niche good at a higher price point, the company is committed to affordable products, not luxury pricing. "We make the best possible product and sell it for the most affordable price," Wesling said.

**Trade & consumer base.** Wesling groups the company's end users into three categories: those who purchase because "they love firemen," consumers driven by sustainability, and those driven by design aesthetics. Currently, 70% of sales are realized through direct trade, with consumers purchasing products from Elvis & Kresse's UK and BeNeLux (Belgium, Netherlands, and Luxembourg) websites. Despite a large portion of revenues from direct-to-consumer trade, Wesling has engaged a number of corporate clients, including Apple, Deloitte, and the telecommunications company O2. The amount of this trade fluctuates from year to year, but SE2B trade has the potential to become a primary revenue driver in the coming years.

**SE2B trade & future prospects.** "We've been partnering with corporates from day one, because our first customer was one of the world's largest merchandise suppliers. They were doing the merchandise for the Live Earth concert. They gave us lots of feedback," Wesling said. The company has engaged with corporates not only through initial and ongoing trade relationships, but also through trade expertise and advice. As a result of early press, a number of private sector mentors have provided Wesling and her partner with invaluable advice over the lifespan of the company.

**Better**

Legal name: Greenwich Leisure Limited

Industry: Health services, real estate

Year founded: 1993

“We’re Better. The charitable social enterprise committed to a better quality of fitness and leisure, libraries, and performing arts facilities. For everyone.” (Better)

Greenwich Leisure Limited (GLL) began as a small organization managing public gymnasiums in its namesake London borough. It is currently one of the largest SEs in the country, managing 130 centers in the UK, and recently won a contract to manage London’s Aquatics Centre and Copper Box, two venues used in the 2012 London Olympic & Paralympic Games (Ruddick 2012). Better (the firm’s public brand) has also launched a number of lower-priced gyms called Gym LONDON, similar to other corporate gym models such as Virgin Active in the U.K. and Planet Fitness in the U.S. Better sells corporate memberships as a component of its revenue and also engages in “SE2SE” trade through an inclusive procurement process. It donates a portion of its revenues to the GLL Sport Foundation, an organization committed to providing access and leisure education to London’s areas of economic deprivation (GLL Sport Foundation).

**Impetus & mission.** GLL began operations in 1993, when the organization was formed as a management concern to operate the public leisure facilities in Greenwich during a time of widespread contracting of public sector services. Initial success in Greenwich quickly resulted in contracts with other London boroughs; today, GLL is heavily represented in throughout the region. Further expansion in Wales and other areas has been primarily through partnerships with other leisure trusts—GLL is not interested in competing with peer SEs.

**Operating model & differentiation.** Unlike other SEs, GLL uniquely straddles both public and private sector clients. It views the local governing bodies of municipalities as its primary client base, as they are the contractors, offering GLL the license to operate public facilities. Upon winning a contract, GLL manages the day-to-day operations of each facility, including staffing, equipment, sales of memberships, maintenance, and limited capital investment. As a cooperative GLL is owned and governed by its 7,000 employees (Greenwich Leisure Limited).

Revenue comes primarily from membership sales which include individual, corporate, and community rates; rates vary dependent on utilization, location, and access, creating a price structure that ultimately subsidizes facility use by disadvantaged and community groups. GLL believes that its key differentiation is the professionalism with which they operate facilities—quality of service is a key selling point says procurement manager Robert Jamieson, “If you asked the customer coming in who Better is, I don’t think they would know that we’re a social enterprise. What’s important to them is that, when they walk through the door, they’re treated professionally.”

**SE2B trade & future prospects.** Better did not note differences in the nature of its SE2B trade relative to other trading partners, largely because the value proposition to customers has little to do with its status as a SE.

However, Better has made strides to incorporate SEs into its supplier base, from which a total of £70 million is procured annually. Jamieson has attempted to incorporate SEs into the supply chain of Better in many ways, ranging from personal encouragement to facility managers considering local SEs to incorporating social value indicators into the central procurement process. He also reports interacting regularly with SE suppliers to provide feedback. “The biggest challenge [trading with SEs] has been consistency of product,” he says. “...[W]e go to a quarterly meeting with [each social enterprise] to work through the issues. Their funding streams have been [constrained] at the moment, so it’s finding a way to do business. What parts of our supply chain can they work with?” This high level of engagement has produced positive results.

Jamieson notes that the name ‘social enterprise’ itself may be a hindrance in some circumstances, particularly when it distracts from the product or service at hand. “There may be a stigma associated with social enterprise people, being community based. So should businesses promote themselves as a social enterprise to a corporate customer? Not sure. Or, should that be mentioned later? People these days want value for money, and the product is the most important thing.”

### **Autism Works**

Peter Macdonald, Managing Director

Industry: Information technology

Year founded: 2011

“We test software. We test websites. We test in the Cloud. Our independence is your asset.” (seeDetail)

**Impetus & mission.** Managing Director Peter Macdonald encountered Education and Services for People with Autism (ESPA) as a client when he was working for an IT company. Through the engagement, he learned about ESPA’s work, including its colleges for those with Autism Spectrum Condition (ASC), such as those with Asperger Syndrome. While the charity’s investment in educating its clients was significant, very few of its college graduates were able to find sustained and gainful employment. Of all UK citizens diagnosed with ASC, only 15% are employed, while the rest are supported primarily through government funding.

Autism Works was founded by ESPA in 2011, based on the Danish organization Specialisterne, a Danish SE that employed those with high-functioning ASC diagnoses to test software. The company leverages the traits of their employees, including keen attention to detail, highly structured thinking, and tolerance for repetition, to execute the precise work of software testing (Specialist People). Specialisterne has had notable success with its large corporate clients.

**Operating model & differentiation.** Based on the success of this model, Macdonald and ESPA set up Autism Works with the goal of providing sustainable employment to some of ESPA’s clients, as well as generating profit that could support the parent charity. There are no significant differences between their operating models.

Currently, Macdonald works with a team of four employees on smaller projects, which he hopes will provide entry to larger work and long-term contracts with corporates. He views the key differentiating factors of Autism Works to be speed, quality, and price. His employee base can complete software testing more speedily than other employees, and customers have been “delighted” with the quality of the work. In addition, Autism Works has chosen to price these services competitively to attract an initial consumer base—he estimates that the pricing is perhaps 20% below that of his domestic market peers.

**Trade & consumer base.** Autism Works seeks large corporate contracts largely by design, as they are among organizations that commonly require software testing services. He hopes to build toward several long-term, ongoing client relationships. Thus far, Autism Works has found it difficult to make significant inroads into this consumer base. Macdonald also labels public entities, or perhaps organizations contracted by the government, as an additional target consumer group.

**SE2B trade & future prospects.** While Autism Works was designed to promote SE2B trade as a primary revenue driver, winning business has been a challenge. The company has encountered many challenges to this trade, primarily related to the following attributes:

- Credibility and a short track record, as well as few client references;
- Scale of the business and the capacity to execute large-scale work;
- Difficulty, at times, leveraging the social impact of the organization as a selling point.

The first two challenges combine to make an SE2B transaction difficult to sell based on common procurement practices. However, Macdonald reports that a small size could be perceived as an advantage. “The perception of ‘too small to work with’ is present [among corporates]. But everybody starts out small. The upside of being small is our flexibility,” he says.

At times, the social mission of the organization is viewed as a hindrance to winning business, perhaps because of the connotations of working with ASC employees or with social enterprises more generally. In fact, at times initial conversations with clients occur under the business name seeDetail in an attempt to focus discussions on services and capacity (Deloitte).

### **Deloitte & Autism Works**

Autism Works' relationship with Deloitte began in March 2012, when it was selected among 90 other firms in the UK organization's inaugural Social Innovation Pioneers program, which donates £1 million annually in pro-bono support for social businesses, with the goal of making program participants investment-ready (Deloitte 2013). Because Deloitte utilizes software testing services internally, provides testing services to clients, and often contracts out this work, Autism Works was introduced to the Deloitte team in charge of software testing to consider a business relationship.

Deloitte usually procures from suppliers with a proven history of quality and delivery, but due to Autism Works' participation in the Pioneers program and unique offering, it was able to move through the procurement process. It passed the quality tests successfully—a non-negotiable requirement for Deloitte's contractors.

Currently, Deloitte and Autism Works are working through a proof-of-concept stage, after which a formal trade relationship will begin, with opportunities for internal and external work. For Deloitte, the contract replaces off-shoring—the SE's location in Newcastle provides time zone, language, and proximity advantages. The price point is considered to be competitive—Deloitte expected to pay standard rates, with no price premium or discount related to the firm's SE status.

Deloitte considers the relationship as extremely positive and is eager to consider other SE suppliers as relevant. Autism Work's contract is viewed as a win-win relationship, delivering business and social value. It's been positive for the entire software development team at the firm. Says partner James Russell, "People feel they are giving something back to society rather than just carrying on with the day job."

## SECTION IV: POTENTIAL OPPORTUNITIES & TOOLS FOR SE2B TRADE

This section focuses on identifying the key areas where improvements and advances could have a significant impact in terms of catalyzing SE2B trade. In order to fully understand the universe of potential opportunities and tools, opportunities for SEs and corporates are depicted visually in the following pages and then discussed in detail.

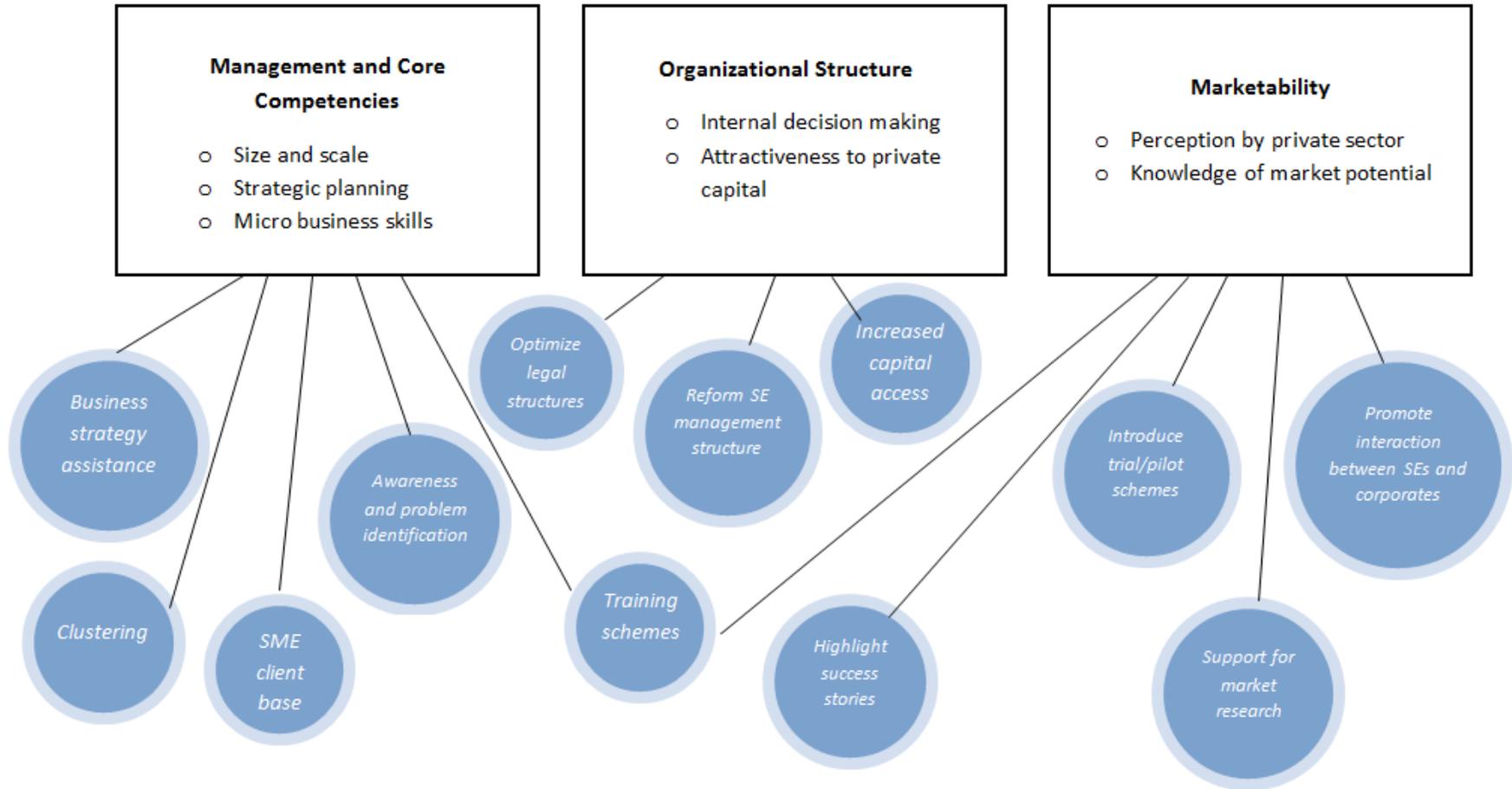
The opportunities for SEs seeking to engage in greater SE2B going forward lie in the following three main areas:

- 1) Improvements in management and core competencies
- 2) Innovations in organizational structure
- 3) Addressing Marketability of their products and services

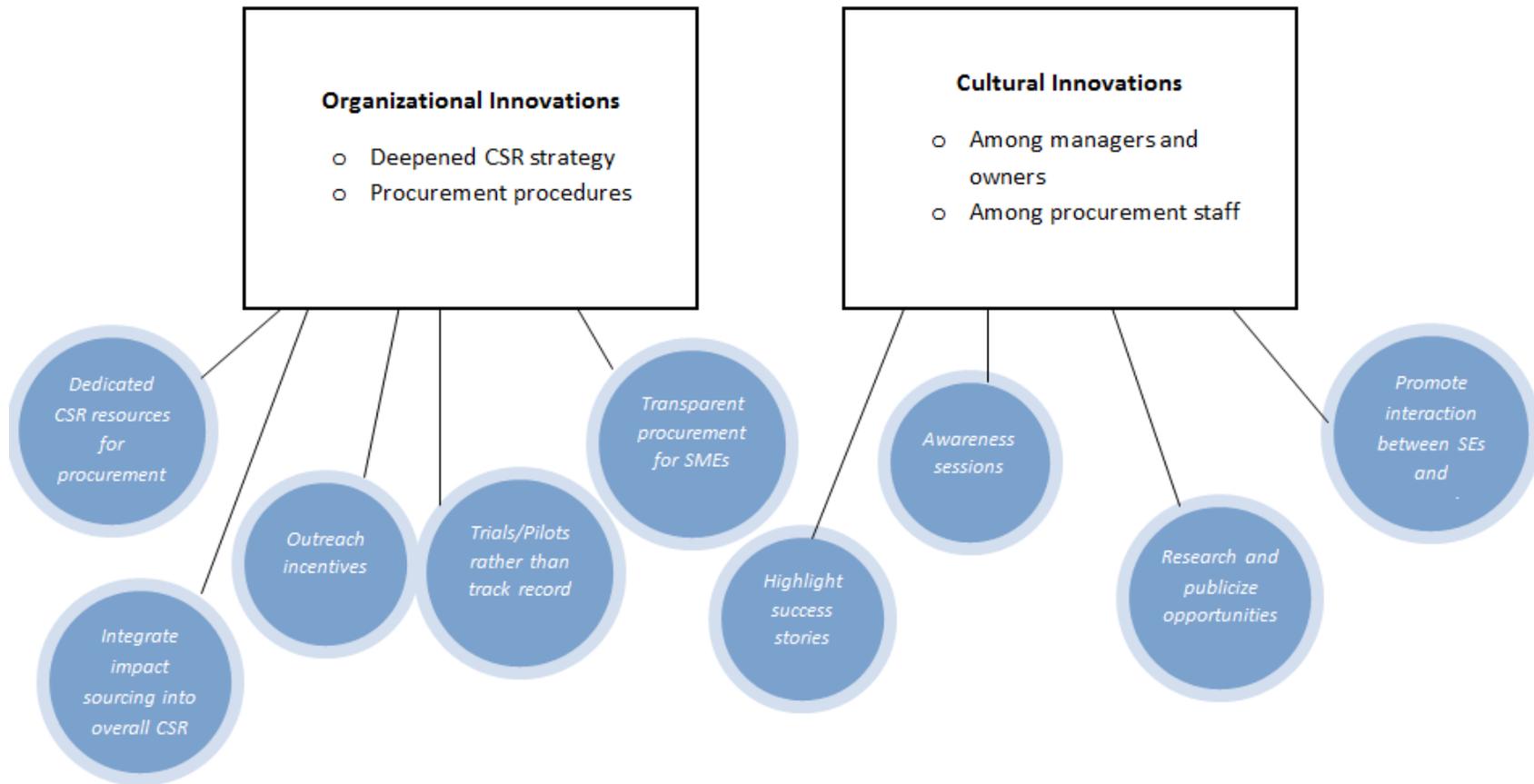
The areas of greatest opportunity for corporates seeking to increase SE2B trade can be classed under two broad categories:

- 1) Organizational Innovations
- 2) Cultural Innovations

Throughout, opportunities for third parties (including government, NGO, and other 'market makers') are identified, as well as initial thoughts on weighing the varied tools against each other.



**Opportunities and tools for SEs to enhance SE2B trade capacity.**



**Opportunities and tools for corporates to enhance SE2B trade capacity.**

## POTENTIAL OPPORTUNITIES FOR SOCIAL ENTERPRISES:

### 1) MANAGEMENT AND CORE COMPETENCIES

Several of the key opportunities for enhancing SEs ability to engage in SE2B trade lie in addressing some generic management and key competency obstacles faced by any start-up SME operating in a competitive environment. However, if SE2B trade proves to be a more competitive environment given the competition from established private sector players, then these opportunities could have heightened importance for SEs engaging in SE2B, relative to SEs in slightly less competitive environments.

#### *a) SIZE AND SCALE*

When asked about one of the main challenges that they have been working to overcome, Autism Works identified the challenge of being able to execute large-scale work as a small SE. Larger corporate clients often prefer suppliers who are able to provide either large quantities of a particular service/product or a more comprehensive end-to-end solution with a particular process. This gains them efficiency savings by minimizing the number of suppliers needed, lowering procurement and oversight burdens. SEs seeking to engage in SE2B with larger corporates could potentially be at a disadvantage in this regard as they typically tend to be smaller organizations who might be unable to provide services or products at significant scale.

#### ***Potential tool(s) to leverage:***

- **Cluster strategy:** One opportunity could be to explore a 'cluster' strategy whereby SEs coordinate with either other SEs or other private enterprises in order to increase their ability to serve clients who require scaled solutions. Clustering could be geographic, in certain industries such as IT or other services, and clustering could take the form of a network whereby the SE is able to leverage the capacities of multiple organizations through instruments such as subcontracting when it is seeking to fulfill scale requirements of larger clients.
- **Explore SME clients:** Another potential strategy could be for SEs to explore a SME client base that might not have the scale requirements of larger corporates. This SME client base could either become the niche which SEs seek to serve or become a building block for achieving scale, which would then allow the SE to serve larger corporate clients as well. It is likely however that the SEs will have to focus on

eventually graduating towards larger corporate clients as this client base represents a large potential revenue base with the resources necessary to fully engage a SE. This process could be enhanced by larger corporates urging their SME suppliers to subcontract with or source from SEs.

#### ***b) STRATEGIC PLANNING***

For SEs looking to enter into or increase SE2B trade, it is essential that they have a thorough strategic plan that addresses the unique characteristics of this trade form. The strategic plan can help SEs not only compete more effectively, but also ensure that they have given proper thought and planning to balancing both their commercial and social imperatives. However, Chapman, Forbes and Brown (2007) find that 32% of SEs had no formal strategic planning process. The importance of assistance with strategic business issues is highlighted by Elvis & Kresse who note the value of the expert advice and mentoring that they received from corporations themselves.

This nature of support could be provided by a range of governmental and non-governmental organizations and have been in the past. Specialist social enterprise support organizations in the UK who could potentially offer assistance in this area include: Co-operative Development Agencies, Council for Voluntary Services, School for Social Entrepreneurs and social enterprise development organizations such as Fourth Sector and The Guild (Lyon & Ramsden 2006).

#### ***Potential tool(s) to leverage:***

- **Scheme to assist with business strategy:** Technical assistance and expertise could be provided to SEs in order to help formulate an effective business plan. However, it is important to note that Chapman, Forbes and Brown (2007) also found that the lack of prevalence of strategic plans among SEs could not just be explained by a lack of commercial experience, as 78% of the SEs employed staff with senior managerial experience or experience running a small business. This indicates that a lack of internal resources for strategic plan formulation might not be the only relevant factor.
- **Awareness raising and problem identification:** A further potential tool to complement an assistance scheme would be to conduct outreach to SEs in order to address the issue of strategic planning. The effort should combine awareness raising about the importance of strategic planning, along with an exploration of the possible reasons why formal strategic planning processes are less relevant among

SEs at the moment. Impact from these outreach programs could be maximized by targeting them towards both the management board as well as the operational managers of the SE, as the tension between commercial and social imperatives is often played out at this level (Chapman, Forbes & Brown 2007).

### ***c) MICRO BUSINESS SKILLS***

Both anecdotal evidence as well as previous research, such as Lyon & Ramsden (2006), indicate that there might be an opportunity to help increase SE competitiveness by providing SEs with micro business skills training. The kind of business skills that might prove particularly useful include skills that would be particularly important towards ensuring smooth functioning and competitiveness of the business, such as bookkeeping, pricing techniques and break-even analysis.

#### ***Potential tool(s) to leverage:***

- **Training schemes:** Programs which specialize or emphasize providing hard micro business skills could be used to help increase the internal capacity of SEs seeking to engage in SE2B.

## **2) ORGANIZATIONAL STRUCTURE**

Changes to the organizational structures of SEs seeking to either begin or deepen their engagement in SE2B trade represents another potentially significant opportunity for the optimization of their business models.

### ***a) INTERNAL DECISION MAKING***

Chapman, Forbes and Brown (2007) note that SEs tend to operate under relatively more democratic structures than comparable private sector companies. Lengthy lead times in operational decision making could be hindering the ability of SEs to react to changing market conditions in a timely manner and thus dulling their competitive edge. This point helps highlight the importance of a suitable organizational structure and orientation for SEs wishing to effectively engage in SE2B trade, especially given that the private sector corporations themselves are likely to have much more streamlined decision making structures relative to public sector corporations.

#### ***Potential tool(s) to leverage:***

**Streamlined decision-making and delegated authority:** There is an opportunity to increase the flexibility, responsiveness and thus ultimately competitiveness of SEs by reforming their internal decision making structure. This reform could be aimed at streamlining the existing

decision making structure by reducing the levels of approval and oversight over certain decisions. The reform could also be aimed at further empowering operational managers to make quicker decisions. Carrying out this reform in congruence with a focus on ensuring the existence of the aforementioned formal strategic planning process could provide SEs with the ability to encapsulate the balance of multiple imperatives within the strategic plan, while also allowing operational managers to make quick and effective decisions. This could help ensure that the SE maintains its focus on multiple imperatives while also being flexible to a degree comparable with private sector counterparts. Elvis &Kresse pointed out that its success with SE2B was in large part due to the design of the company itself. Unlike many SEs, the business and its social mission is strongly aligned with private sector trade. This is not true for all SEs, however. Wesling states, “For a lot of social enterprises, there’s almost no way to work with corporates, if you think about what their business model is. But for certain social enterprises, it’s a natural way to go—they’re a natural customer base.”

#### ***b) ATTRACTIVENESS TO PRIVATE CAPITAL***

The BCG *First Billion* report recently forecast the demand for high-risk equity and quasi-equity capital by all forms of social ventures to be at least £550m by 2015 (2012). This high demand for capital was also backed up by the *Barometer* survey which showed that nearly half of SE2B-only firms thought that external finance was important for their organization. Ability to access growth capital could be particularly important for SEs wishing to compete with traditional private sector firms for corporate clients.

#### ***Potential tool(s) to leverage:***

- **Increased capital access for SE2B trade:** It could be possible to help catalyze SE2B trade by designing initiatives to help capital flow towards SEs engaging in or seeking to engage in SE2B. This could be done through special provisos favoring SE2B SEs in current SE financing initiatives, such as those administered by BSC. It would also be important to encourage a diverse set of investors and lenders to follow suit and support SE2B oriented SEs.
- **Optimize legal structure governing SE financing:** Fletcher (2012) highlights the opportunity for SEs to increase their attractiveness to investors through changes in their legal form, mainly by increasing potential private sector returns. A potentially helpful peer model to study could be the Low-Profit Limited Liability Company (L3C) model of legal form for SEs. This model, which has already been adopted by some states in the United States, recognizes the organization to be pursuing both

shareholder and social value simultaneously but without an asset-lock or dividend payment restrictions. A strong and important caveat in this regard would be to not lose sight of the important reasons for which the current Community Interest Companies (CIC) form limits private investor returns. These include securing the core social mission of SEs and ensuring protection of local community assets under SE stewardship. Any optimization would thus have to be nuanced and explore whether there is a Pareto improving balance that could be struck between the social purpose of SEs and its attractiveness to private capital.

### 3) MARKETABILITY

A further opportunity to increase SE2B trade is in the realm of enhancing the marketability of the products and services offered by SEs to the private sector. This includes addressing both knowledge and perceptions on the private sector side, as well as marketability knowledge and awareness among SEs themselves.

#### *a) PERCEPTION OF SEs BY THE PRIVATE SECTOR*

Chapman, Forbes and Brown (2007) find that key actors within the public sector hold negative perceptions of SEs: seeing them as not fully businesslike as they are cushioned by some of their non-traded revenue streams. These actors also questioned whether SEs could be both 'value-led' as well as 'market-driven'. While there is not comparable data for perceptions by private sector actors, given the finding of negative perceptions among the public sector, there is likely to be an opportunity for improving the perception of SEs among the private sector as well. This particular issue came across in conversations with the SE Better, where they suggested that corporates might have a particular negative image of community based SEs, making it unclear whether SEs should promote themselves as SEs to corporates rather than focusing instead on aspects such as value for money and the quality of the product.

#### ***Potential tool(s) to leverage:***

- **Increased interaction between SEs and private sector:** Increased opportunities for SEs to interact with potential private sector clients and explain their business model, processes and procedures could greatly help in building confidence among the private sector. These interactions could be enhanced through tools such as trade

fairs, conferences and expos which seek to bring together SEs and private sector actors.

- **Highlighting success stories:** Another potentially powerful tool could be highlighting instances where SEs have or continue to successfully serve private sector clients. This would help raise awareness about the opportunity for such collaborations as well as increase confidence among the private sector. Elvis & Kresse believe that a key to the growth and success of their business has been the notable free marketing their products have received, including features in magazines and in the popular press. Today, Elvis & Kresse counts O2 as a major client and has engaged with other corporates such as Deloitte and Apple.
- **Pilot/Trial schemes:** SEs could offer potential private sector clients free, below-cost or at-cost pilots and trials to prove reliability and quality. This could be an extremely important step towards building longer-term, profitable relationships with the private sector and could be viewed as a necessary upfront investment cost by the SE and its financiers.

#### ***b) KNOWLEDGE OF POTENTIAL FOR SE2B***

There could be an opportunity to increase knowledge about the potential for SE2B among both SEs as well as private sector organizations. Community activists and volunteers can sometimes be unaware of the commercial potential of their activity and the possibility of creating social enterprises (Lyon & Ramsden 2006).

Autism Works provides an excellent example of a charity organization that was able to recognize the monetizable potential of some of their core work and attempt to leverage that for even greater social impact and sustainability. Autism Works' Managing Director Peter Macdonald came across Education and Services for People with Autism (ESPA) when he was working for an IT company. He was able to recognize the challenges that people on the autism spectrum faced in gaining long-term employment and combine that with the realization that he could leverage their particular skills in the IT industry in order to provide a service to the private sector.

#### ***Potential tool(s) to leverage:***

- **Market research:** This opportunity can be most effectively seized if resources are devoted towards studying supply chains in various industries that are particularly promising for SE2B trade. This would allow for the identification of market

opportunities that could be served by SEs using their current or easily achievable core competencies. The market research could be conducted either by the SE itself or by an external organization seeking to act as a 'market catalyst' for SE2B trade. It is likely that SEs might require external financial and technical assistance in order to conduct more comprehensive market research efforts. It could be useful to initially conduct this market research for the value chains of industries where we already observe the most SE2B occurring: construction, manufacturing/engineering, retail/wholesale, and social work. Alternatively, the market research could also be directed towards industries with high latent SE2B potential defined using the following criteria: high concentration of SMEs, high growth rates, and low barriers to entry/low upfront capital requirements.

- **Training schemes:** Training schemes for SEs could focus on skills that could help them more effectively identify niche market opportunities for SE2B. The purpose of this training would be two-fold: i) increase the technical ability of SE staff to identify and pursue SE2B opportunities and ii) inculcate an entrepreneurial culture among management as well as staff to adopt a more entrepreneurial approach with regards to SE2B trade
- **Increased interaction between SEs and the private sector**
- **Highlighting success stories**

## POTENTIAL OPPORTUNITIES AND TOOLS FOR CORPORATES

### 1) ORGANIZATIONAL INNOVATIONS

A possible route towards increasing SE2B trade lies in changes to the overall CSR strategy of the company, as well as adopting a more SE friendly procurement process.

#### *a) DEEPENED CSR STRATEGY*

There could be opportunities to make structural and procedural changes to the internal decision making structures of the private sector enterprises that could make them more receptive to SE2B trade culturally. These changes could also better position private sector enterprises to seize opportunities for SE2B when they do arise.

#### **Potential tool(s) to leverage:**

- **Integrate impact sourcing into overall corporate responsibility strategy:** SE2B provides a unique opportunity for corporates to expand their social impact and

responsibility strategy by channeling resources to external, impact-focused entities. Rather than performing CSR as something external to core business, it can become integrated. One possible example of this was announced as an example initiative by Barclays (2012) and focused on engaging “...suppliers in the UK to gain their commitment to the Supplier Pledge” where the Pledge would include aspects such as an environmental criteria. This initiative could help Barclays ensure that it integrated its commitment to social responsibility into its procurement strategy, a core part of its business. Another way of implementing this could for corporates to encourages their SME vendors to source from SEs.

- **Provide dedicated CSR resources to procurement teams:** This could take the form of training or documentation, or dedicated impact sourcing staff members within a procurement team. In many ways, the latter mirrors the dispersion of human resource staff across business units, a relatively common structural element of large corporates. Another modality would be to provide awareness and education to procurement staff regarding SEs and their social impact, which is a modality already being practiced by actors such as SEUK in their interactions with various corporate partners such as Wates and RBS (Temple, 2013). Regardless of form, further synergies between CSR and procurement teams may be necessary to fully explore SE2B possibilities.

#### ***b) SE FRIENDLY PROCUREMENT PROCEDURES***

Changes to procurement procedures, particularly those of larger corporations, could pave the way for increased procurement interactions with SEs. Some of these innovations could be particularly helpful in ensuring that smaller SEs in their start-up phase are able to approach private sector enterprises by helping them circumvent typical barriers that start-ups face including a lack of track record or a lack of access to procurement managers/networks. The impact of this could be doubly important if the prevalence of such policies encourage more SEs to start out thinking of the private sector as an important client base, in which case their organizational structures might be more likely to be optimal for SE2B trade.

The beginnings of Autism Works’ relationship with Deloitte provides an illustrative example of how non-traditional procurement procedures could help grow SE2B trade. Autism Works first came into contact with Deloitte not through their procurement system, but through Deloitte’s Social Innovation Pioneer’s Program. As a participant and winner of this program,

Autism Works has been receiving support from Deloitte in managing and growing its own business and was also given the opportunity to become a vendor for Deloitte's software testing requirements. However, Autism Work identified the lack of a proven track record as one of the key challenges in gaining additional corporate clients at this stage.

***Potential tool(s) to leverage:***

- **Provide transparent opportunities for smaller-sized organizations to compete for appropriate contracts:** Anecdotal evidence suggests that the procurement processes of many corporates are not well suited to identify or leverage SEs for several reasons, notably minimum turnover requirements and lack of systematic identification. Indeed, most of the SE2B relationships reported by interviewees were developed outside of the corporate's standard procurement practices. Procurement systems with lower turnover thresholds and opportunities for SEs to identify themselves may increase opportunities for SEs to compete for work through standard protocols. One example of such an initiative was illustrated by Barclays in their 2015 Citizenship Plan (2012) where they speak of an online "Procurement Portal" in South Africa. This facility is aimed at enabling "...emerging suppliers, including individuals and SMEs" to access Barclays' procurement needs.
- **Trial/pilot policy for SEs:** A procurement policy which encourages procurement managers to engage with start-up SEs by allowing them to bypass a track-record requirement and replacing it with trial/pilot periods for promising SEs. This is precisely the tack being pursued in the Autism Works – Deloitte relationship as they move towards a longer-term vendor relationship, with Autism Works initially being asked to perform only internal software testing work for Deloitte. Future pieces of larger external client work will hopefully follow from this initial trial work.
- **Outreach incentives:** Private corporations could incentivize procurement managers to actively seek out and engage SEs in order to incorporate them into their supply chains. These could be non-financial incentives linked to recognition either internally or externally of the positive social impact that the manager has helped bring to the organization's efforts through her outreach efforts. The potential efficacy of non-financial incentives was highlighted by the Autism Works – Deloitte relationship where members of the Deloitte software testing team spoke of a 'feel good effect' when their engagement with Autism Works was highlighted in internal meetings.

## 2) CULTURAL INNOVATIONS

SE2B trade frequency could potentially be increased through efforts to raise awareness among the private sector community. The Autism Works and Deloitte relationship helps to illustrate this potential. Once Deloitte's software testing team was made aware of Autism Works and their capabilities, the Deloitte team was eager to engage with Autism Works and build a mutually beneficial relationship. Arguably, the potential to create many additional mutually beneficial relationships could be catalyzed through greater awareness on both sides.

The awareness raising effort should target not only procurement managers, but rather the entire management team as well as the firm's owners/shareholders. An ideal strategy would touch upon the multiple interests that stakeholders might have in SE2B trade. More fundamentally, the awareness raising effort should try to raise the profile of SE2B in the corporate consciousness by demonstrating its feasibility through current successful examples. It is possible that awareness of peer organizations and colleagues engaging in SE2B could encourage more private sector corporations to do the same. An argument similar to this, but focused on CSR in general, is provided by Hsu & Cheng (2012) in their study of 136 SMEs.

### ***Potential tool(s) to leverage:***

- **Awareness sessions:** These sessions could be held for all levels of management and procurement staff in order to help increase awareness about the potential benefits to the firms of SE2B trade, as well as its feasibility
- **Research and publicize opportunities:** This is related to the market research tool mentioned in the section on opportunities for social enterprises. Identification of potential portions of a firm's supply chain which could be effectively served by an SE, and communication of this to the firm by either an SE or an independent third-party 'market maker' could greatly help increase SE2B trade.
- **Highlight success stories**
- **Promote interactions between SEs and corporates**

## CONCLUSION

This section has aimed to provide a sense of the wide range of opportunities available to help increase SE2B trade, as well as some potential tools that could be utilized in order to leverage these opportunities.

An important next step is to evaluate the relative feasibility and effectiveness of each of the tools presented above and to identify which actors might be best placed to bring a specific tool into play.

In terms of potential actors: we envisage them being either SEs themselves, corporates themselves, the government or what we term 'market makers'. Market makers refer to organizations which seek to develop and grow the SE space and could include actors such as BSC, SEUK or other organizations with an aligned interest.

While a detailed analysis of these issues is beyond the scope of this PAE, we have attempted to consider the tools along three criteria:

- 1) Potential impact
- 2) Cost of implementation
- 3) Ease of implementation

The resulting ranking tool is presented in Appendix D.

While the subjective nature of our assessment of these tools must be stressed, there are certain key tools which we suspect might be particularly useful for to consider:

- **For SEs:** Streamlining decision making structures and offering potential corporate customers trials/pilot schemes could prove important and relatively feasible.
- **For corporates:** Institutionalizing SE-friendly procurement procedures with outreach incentives and awareness for procurement teams could be potentially high-impact tools to explore.
- **For market makers:** Measures aimed at increasing interactions between SEs and private sector actors could be an important tool to consider at the outset.
- **For the government:** Measures designed to help increase capital flows to SMEs could be useful catalysts.

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## APPENDIX B. ACKNOWLEDGMENTS & INTERVIEWEES

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## APPENDIX C. QUANTITATIVE ANALYSIS METHODOLOGY

### Data selection and variables

In researching available quantitative data to examine the nature of SE2B trade in the UK, the *Social Enterprise Barometer 2010* was identified for further exploration. To our knowledge, this is the only available dataset that utilized the UK government’s definition of a SE, identified types of SE trade partners, and included data on turnover—all three were required to understand the extent of SE2B trade and develop a market size estimation.

The *Barometer* dataset includes 500 SEs, interviewed by telephone on a variety of issues. For the purposes of this document, the following variables served as the basis for primary analyses<sup>10</sup>:

- QS12: What is the main activity or service provided by your organisation?
- QE1: Which of the following are your direct trade customers? (other businesses; the general public; government departments or other public sector bodies; charity/voluntary sector; other)
- QA8: What was the approximate turnover of your business in the last 12 months?
- SIZEZ: Firm size (1-9 employees, 10-49 employees, 50-249 employees)
- QD1: How important is external finance to your organisation?
- QA16B: Do you expect to make a profit in the next 12 months?

Because of the survey methodology reported, the data was assumed to be random—analysis within this document thus mirrored those within the report itself and was not weighted.

### Market sizing methodology

The above data and key variables were utilized to estimate turnovers by SE trade type. With respect to turnover, as the data were reported in large turnover ranges, the lower bound was used to estimate the mean turnover by employee population size and type of trade. This produces a conservative estimate for turnover.

Because a preliminary analysis of SE2B trade did not display statistical significance relative to other forms of trade in its impact on turnover, firms that traded exclusively with other businesses were selected as the basis for a scaled projection of the market size.

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<sup>10</sup> The question code presented here matches the question codes in the *Barometer* questionnaire.

Using the estimation of 60,000 total SEs in the UK provided within the *Barometer*, the mean SE turnover by employee size was re-weighted by size to mirror the distribution present in the *BIS Small Business Survey (2011)*, which was deemed to be a more credible representation of the true population of SEs by size. These conservative bounds created the ultimate market size of £2.57 billion in SE2B turnover in 2010 out of £19.26 billion in total estimated SE turnover.

### **Baseline status and growth in key industries**

To further expound upon current projected trade levels and future growth, the market size figure was attributed to the trade activities supplied in the *Barometer (2011)* by mapping activities to broad economic productivity categories (Euromonitor). Relevant Compound Annual Growth Rates (CAGR) were applied to project market growth, assuming that SE2B trade would grow at the rate of their overall market category.

### **Limitations and further research**

Due to limitations of the number of survey respondents and a lack of exact turnover figures, the market sizing and turnover exercises in particular should be understood to be illustrative, not definitive. The researchers employed conservative assumptions wherever possible in an attempt to identify projections that represented lower bounds.

Further research is necessary to effectively capture the true extent of SE2B trade, much less projections for future growth. Key required enhancements to current data include:

- Exact annual turnover figures
- Proportion of turnover attributed to type of trade employed
- Larger respondent pools

These data, combined with reliable estimates of the total number of SEs and reasonable assumptions regarding market share growth, would provide a more comprehensive investigation into the nature and state of SE2B trade.

While the quantitative analyses offered in the document are limited in their statistical reliability, they are indicative and may provide the basis for further research, should additional data become available.

## APPENDIX D. TOOLS SCORECARD

Tool	Impact	Cost	Implementation	Score	Actor
Increased interaction between SEs and private sector firms	High	Medium	Simple	8	Market maker
Increased capital access	High	Medium	Medium	7	Gov't/Market maker
Transparent procurement for SMEs	High	Medium	Medium	7	Private sector
Awareness for corporate procurement teams	High	Medium	Medium	7	Private sector
Trial/pilot SE procurement policy	Medium	Low	Medium	7	Private sector
Outreach incentives for procurement managers	Medium	Low	Medium	7	Private sector
Reformed SE management structure	Medium	Low	Medium	7	SE
Pilot/Trial schemes	Medium	Medium	Simple	7	SE
Strategy related awareness raising	Medium	Medium	Medium	6	Market maker
CSR resources for procurement team	Medium	Medium	Medium	6	Private sector
Highlighting success stories	Medium	Medium	Medium	6	SE/Market maker
Business strategy assistance	Low	Medium	Medium	5	Market maker
Cluster strategy	Medium	Medium	Complex	5	SE/Market maker
SME client base	High	High	Complex	5	SE/Market maker
Optimize legal structure	Medium	High	Complex	4	Government
Micro-business skills training	Medium	High	Complex	4	Market maker
SE training to increase market opportunities	High	High	Complex	4	Market maker
Market research	High	High	Complex	4	SE/Market maker

\*Score for each category is between 1-3 with 3 representing the most desirable

Potential market maker institutions include: BSC, SEUK and Business Link

